Sustainability on the agenda of Latin American CEOs

CEOs and C-Level executives from companies in the region analyze progress on the Sustainability Agenda in their markets, its impact on businesses, as well as plans and trends for the future.

3rd Edition

2023

CIO Investigación SEEKMENT SAP

CONTENTS

Introduction: Progress and change in unpredictable times

Since the Paris Agreement in 2015, the milestones and promises of the world's sustainability agenda have been under review. Evidence gathered over recent years on the impact of environmental pollution and the quality of life for people across the globe has exerted greater pressure on the need to promote genuine change and verifiable improvements for both present and future generations. This partly explains the fact that during COP27 (the UN Conference of the Parties on Climate Change in 2022), countries started conversations aimed at reversing – not just lessening – the effects of climate change.

In Latin America, five years have passed since the signing of the Escazú Agreement in 2018. During the second meeting of the COP in April 2023, Latin American countries confirmed their willingness to work on improving "access to information, public participation and access to justice in environmental matters." As this report will show, sustainability in the region continues to evolve and is one of the main drivers for enterprises that intend to activate, maintain, or expand their executive agendas in this vital field.

While progress has been made in terms of agreements and treaties from 2018[1] to date, there is an enormous gap between laws and regulations and their applications[2]. Latin America has mounting challenges that include not only climate change, but also deforestation, biodiversity loss, air and water pollution, as well as social issues, which are an integral part of the ESG agenda.

At the same time, the agenda keeps growing and expanding, adding new items and reaching wider audiences. Artists, designers and global and local leaders are joining efforts to drive this agenda. Among many examples, Coldplay, one of the world's best-known bands, is working to make its "Music of the Spheres" international tour more sustainable, conveying a positive message to its millions of fans around the world and inspiring other bands to take similar actions.

In this context, CIO Investigación, a leader in C-level market research in Latin America, has partnered for the third consecutive year with SEEKMENT, a leader in assessment and data analysis of CEOs and C-level executives from Europe and the Americas, to conduct a study commissioned by SAP on the status of the sustainability agenda in Latin American businesses.

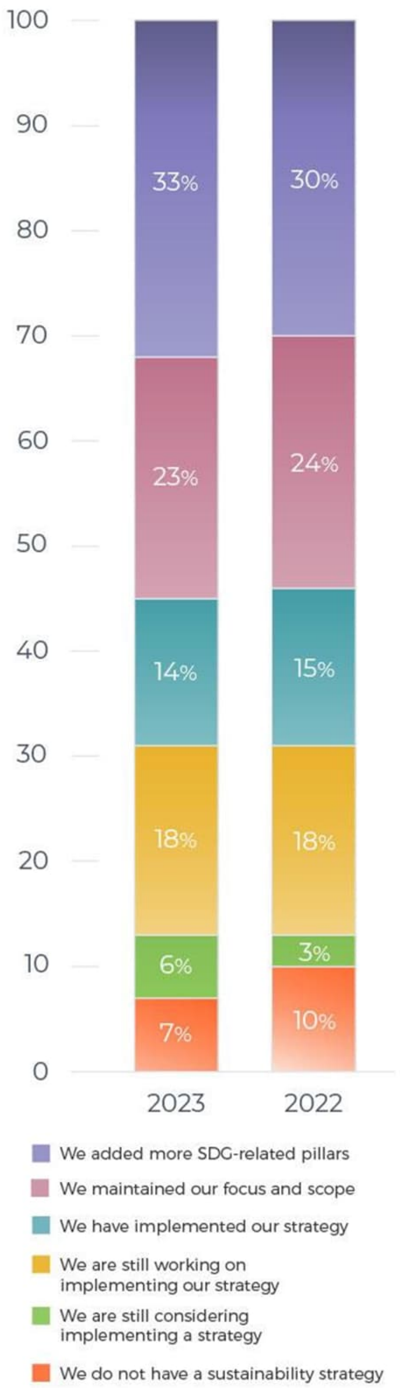
In early 2023, five hundred C-level executives of leading medium-sized and large companies in the region shared their motivations for carrying out sustainable development programs, the day-to-day challenges they face, technology's role in their businesses, and future projections, including their expectations for the coming months. This edition includes the four original countries from previous studies – Argentina, Brazil, Colombia, Mexico – and adds Chile.

The answers show that the map of Latin America, even with slight advances, reflects contrasting situations in terms of contexts and initiatives. They also show different results by country and by type of company, that is, manufacturers and service providers. This third edition of “Sustainability on the Agenda of Latin American CEOs” helps to shed light on sustainability trends in the region, progress made since the first report was presented in 2021 and an agenda of opportunities for improvement.

Read the key finding bellow.

STRATEGIES AND THEIR EVOLUTION

Chart 1
How has your company's sustainability strategy evolved over the past year?



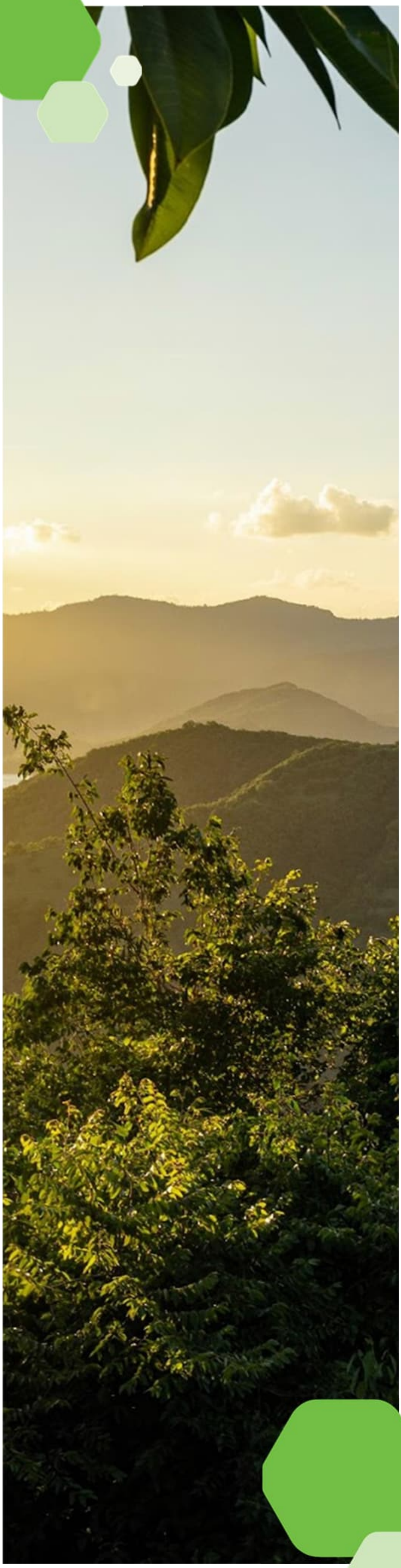
The impact of sustainability goes beyond the reputation, social responsibility or legacy that organizations are planning to leave for the future: It has a direct impact on their bottom lines. According to a McKinsey study cited by the World Economic Forum, an ESG strategy is key to reducing costs and raising operating profits by up to 60%[3].

Furthermore, the #CCSIndex, which evaluates responsible consumption trends, found in 2022 that 67% of consumers globally considered "important" to buy from companies with responsible sourcing, and 36% are planning to increase their spending with this type of business[4].

Latin American companies seem to be taking note of this phenomenon and are strengthening their sustainability strategies. The number of businesses stating they have a strategy in place rose from 69% in 2022 to 70% in 2023, and one-third stated they have included new pillars associated with the UN Sustainable Development Goals (SDGs).

Even faced with a challenging macroeconomic environment, 23% of companies in the region maintained the focus and scope of their sustainability strategies compared to the previous year, and 14% managed to implement a strategy at their firms.

However, the percentage of companies without any plans regarding this issue is steadily declining. Only 7% of companies expressed having no plans, which is a decrease from 10% in 2022 and 18% in 2021.



70% of Latin American organizations have a sustainability strategy, up 1 percentage point from the 2022 survey, and up 24 percentage points from the first report in 2021.

The number of companies stating they don't have a sustainability strategy reached **7%**, its lowest level, down from **10%** in 2022 and **18%** in 2021.

Chart 2

Which companies have strategies and which do not: Evolution from 2021-2023

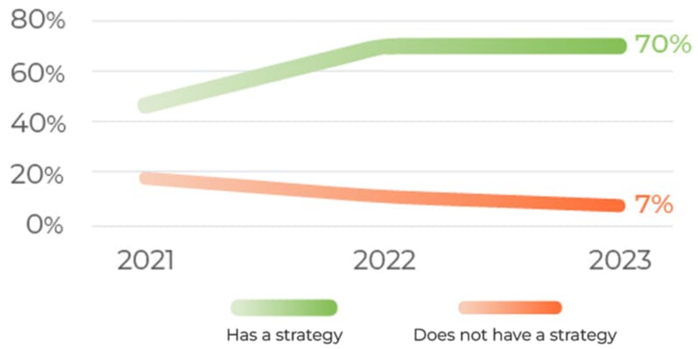
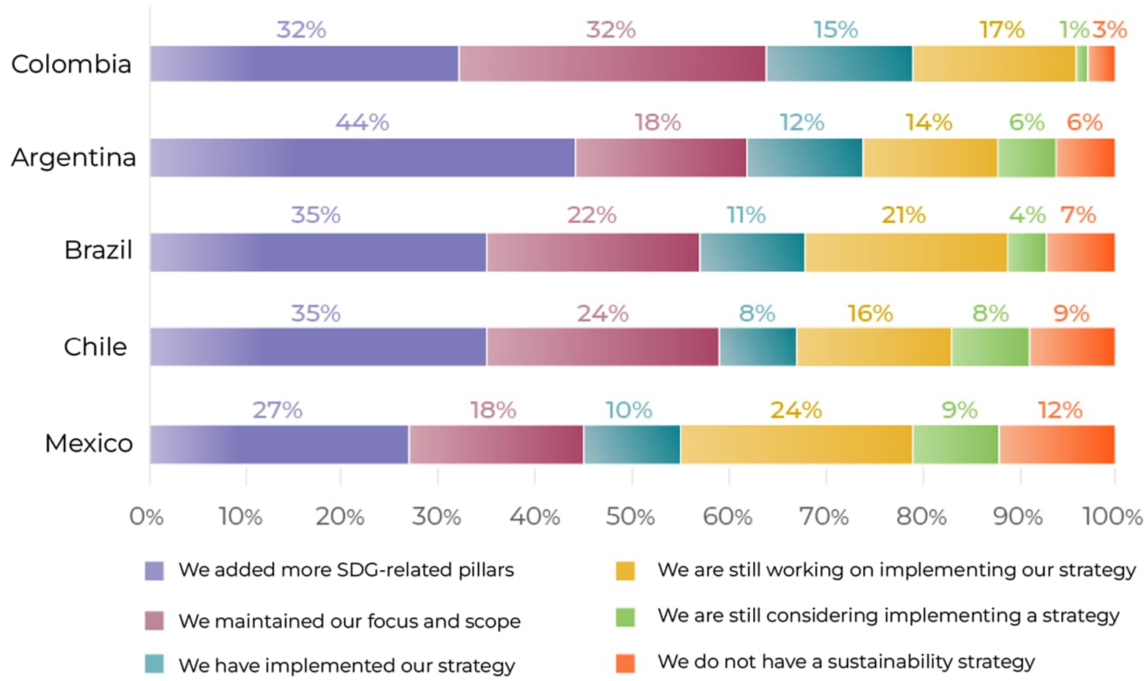


Chart 3
How has your company's sustainability strategy evolved over the past year?



Even though there are differences between countries covered by this report, the percentage of organizations that are reinforcing their sustainability strategies and adding new SDG- related pillars is above 27% in all five countries. In Argentina, this metric reached an outstanding 44%, followed by Brazil and Chile, with 35% each.

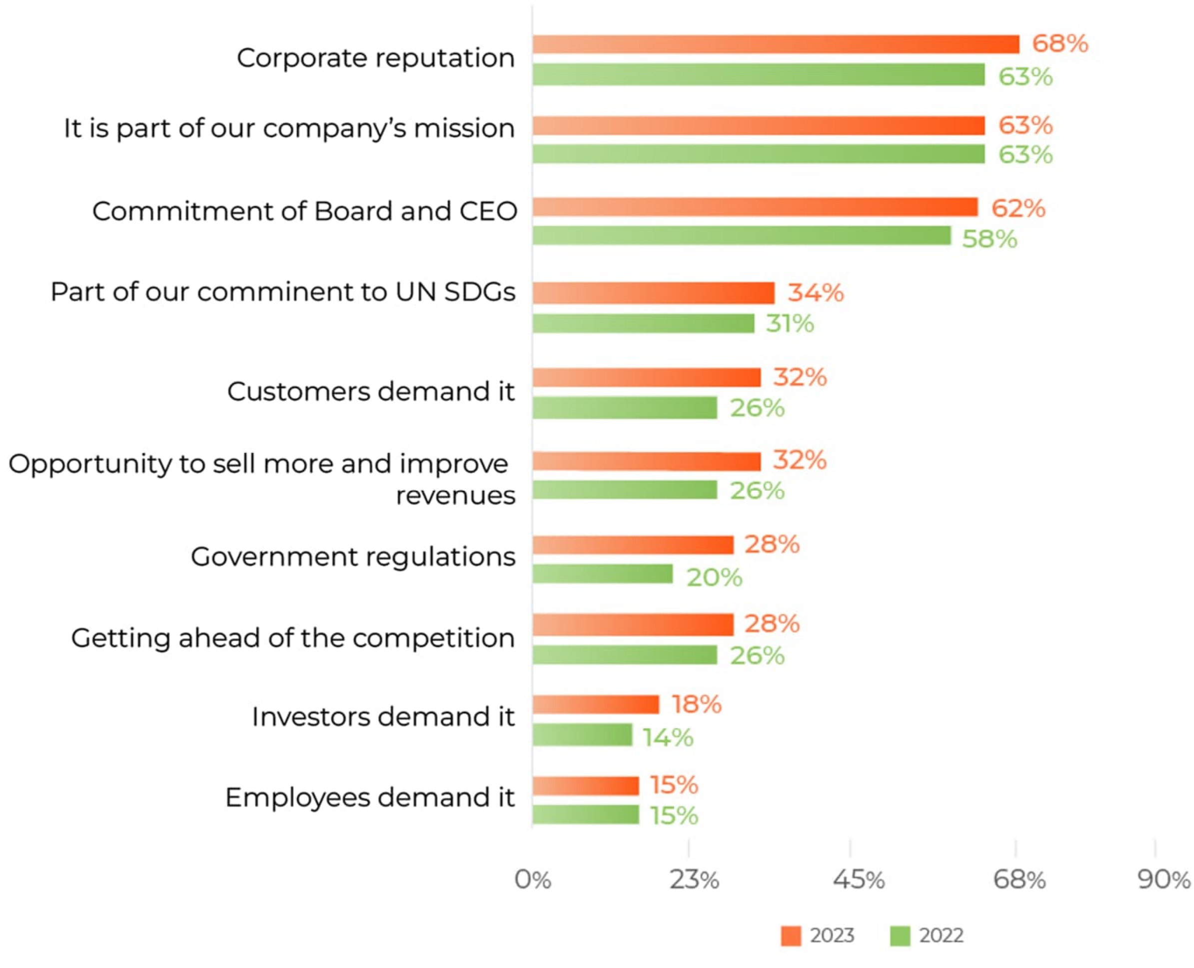
Brazil is the country with the lowest proportion of companies that have not yet defined a sustainability strategy or that are considering implementing one (11%), while Colombia has the highest proportion of companies that managed to put in place new initiatives (15%). In Mexico, even though there is an enormous margin of opportunity, it should be noted that the number of organizations with no sustainability-related plan dropped from 17% in 2022 to 9% in 2023, which is good news.

In any case, the point of access to the sustainability universe continues to be diversity and inclusion. Still, companies are starting to diversify and expand efforts in other areas.

SAME MOTIVATIOS, NEW CHALLENGES

Reputation and mission continue to be – as in the previous year - the main reasons why companies in the region adopt a sustainability strategy. Other variables, however, are starting to gain momentum.

Chart 4
What are the key drivers for your company to have a sustainability strategy? Comparative chart: 2023-2022



One encouraging finding is the growth in commitment among board members and CEOs regarding sustainability initiatives: 62% in 2023, up from 58% in 2022. Management engagement is an important accelerator of sustainable initiatives and a key success factor for long-term projects.

Furthermore, sustainability is increasingly perceived as a competitive advantage. So, it makes sense that the 'customer demand' driver grew by six percentage points over the last year and accounts for 32% of responses. Additionally, the 'investor demand' driver also increased and now stands at 18%.

Regulatory pressures are on the rise at global level, led by the European Union[5], and this trend has an impact on our region:

- **Argentina** is focused on sustainable financing legislation, mainly associated with the issuance of sustainable financial instruments. Argentina's National Securities and Exchange Commission (CNV) has taken steps to establish a legal framework for sustainable bonds in line with international standards

- **Brazil** has enacted several laws and regulations on ESG practices, including its recent Resolution 59/2021, issued by Brazil's Securities and Exchange Commission (CVM). It requires listed companies to disclose their ESG practices and indicators in a benchmarking form on a "comply or explain" basis. The form must be filed at least once a year and is subject to investigation and administrative sanctions in the event of misstatements.

- **Chile** has enacted a series of laws and regulations designed to promote sustainable development and mitigate the effects of climate change. They include the Framework Law on Climate Change No. 21.455, the Long-term Climate Strategy for Chile and the Nationally Determined Contributions (updated presentation of 2020). These key initiatives are intended to reduce greenhouse gas emissions and achieve carbon neutrality by 2050.

- **Colombia** introduced a standardized classification system called Green Taxonomy in March 2022 to promote and facilitate the flow of resources towards sustainable investments and define a blueprint for the development of green financing. Green Taxonomy was adopted formally by Colombia's financial regulator - the Finance Superintendency (SFC) - in April 2022.

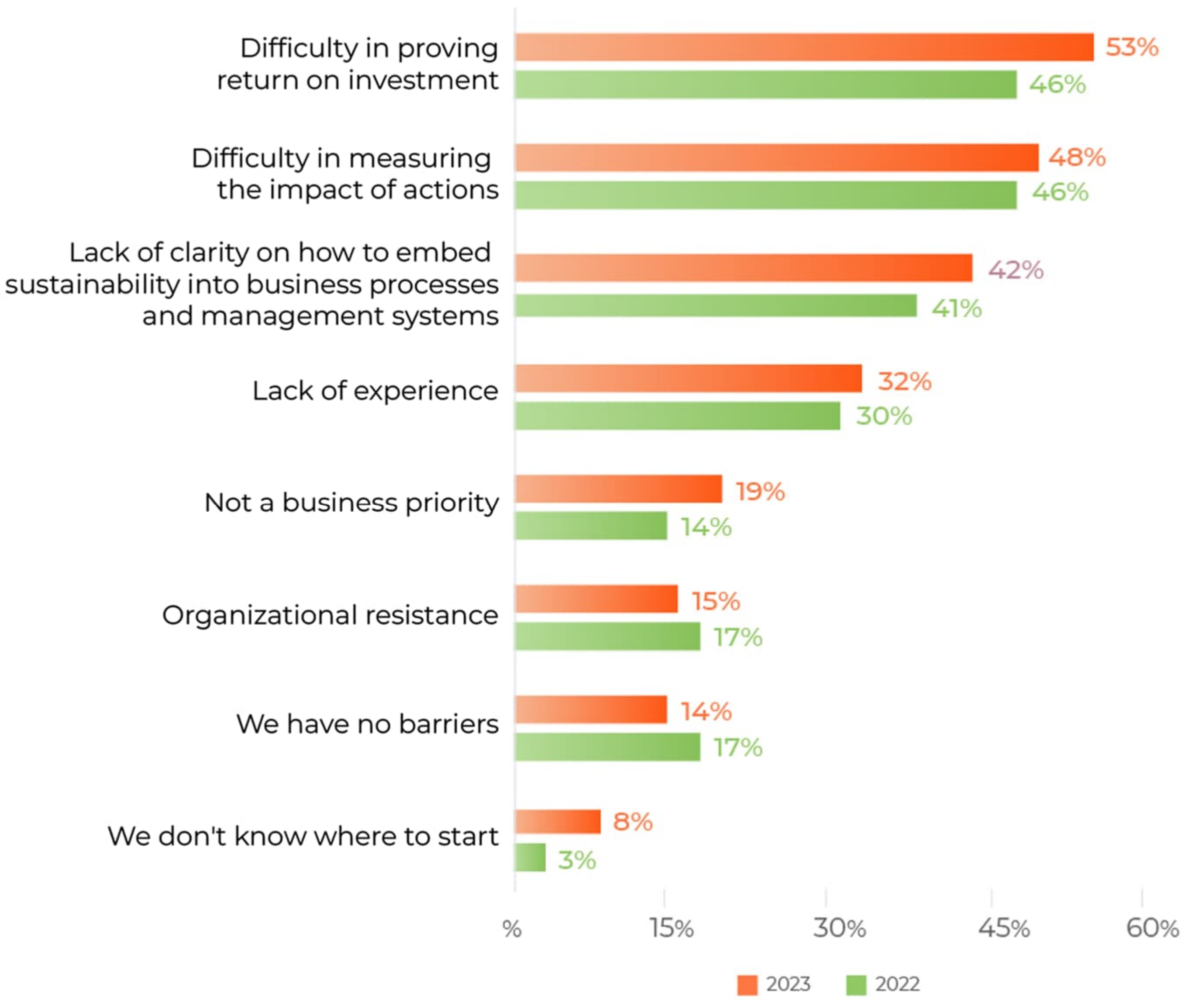
- **México** promotes ESG practices in a way that primarily supports market self-regulation rather than government initiatives, according to recent reports. Many Mexican companies and multinationals with a presence in Mexico have voluntarily adopted ESG strategies to mitigate risk and improve performance.

This is also reflected in the "Sustainability on the Agenda of Latin American CEOs 2023" report: 28% of respondents said that regulations are a driver, and this item showed the largest increase (eight percentage points change) over the previous study. In addition, it can be an element justifying more senior management involvement in sustainability topics.

The item 'regulatory framework' increased by **8 percentage points** among corporate drivers.

ROI AND THE ABILITY TO DEMONSTRATE THE IMPACT OF ACTIONS: THE MAIN CHALLENGES

Chart 5
What are the main barriers faced by your organization to implement or step up its sustainability efforts? Comparative chart: 2023-2022

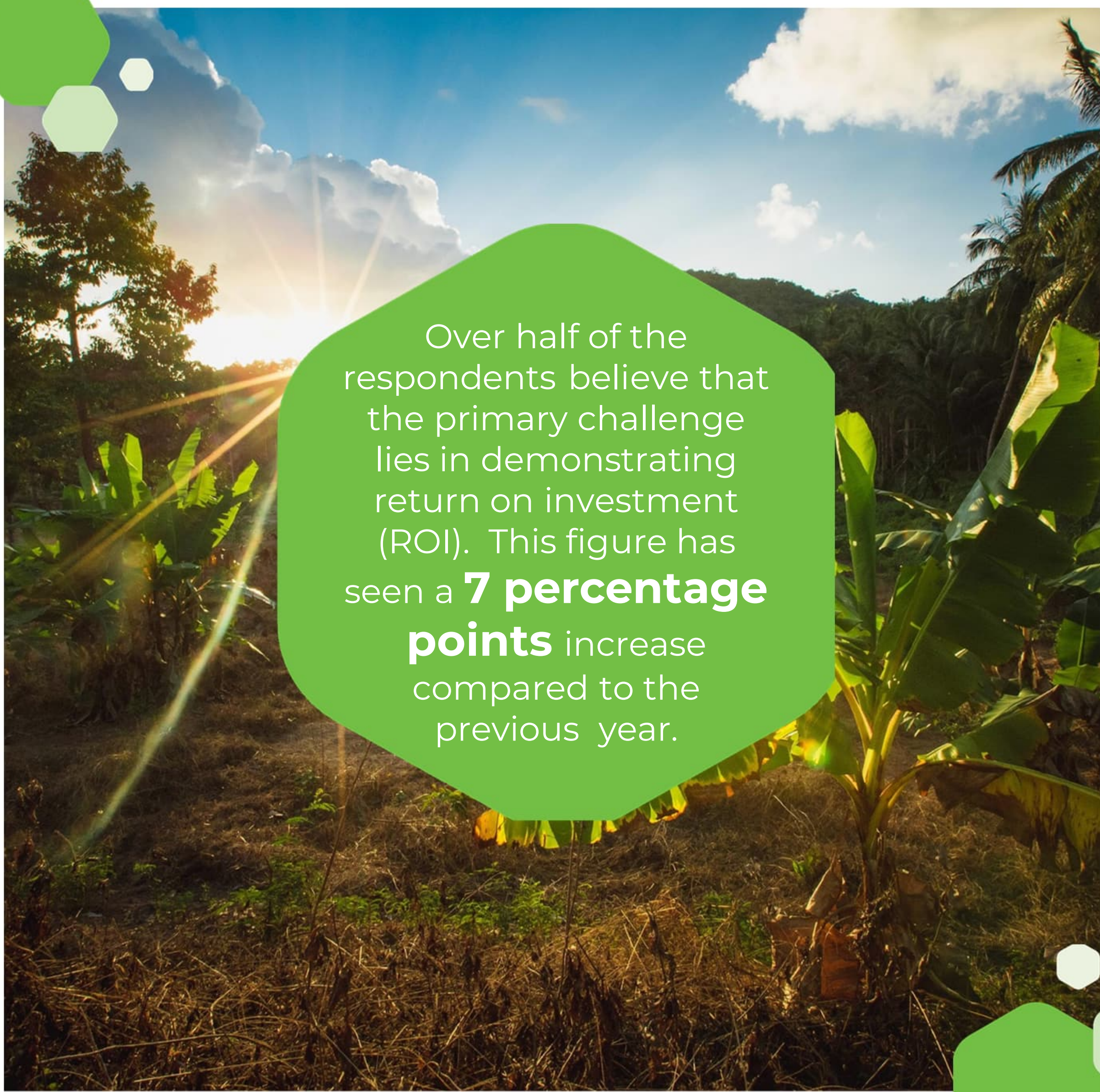


The main barriers to the adoption of sustainable initiatives persistently revolve around the challenge of accurately assessing the actual impact of actions, which increased to 48% in 2023 from 46% in 2022. Additionally, demonstrating the return on investment remains a significant pain point. as mentioned by 53% of respondents in 2023 and 46% in the previous year.

There were some advances this year with respect to the obstacles companies are facing in implementing sustainability programs. For example, the number of organizations that say they have no barrier grew from 14% in 2022 to 17% in 2023.

However, profound challenges remain. These include cultural issues, such as a decrease of two points in organizational resistance (now at 15% compared to 2022), a notable increase of five points in the lack of priority given to sustainability by businesses (now at 19%), and cases where organization are unsure of where to begin, which has risen from 3% to 8% since the previous year.

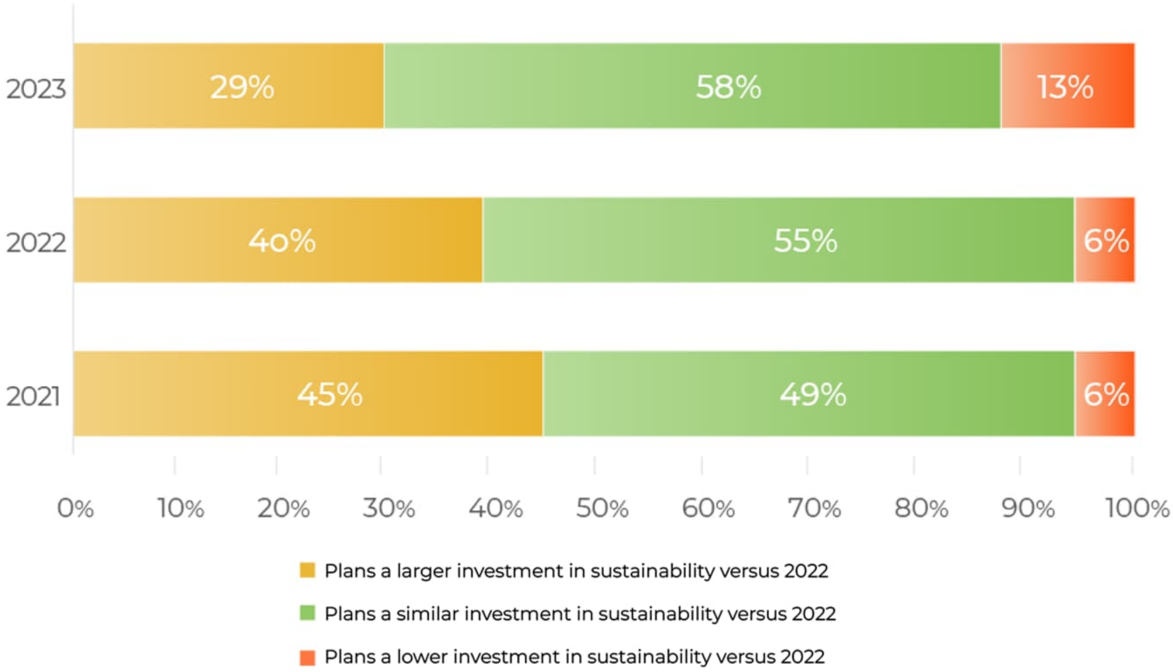
The importance of having support within every organization is evident in these previous cases. It is particularly crucial in companies that lack experience (32% this year, an increase of 2 points) or those that lack a clear strategy for integrating sustainability into their business processes and management systems (42% in 2023, one point higher than the previous year).



INTEREST AND INVESTMENT IN SUSTAINABILITY, A DIFFERENT PACE OF GROWTH

Chart 6

In the next months, regarding plans to invest in sustainability initiatives, your company...?



A cursory examination of the responses regarding sustainability investment suggests a slowdown in the region, which could be interpreted as a decline in interest in sustainability. This may be attributed to the need to demonstrate return on investment and the challenges associated with measuring sustainability efforts, both of which are consistent barriers identified in this study.

However, it is important to consider several key factors when analyzing the trend over time.

Firstly, the proportion of organizations that have expanded the number of pillars in their sustainability strategy has once again shown growth. Additionally, the percentages of companies that have maintained or successfully implemented their initiatives have remained relatively stable from year to year. This suggests that the surveyed organizations may be awaiting the outcomes of their previous investments. Furthermore, this evaluation period coincides with an uncertain global economic environment influenced by various factors, such as the risk of a recession announced by international organizations in late last year[6], the impact of the war in Ukraine, and the political and economic volatility in Latin America. These factors have collectively dampened expectations for growth.

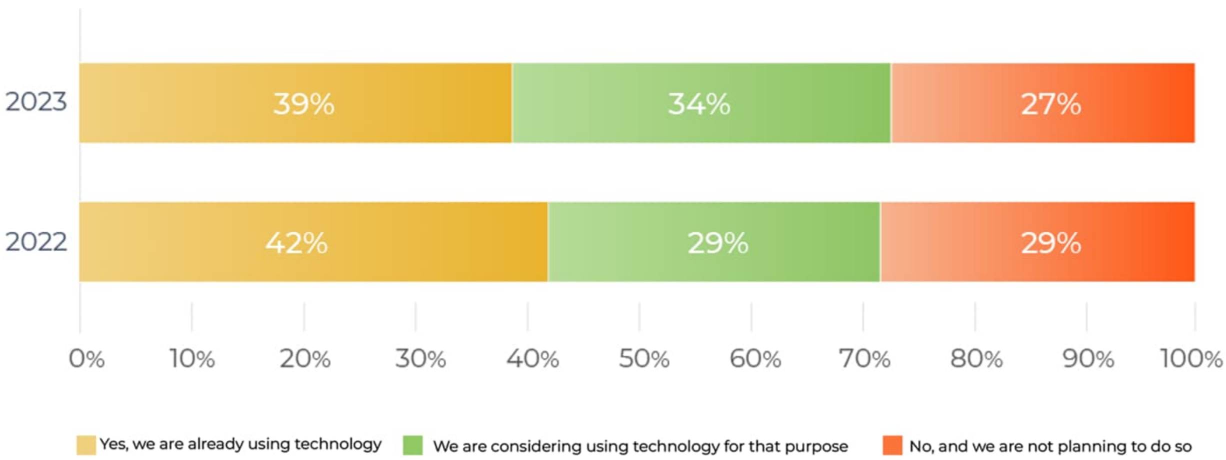
In terms of country breakdown, Argentina boasts the highest proportion of companies that plan to increase investment compared to 2022, with a notable 34%. It is closely followed by Chile and Colombia, both at 32%. Brazil also shows a strong inclination towards investment growth (29%), while Mexico exhibits a comparatively lower proportion (20%).

Interest is growing, but investment is decreasing... Are there issues with execution, difficulty in demonstrating ROI, or measuring impact?

ADD TECHNOLOGY AND TURN THE EXPERTS: THE NEW STRATEGY

Digital transformation is a fundamental ally of sustainable strategies: Data and other new technologies make it possible to monitor energy efficiency, measure changes in carbon footprint emissions, assess end-to-end sustainability in the supply chain, support inclusion and diversity policies, eliminate waste in production processes, optimize the use of transportation that causes pollution, guarantee that many of the most basic human rights are respected, endorse fair trade strategies and more.

Chart 7
Are you considering using technology to manage your sustainability strategies?



In this context, 39% of Latin American companies already use technology to support their sustainability strategies, and 27% do not plan to do so. These figures represent a slight decrease compared to the 2022 study, because the previous edition did not include CEOs of Chilean companies, which seem to be facing greater challenges than those of the four other countries that participated in previous editions of this report.

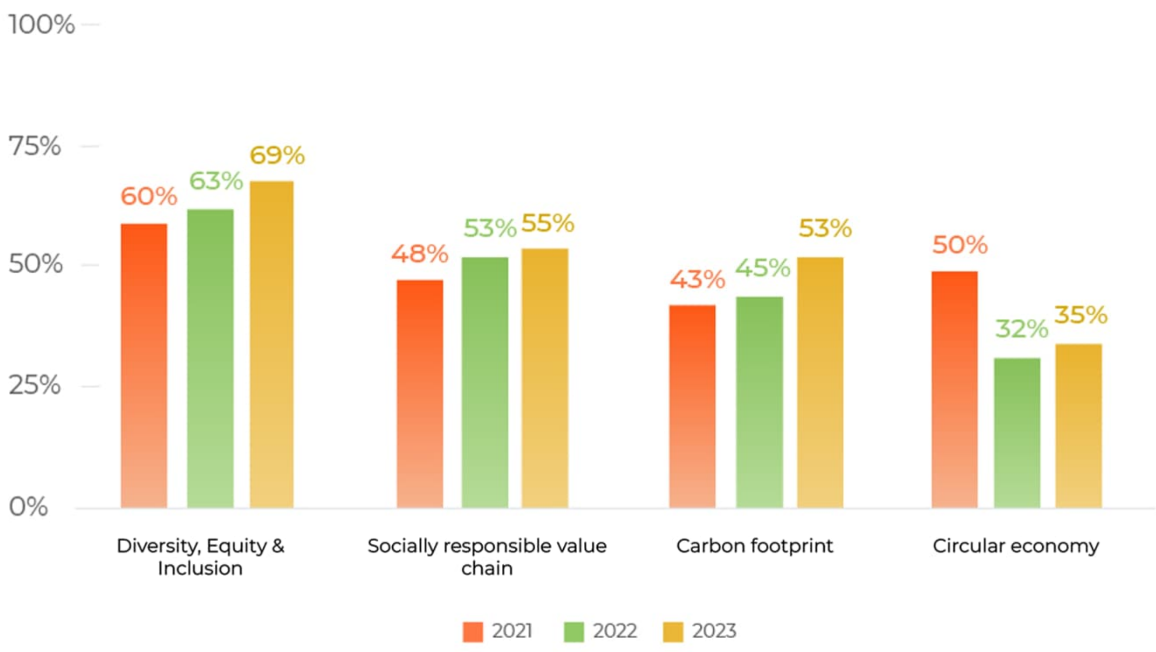
Colombia and Brazil take the lead in terms of using technology to drive sustainability, while Argentina and Colombia show a higher proportion of enterprises considering this course of action.

C-level executives in the region were also asked if they consulted technology experts in the last year on how to measure, control, and manage their sustainability strategies. The finding was that 52% of them either sought or arranged meetings with these specialists.

BUSINESS POLICIES: ACT, MEASURE, COMMUNICATE

As in previous editions, we asked organizations about the focus of their sustainability strategies in an effort to identify patterns and new trends.

Chart 8
What is the focus of your sustainability strategy? Comparative chart, 2023-2021



Latin American companies continue to access the world of sustainability through "Diversity, equity and inclusion." This was reported by 69% of the participating organizations in 2023, showing continuous growth through the study's three annual reports.

But companies are not concentrating solely on this concept. While they continue to diversify, initiatives linked to responsible value chains reached 55% of responses (up seven percentage points from the 2021 survey), and efforts to reduce the carbon footprint accounted for 53% of responses (up ten percentage points from the 2021 survey). The United Nations[7] objective of reaching net zero emissions by 2050 and regulatory progress in different parts of the world, particularly in Europe, could push regional subsidiaries of global companies to accelerate this type of initiative.

SAP solutions stand out for their efficiency in partnering to measure the carbon footprint, which is a key aspect of sustainable strategies. A significant 65% of SAP customers consider this factor as one of their primary sustainability pillars, compared to 42% for the industry in general.

We should also note changes in response to the circular economy question. In 2021 the circular economy was present in the sustainable strategy of 50% of respondents, and had gained momentum, most likely due to changing habits associated with the pandemic, which was then still a priority for companies. It now stands at 30% (vis-à-vis 32% in 2022 and 35% in 2023).

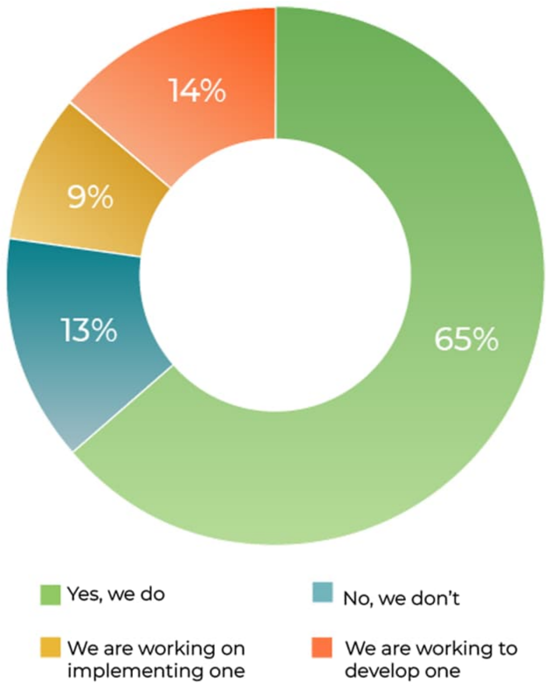
This year, the study included the topic of "Nature-based solutions" for the first time, and 21% of participating companies reported that they were actively engaged in this area. Nature-based solutions encompass a range of actions and policies aimed at safeguarding, restoring, and sustainably managing ecosystems. The goal is to enhance their resilience, enabling them to better address pressing challenges such as natural disasters, water scarcity, and the impacts of climate change. Additionally, these solutions strive to strike a balance between preserving biodiversity and promoting human well-being. This emerging field holds great potential and is already gaining attention, yet is still ample room for further growth and development.

55% of Latin American companies have supply chain initiatives linked to sustainability.

When companies are asked about specific sustainability programs, it becomes clear that while they are making palpable progress, there is still room to grow, more in some areas than others.

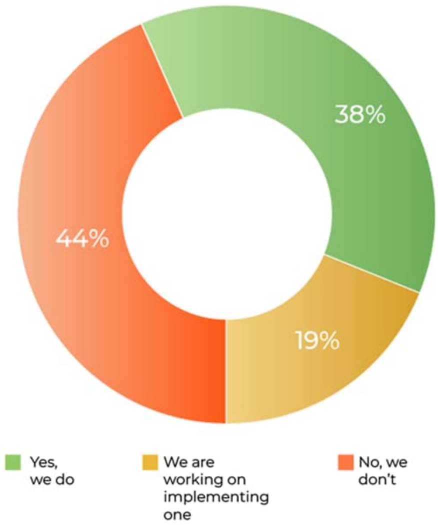
There is also evidence of progress in terms of professionalization, and in the greater level of detail used to address the sustainability agenda and its programs. For instance, companies are increasingly applying international parameters and standards for developing indicators and reports.

Chart 9
Does your company have a diversity, equity and inclusion strategy?



There has been an increase of three percentage points in Diversity, Equity and Inclusion programs compared to the previous year. In the 2023 report, it became the strongest sustainability pillar in the region, across all markets.

Chart 10
Does your company have a carbon emission policy?



Reducing the carbon footprint is an on-agenda item for 53% of companies, as shown in Chart 8. However, only 38% of study participants have been able to develop a formal policy in this regard, with different scope levels (Chart 10).

24% of companies have reported that their developed policy includes Scope 1 and 2 emissions, while the remaining 14% have gone a step further by incorporating Scope 3 emissions as well.

The companies working on developing a carbon dioxide reduction policy represent 19% of study participants. In 2022, 36% said they were actively involved in this area, and another 18% said they were close to deploying a program. This indicates that, in general, there could be some promising results in the future.

In **2023** there is an increase of two percentage points in the number of companies working with a **CO_2** reduction policy.

Different scopes in carbon footprint measurement: meaning and implications

Currently, companies that track the evolution of their carbon footprint generally use metrics in accordance with international standards and parameters. These criteria enable companies to differentiate and classify carbon dioxide emissions of different types:

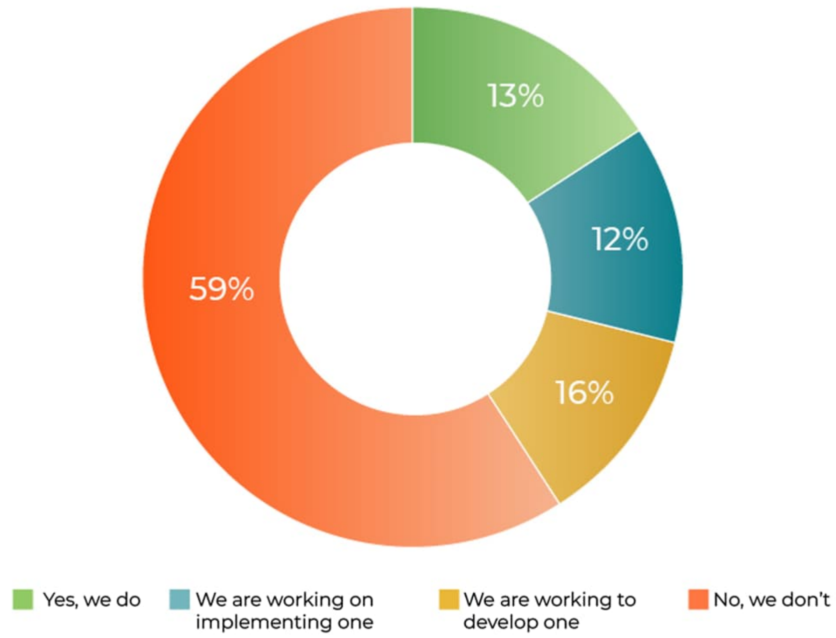
Scope 1 emissions: These are direct greenhouse gas emissions, i.e., those arising from the company itself due to the use of fossil fuel for vehicles, machinery, etc.; leaks of cooling gases such as those used by air conditioners, and emissions from productive processes using chemicals.

Scope 2 emissions: These are indirect emissions generated by the energy and electricity purchased and consumed by a company. These emissions are one part of the company's overall value chain.

Scope 3 emissions: This is a second variant of indirect emissions, corresponding to products and services a company acquires to do business and which previously have generated emissions. Also, products sold by a company may cause emissions when customers use them. It is difficult to trace emissions in this broad category, because it covers goods and services up and down the value chain.

Chart 11

Does your company have a program to help suppliers reduce their carbon footprint and achieve carbon neutrality?



When survey participants were asked to indicate the focus of their sustainable strategies, 54% referred to responsible value chains. But when asked if they have a program that helps suppliers reduce their carbon footprints, only 13% answered yes. 59% are not even working on the issue. This means that those who start down this path early will be a step ahead of their competitors.

This situation is not unique to Latin America. Although there is evidence globally that 90% of greenhouse gas emissions come from the corporate supply chain, and that 50% to 70% of operating costs also come from this source, a global study shows that 33% of companies lack benchmarks on sustainable supply chains and about half of those consulted say their companies are "struggling to measure the performance of sustainable supply chain activities."[8]

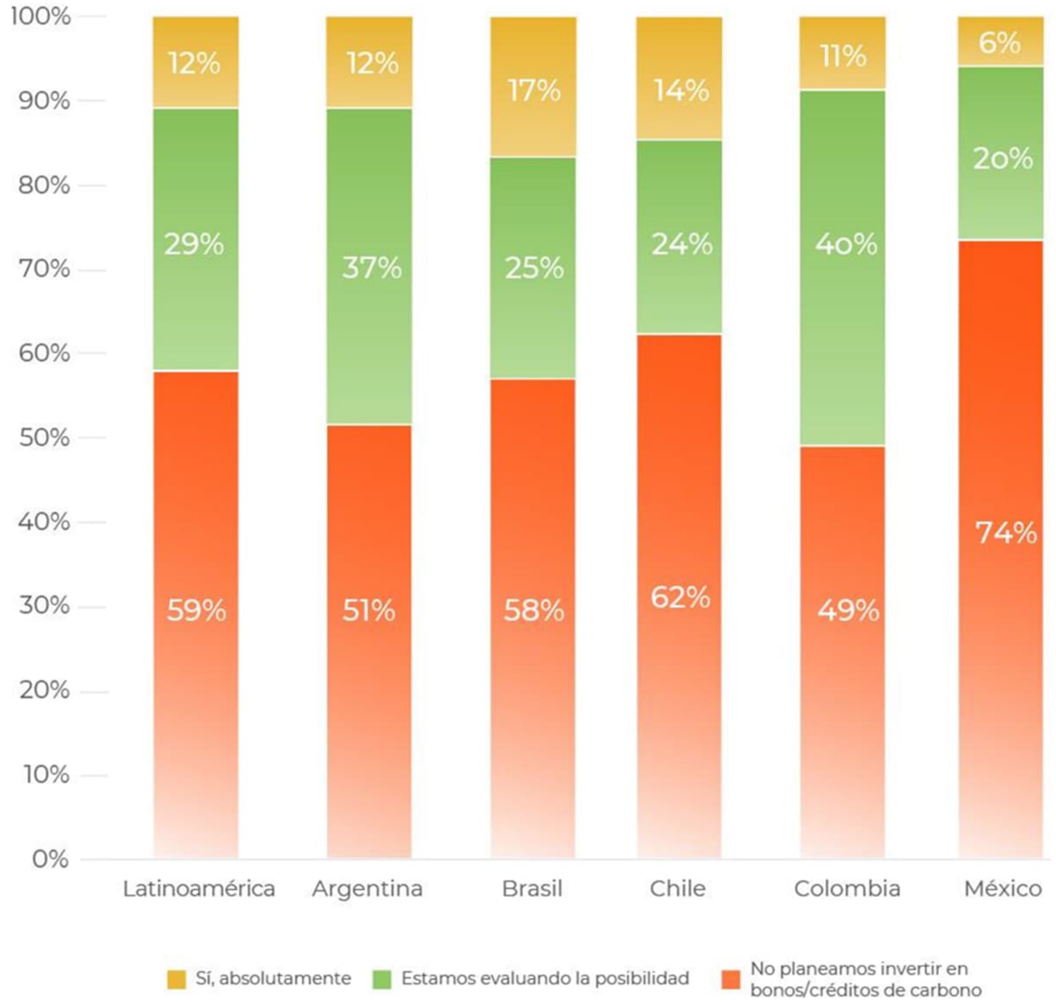
Programs for a sustainable value chain are scarce. Companies that become first movers in this field **may obtain a significant competitive advantage.**

CARBON CREDITS – THE NEW OPPORTUNITY

Carbon credits and green bonds are an important emerging item on the agenda.

Chart 12

In 2023, is your company planning to invest in carbon credits/green bonds?



With 41% of companies in the region planning investments in carbon bonds, there is tremendous opportunity for Latin America to make progress in this sector.

Latin America represents one-third of global voluntary carbon market potential with nature-based solutions.

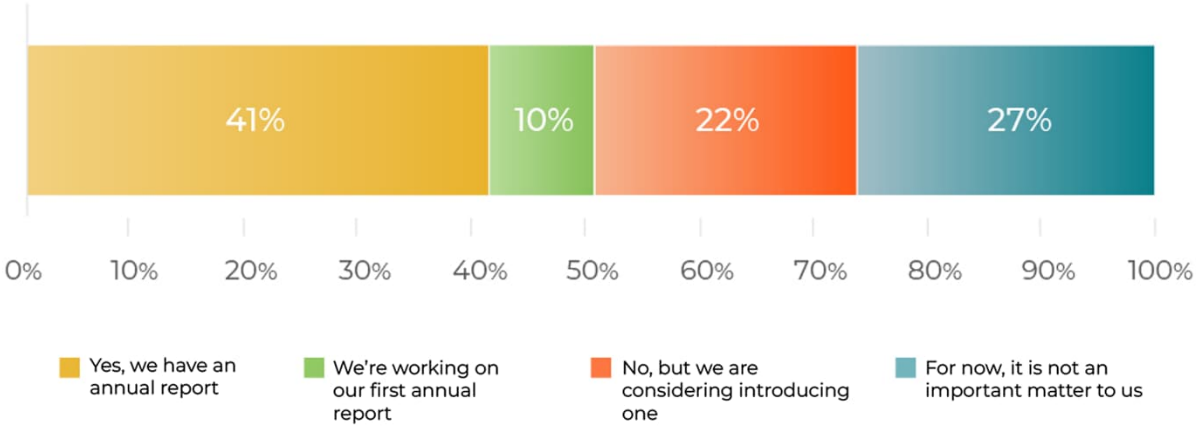
On a country-by-country basis, Colombia takes the lead, with 51% of companies already investing or seeking to invest in carbon bonds, followed by Argentina, with 49%.

In summary, green bonds offer great potential for developing sustainability and we should watch how this market performs in coming years.

THE ROLE AND VALUE OF THE SUSTAINABILITY REPORT

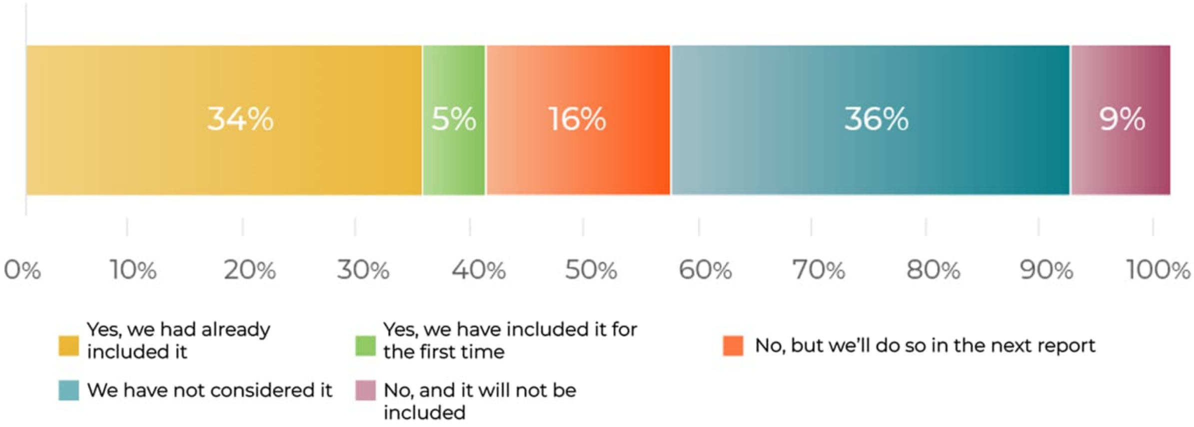
The annual sustainability report is a crucial document for corporate stakeholders, as it offers insight into a company's progress in terms of the actions it has taken, the goals it has achieved, and the effectiveness of its sustainability strategy.[9]

Chart 13
Does your company have a sustainability report?



In this industry, there is ample opportunity for Latin American companies to grow and advance. Notably, the percentage of companies that produce a sustainability report has remained consistent compared to 2022 at 41%. Encouragingly, 10% of companies are currently in the process of preparing their first report, while 22% are contemplating implementing one. This trend suggests that in the near future, it is possible that 7 out of 10 companies will develop a sustainability report.

Chart 14
Did your company include sustainability data in its latest financial report?



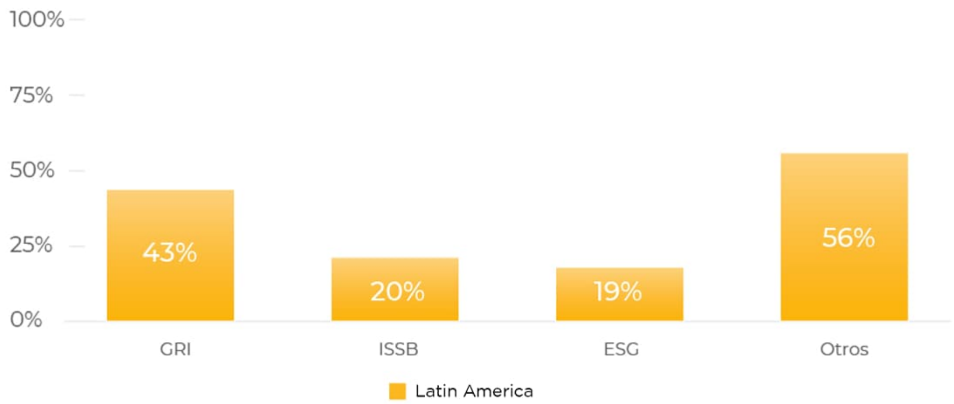
When asked about the inclusion of sustainability data in corporate financial reports, it was found that 34% of companies have already been doing so. Additionally, 5% of companies included this data for the first time in their 2023 report, while 16% are currently planning to incorporate it in their next financial report. However, 36% of respondents have not yet considered this issue, and 9% have no plans to do so in the future.

THE CHALLENGE OF AGREEING

So far, we have seen that companies are making progress and have increased their reporting initiatives. Now, how do they measure sustainability and what criteria do they use?

Chart 15

Does your company use a standard model for your sustainability reports and metrics? (multiple answers).



In this study, it was found that 62% of the 500 companies surveyed use a standard model for their sustainability metrics. However, there are two notable issues. Firstly, there is a wide variety of models being used to measure sustainability factors, with three models being the most prevalent. Chart 15 provides a visual representation of this. Secondly, on average, each individual company uses 3.4 different models. This highlights the increasing need for accurate measurement of sustainability processes and the effective demonstration of their ROI. Only then can other obstacles to sustainability projects be overcome.

The three most widely-used models, are employed across various countries. The following information indicates their dominance in specific markets:

- GRI (Global Reporting Initiative) is used by 43% of companies in the region. Notably, it is most commonly used in Colombia (56%), followed by Brazil (44%), Argentina and Chile (38%), and Mexico (29%).

- ISSB (International Sustainability Standards Board) is adopted by 20% of respondents who have a measurement system in place. The largest user is Chile (35%), followed by Argentina (19%), Colombia (18%), Brazil (16%) and Mexico (14%).

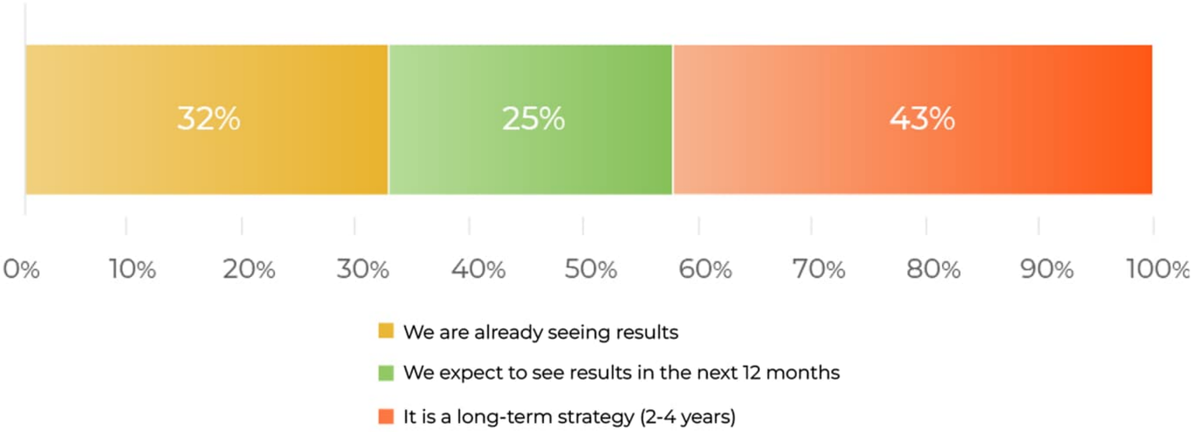
- ESG (Environmental, Social & Governance) has an adoption rate of 19% at the regional level. It is primarily led by Brazil (36%), followed by Mexico (29%), Argentina (25%) and Colombia (9%). No companies in Chile reported using this model.

Most companies combine more than 3 different reporting models, reflecting the **need to standardize the way sustainability is measured**.

RESULTS ON TARGET

Chart 16

When do you expect to see the impact of sustainability efforts at your business?



An encouraging fact is that 57% of Latin American companies today are seeing some results of their sustainability initiatives, or expect to see them in the next twelve months. The remaining 43% believe it is a long-term strategy, meaning that they expect their efforts to bear fruit in a period of two to four years.

Compared to the numbers in the previous study, results declined in 2023. Indeed, in 2022, 40% of respondents said, “We are already seeing results.”

Why this decline? As we have seen, sustainability initiatives are diversifying. And as companies expand their sustainability initiatives, we can expect that many of them have set new goals for the future.

57% of companies already see the results of their sustainable strategies or expects to see them this year.

LOOKING AHEAD

- **More enterprises working for a better world**
  The number of companies claiming to be inactive or uninterested in taking action for the planet is steadily declining each year. This tren is encouraging for the near future. However, it is expected that this figure Will eventually reach zero, presenting a new challenge of establishing sustainable value chain across various sectors.

- **The regulatory framework is moving forward**
  Environmental regulation is making significant and tangible progress. The issue is gaining increasing prominence in public opinion throughout Latin America and the rest of the world. As a result, companies are feeling a growing sense of responsibility to develop and implement sustainable agendas.

- **Measuring sustainability has become a good practice**
  Measuring sustainable management has become increasingly common among corporations, serving as a best practice. This approach contributes to the impovement of two crucial metrics: demonstrating ROI and enhancing financial reporting through the inclusión of green data. It is anticipated that within the next year, the percentage of companies planning to adopt this practice may increase from 39% to 55%, further solidifying the upward trajectory of this trend.

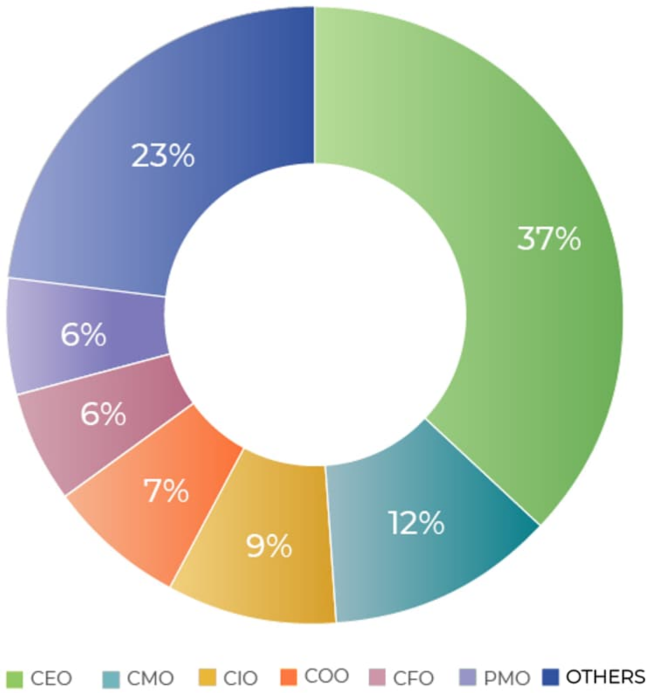
- **Interest grows, but investment does not**
  Despite the evidente push to enhance sustainable strategies, investment in sustainable programs is not keeping pace. This is likely due to the challenges associated with showcasing a return on investment and measuring the impact of sustainable actions, which were identified as significant and persistent barriers in this study.

- **A diverse and relevant focus**
  People remains the key drivers and foundation of sustainability strategies. This entails inspiring and engaging employees, customers and investors, while also promoting diversity and inclusion. As we look to the future, the scope of efforts is expanding. There is increasing concern about the pressing requirement to measure and decrease our carbon footprint, as well as establish ecosystems that Foster responsible value chains.

METHODOLOGY

The results of the study described in this document are based on a survey conducted in April 2023 with 500 CEOs and C-level executives from midsized and large companies with operations in Latin America. In this third edition of the survey, C-Suite executives from Chile have joined top executives from Argentina, Brazil, Colombia and Mexico.

Chart 17
Who took part in this study?



- Most interviewees are CEOs (37%), followed by CMOs (12%). This third edition had the highest participation of CEOs.
- The sample is broken down into manufacturers (53%) and service providers (47%).
- Manufacturers represent the following industries: oil and gas, mining, agribusiness, automotive, pharmaceutical, construction and consumer goods.
- Service companies include financial services (bank and insurance), travel and entertainment, retail, healthcare and telecom.

EXTERNAL REFERENCES

These outside references were used to supplement and contextualize the information obtained in this new edition of Sustainability on the Agenda of Latin American CEOs.

1 United Nations. Gaps in international environmental law and environment-related instruments: towards a Global Pact for the environment. 2018
https://digitallibrary.un.org/record/1655544/files/A_73_419-ES.pdf?ln=es

2 Globally, the cumulative number of climate change-related cases has more than doubled since 2015, bringing the total number of cases to over 2,000. Around one-quarter of these were filed between 2020 and 2022.
https://www.lse.ac.uk/granthaminstitute/publication/global-trends-in-climate-change-litigation-2022

3 Word Economic Forum; "Why sustainability is crucial for corporate strategy", junio 2022.
https://www.weforum.org/agenda/2022/06/why-sustainability-is-crucial-for-corporate-strategy

4 Good.Must.Grow; "CCSIndex", 2022.
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