Thailand

Asia Pacific's Time

Responding to the new reality

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China

Foreword

Raymund Chao
PwC Asia Pacific and China Chairman

Just over two years ago our message in Asia Pacific's Time was unambiguous: the region stood at an important juncture and the time to act was now. The fundamentals contributing to past prosperity could no longer be relied upon and a more proactive approach was needed to secure the region's future. Since then, this message has withstood tectonic global shifts, and profound changes in our world are spurring an updated call to action for the region. Asia Pacific is evolving rapidly, balance and stability is no longer a given, and the guiding principles to growth are no longer obvious. Businesses must act quickly to build trust, create value and deliver sustained outcomes.

Our new world is anything but simple. While the global economy has rebounded from the lows of 2020, we continue to see environmental, financial and social pressures converge to create new and more complex challenges across Asia Pacific. Business leaders are facing increased market dynamism and uncertainties. These are not merely a series of one-off temporary events - we are seeing enduring, structural changes that impact economies, social systems, risks and stakeholder expectations. In order to rebuild trust and deliver sustainable growth in this environment, it requires similar structural shifts in strategy and operational priorities - a material transition towards stakeholder capitalism and a reset of priorities towards the associated long-term outcomes. From this uncertainty will come great opportunities for businesses to differentiate and thrive in Asia Pacific.

The world has changed and will continue to do so. Asia Pacific's Time: Responding to the new reality sets out how businesses can best navigate this change. We build on the five growth pillars previously identified in Asia Pacific's Time in 2020. We also dive deeper, extracting more nuanced drivers and success factors for creating value, increasing differentiation and delivering transformation aligned with the forces underpinning the future of the region.

We all know the challenge. We need to come together in new, interconnected ways, to deliver sustained outcomes for the new reality in Asia Pacific.

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Singapore

Executive Summary

Time for action

In mere months COVID-19 altered the world. It accelerated workforce transformation and digital adoption which has now become central to our lives. It led to a permanent shift in consumer and business behaviours that dramatically changed the trajectory of economies and societies. The lingering effects of the pandemic, compounded by unexpected global and regional shocks, have created **a state of disequilibrium** in Asia Pacific. Volatility in prices, demand and supply have coalesced to create a fragile platform for growth. Agitating these imbalances are elevated tensions and rising stakeholder pressures which are driving fundamental changes in the operating environment, forcing companies to focus upon outcomes that matter.

External variables that are destabilising the business landscape

Altered economic mood: Rampant inflation and weaker economic prospects are creating greater uncertainty and reinforcing inequalities.

Fractured global geopolitical backdrop: Spillovers from the war in Ukraine and heightened inter and intra-regional geopolitical tensions across Asia Pacific have created pervasive uncertainty and risk, while increasing operational and compliance complexities for business.

Exposed supply chain fragility: The pandemic-induced breakdown of global supply chains has been further aggravated by extreme weather events and labour shortages. The brittle nature of 'just-in-time' sourcing networks has been exposed and their importance elevated.

New workforce challenges: Employees across Asia Pacific are newly empowered, have greater expectations of their employers and talent is on the move to a degree not seen before.

Accelerating pressure for action on Environmental, Social and Governance (ESG) issues: The market is moving from acceptance to purpose-led action.

China

The reality of the opportunity

Asia Pacific can no longer hope growth and gradual change will be sufficient to steer it through these turbulent times. Stakeholders must adjust their posture to become more proactive and self-determined. They must adopt new and more nuanced strategies which position them for success in a more dynamic and interconnected Asia Pacific. Based on our discussions with business leaders and experts in the region, we believe there are **five aligned and mutually reinforcing success factors** that will drive differentiation and competitiveness for business and governments to prosper.

1 Supply Chain

Transform regional supply chains to rebuild **trust and resilience**

2 Regional Enterprise Growth

Take a capabilities-driven lens on acquisitions to **create value**

3 Digital Economy

Embrace digitalisation to drive insights, reduce risk and **stay relevant**

4 Workforce

Rethink upskilling, embrace flexibility and deliver on purpose-driven work to **build trust**

5 Environmental, Social and Governance (ESG)

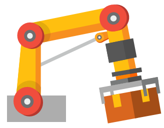
Accelerate progression of ESG priorities to **differentiate in the market** for capital and talent

These five success factors are interconnected and interdependent. Each is mutually reinforcing. Actions in one will impact the others. For example, ESG will be a supply chain consideration. Digitisation will be key to rebuilding trust in the efficacy of sourcing networks. It is vital to consider the success factors holistically, while also considering local maturity and the environment when customising or adapting.

Considering these enduring and interwoven success factors sets a new baseline for how business can overcome difficult challenges, achieve far-reaching impact, and drive long-lasting growth and competitiveness. At this decisive point in history, there is an opportunity to solidify Asia Pacific's place in the world as the centre of resilient and inclusive growth benefiting the full range of stakeholders, and a hub for digital innovation and ESG progress that is optimised for greater connectivity.

1 Supply Chain

Transform regional supply chains to rebuild trust and resilience

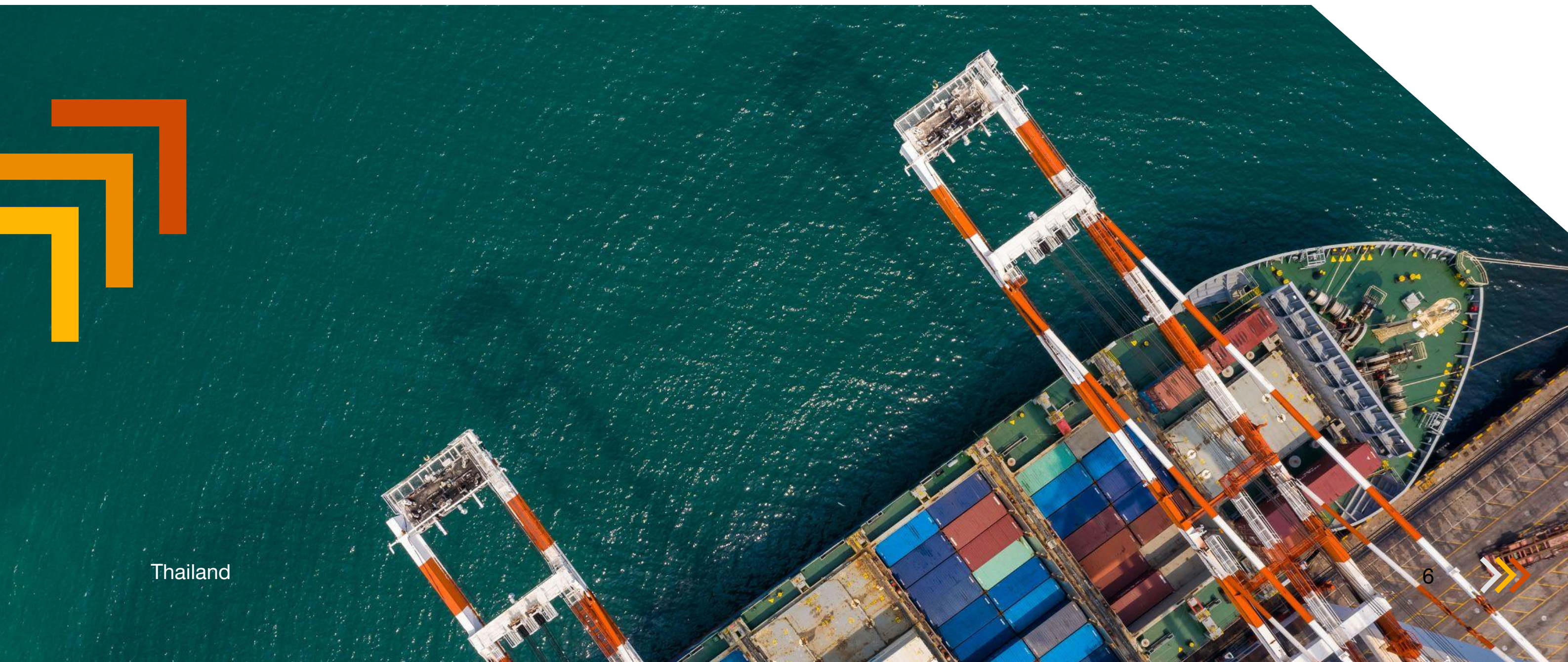


The world's supply chains have been tested in recent times. Trust has been eroded and their brittle nature exposed. However, many emerging issues have been years in the making. A decades-long drive toward reducing costs and increasing efficiency has spread supply chains across the globe. That efficiency has come at a cost of its own — leading to fragility, limited transparency, and 'just-in-time' systems that have little capacity to rapidly absorb unanticipated shocks. Recent rebalancing of supply chains to a hybrid of 'just-in-time' and 'just-in-case' approaches (by intentionally building in redundancy), is proving difficult in the current environment where slack in supply lines is limited.

Disruptions have shone a light on the necessity to rebalance global supply chains toward more diverse, regional networks. Further, rising costs and evolving regulatory frameworks in various markets are resulting in companies exploring avenues to diversify their supply chains and manufacturing bases with many developing a China plus strategy. While re-aligning regional sourcing footprints by building out a China plus strategy is an increasingly attractive approach, it adds challenges due to the variability in supply chain maturity across the region. This intentional fragmentation of supply chains in Asia Pacific introduces new operating frameworks and new complexities around managing local issues — from navigating the logistics infrastructure to the strength of Intellectual Property (IP) protection to the reliability of local suppliers. As companies look for further growth beyond China, they need to consider how they select the right suppliers, production sites, talent pools and distribution networks in a comparatively diverse region.

As supply chains are brought closer together geographically, regional hubs of interconnected economic activities are emerging - often based on sectors in which governments have identified unique inputs that collectively help establish competitive advantage. Coordinated and complementary hubs in the region can enable shared prosperity by increasing productivity and export competitiveness, while decreasing the rivalry pressures that restrain growth. For example, Thailand's automotive and Malaysia's healthcare focus. Yet, these regional hubs generally do not occur organically, and provincial or national government coordination is crucial in building this ecosystem.* As businesses navigate the risks of potential targeted decoupling scenarios of supply chains in certain industries between the US and China, they will need to consider how and where to expand their existing supply chain footprint to balance profitability, growth and risk.

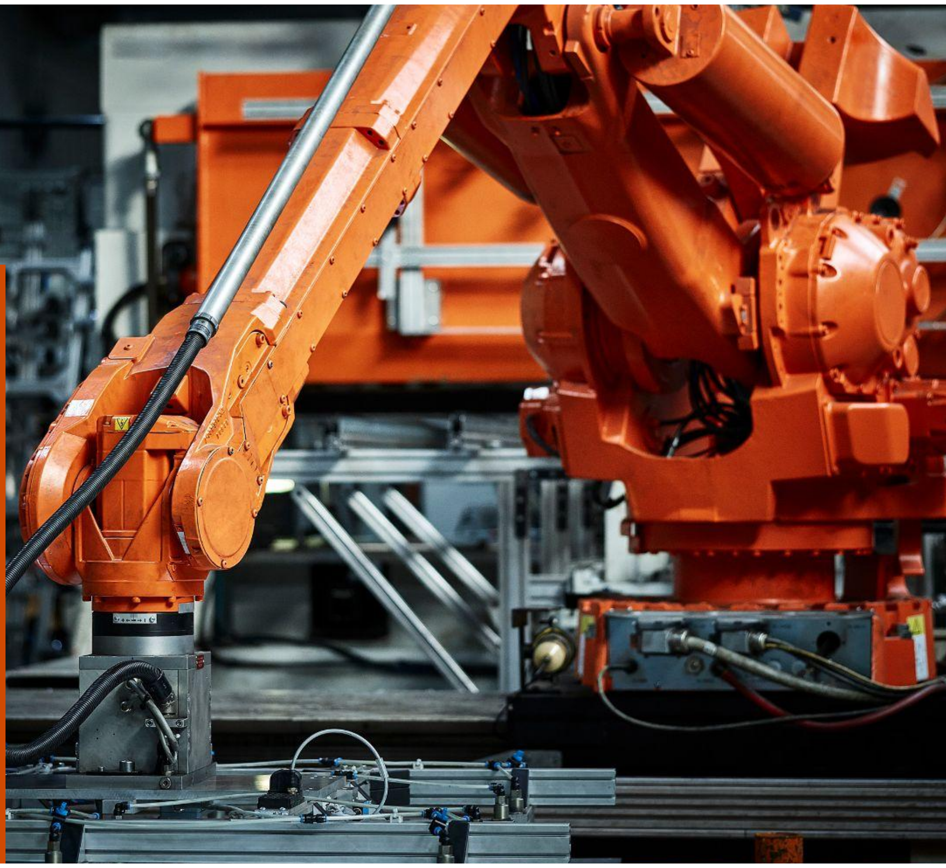
* Currently, Vietnam is a prominent destination for supply chain relocation, but it is already approaching the upper limits of the capacity transfer (Vietnam's 2.6% unemployment rate in 2022 is less than half of Asia Pacific's 5.7%). This is creating opportunities for other Southeast Asian countries to facilitate investment through infrastructure developments and policymaking that makes it easier to conduct cross-border business.



Adding to supply chain concerns across this ever-evolving landscape, is an urgent need to better manage ESG issues and mitigate risk. Recent research by PwC reveals responding to regulatory changes and identifying supplier risks are top ESG concerns for leaders. However, the findings also reveal fewer companies are focusing on ESG reporting and metrics. Further, without significant investment into management capacity and plant infrastructure, smaller local players risk being frozen out of international supply chains if they cannot meet the ESG expectations and stringent rules of global buyers (for example, net-zero, social performance, etc.) This may inadvertently increase supply chain risks due to the unforeseen concentration of production within deeper tiers of supply chain, potentially fuelling the erosion of customer trust should there be a disruption in supply.

> The pandemic is only the latest disruption to uncover the fragility of global supply chains, reinforcing the need to rebuild for the future. Asia Pacific is poised to become the world's growth engine but will need businesses to prioritise supply chain transformation for resilient growth.
>
> *David Wijeratne*
> *International Growth Practice Leader,*
> *PwC Singapore*

Vietnam



> The increasing sophistication of supply chain partners will be of critical importance to manage long-term reputation, legal and decarbonisation risks.
>
> *Jeremy Prepscius*
> *Asia Pacific ESG Sustainable Supply Chains, PwC Hong Kong*

Converging action now

Under more scrutiny and with their vulnerabilities exposed, it is now imperative for companies to transform their supply chains. Businesses must simultaneously manage the challenges of the global supply chain, while harnessing the opportunities it presents. To achieve this, focus needs to pivot from supply chain basics of increasing efficiency and managing costs, to developing **more resilient supply chains, and rebuilding trust in and across them through greater flexibility and adaptability.** Switching focus to resilience and trust will likely see broader value creation opportunities across the supply chain, particularly in digitisation, sustainability and transformation.

Managing the complexities of this pivot, and diversifying, is not as simple as reallocating production to new suppliers operating across multiple jurisdictions — especially with many supply networks reliant on China for critical inputs. Building trust necessitates creating a latticed supplier network, flexible and adaptable to negative shocks such as civil unrest, extreme weather and supplier operational distress. It requires digitising to increase efficiency, transparency and traceability, whilst also having the vision to align sourcing with customer and consumer demand patterns.

Lastly, integrating ESG into supply chain strategy should be less about reactively managing risk from extreme weather events (such as drought-induced factory shutdowns and shipping delays in China) or increasing sourcing proximity to decrease carbon footprint. It should be more about the opportunity to source from suppliers operating more sustainably who can help manufacturers lower their Scope 3* emissions targets and meet net-zero commitments while managing social performance and ensuring local right to operate. Businesses that can demonstrate accelerated progression against both climate and social targets (such as worker safety, modern slavery) will be differentiated.

Building supply chain resilience and trust offers new opportunities. But it will not be achieved by building walls to fortify the existing supply chain and defend against short-term risks. Effectively handling the intricacies of a pivot away from cost efficiency requires a long-term view and will take a proactive plan to build an optimised and distributed supply base in Asia Pacific.

* Scope 3 emissions are all indirect emissions (not included in Scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions.

2 Regional Enterprise Growth

Take a capabilities-driven lens on deals to create value

After decades of above average growth and significant market returns, Asia Pacific now stands at a crossroads. Companies in the region, including Private Equity (PE), are reconfiguring their businesses and capabilities, relying on Mergers & Acquisitions (M&A) activity rather than organic growth to quickly establish competitive differentiation or simplify their portfolio.

M&A activity overall in Asia Pacific has increased more than three-and-a-half times in the past 16 years. The region's share of global deals has grown, buoyed by sizable PE dry-powder of USD$600+ billion — itself a validation of the market's attractiveness. Asia Pacific remains the 'sweet spot' for global growth: burgeoning intergenerational wealth transfers, accelerated sector modernisation, growing intra-Asian trade flows, international investment and presence, as well as a nascent focus on ESG. Each presents compelling opportunities.

However, despite **M&A activity increasing, PwC Value Creation research shows close to half the deals analysed in Asia Pacific have destroyed value and/or underperformed their industry peers: 41% of buyers and 63% of divestors underperformed their peers over a ten-year period.** In this environment, deals are becoming inherently more complex to identify, structure and execute.

The case for value creation as a priority is strong, especially at a time where typical conditions can no longer be relied on to drive value. It necessitates building resilience and considering the full suite of value drivers — not only the traditional elements of financial engineering and operational synergies (including tax benefit analysis). Research reveals a direct correlation between value creation and taking a strategic 'capabilities-driven' approach (capabilities being the specific combination of processes, tools, technologies, skills and purpose that allows companies to create value).

This outcome is no accident. Focussing on key operational qualities, or capabilities, helps dealmakers channel valuable time and investment into the most differentiating elements of the deal: transacting to transform. That is, the elements which reinforce each other to drive value. For example, using a deal as a catalyst to accelerate business model digitalisation by acquiring technologies to transform how value is delivered through building capabilities such as artificial intelligence, customer experience design and the Internet of Things.

Equally, ESG maps broadly onto a range of capabilities that companies may seek to build inorganically and subsequently elevate premiums. Being clear on where gaps lie — and being disciplined on capabilities to acquire (such as decarbonisation, intellectual property, and reporting infrastructure) and when to deploy them along a company's ESG journey — will be crucial in meeting net-zero commitments, broader stakeholder expectations and to de-risk regulatory compliance.

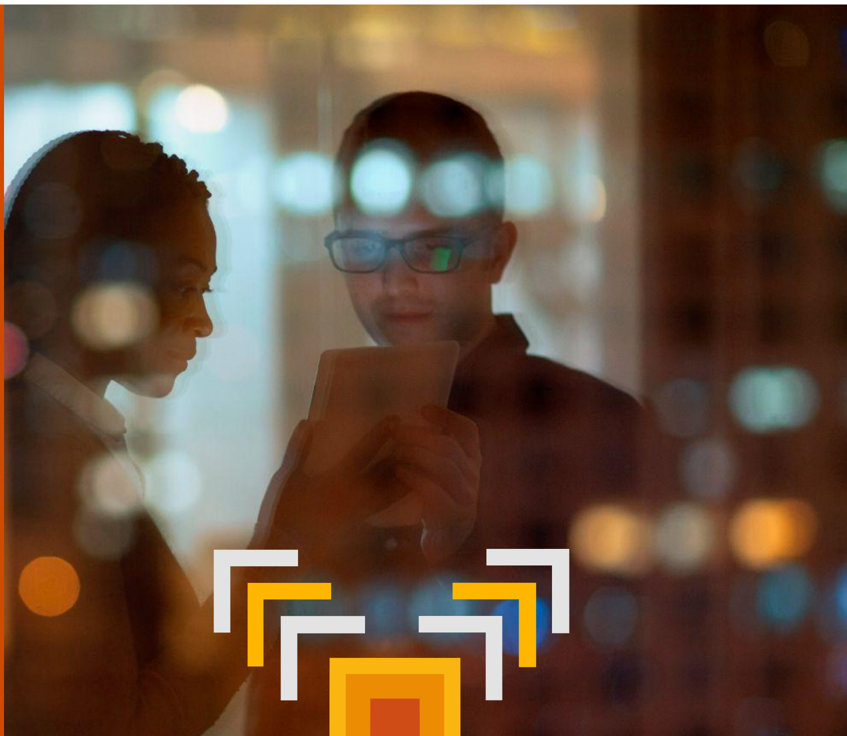
Our research shows, when businesses prioritise scaling through geographic expansion as a deal's primary strategic driver instead of taking a capabilities-driven approach, 35% of the time the transactions create little or destroy value.

This indicates buyers regularly underestimate what it takes to succeed outside of their home geographic market and overestimate how far their existing capabilities can travel.

It's time for businesses with strong balance sheets to capitalise on the value reset and acquire the capabilities needed to generate long-term returns. To do so, dealmakers should focus on a series of pragmatic actions.

1. Clearly link Value Creation to strategy and, with discipline, follow a consistent methodology/blueprint to select, execute and integrate acquisitions.
2. When taking a capabilities lens, ensure this is applied end-to-end including deal hypotheses, execution priorities, capital raising and transformation initiatives.
3. Ensure dealmakers commit time and effort to understand which elements of culture, business norms and market practices are needed to drive a differentiated people strategy.
4. Continually uncover value from data, including from third party sources, across the deal lifecycle.
5. Consider how ESG can elevate premiums both in capital markets and for pricing and positioning of products and services.
6. Invest appropriately in integration — our analysis indicates spending 6% or more of deal value on integration is considered the 'sweet spot' to deliver returns.

> "Taking a capabilities-driven lens to acquisitions outperforms deals that are made for other reasons (such as economies of scale, lucrative assets, protecting the existing market position, or diversification) by approximately 14% in total annual shareholder returns.
>
> *David Brown*
> *PwC Asia Pacific Deals Leader*



3 Digital Economy

Embrace digitalisation to drive insights, reduce risk and stay relevant

Capitalising on the digital revolution is more pressing than ever. How, where and why we work and operate has fundamentally changed. Digitalisation is increasingly the key to economic resilience, flexibility and efficiency across the entire value chain. Transforming is a must to turn operations into a competitive advantage and remain relevant.

The pace of digital adoption, transformation and delivery in recent years has accelerated and progressed exponentially. Whilst some companies rose to the challenge better than others, there remains room to evolve. In Asia Pacific, 79% of CEOs are changing their investment focus over the next three years to digital transformation. However, businesses must act now to seize opportunities by applying digital practices and technology across the most critical parts of the value chain — at the right points, at the right times. Digital and technological transformation should not be a one-size-fits-all endeavour and greatly depends on investment appetite, digital skills and operating constraints of the business.

Digitalisation enables enterprises to offer a differentiated value proposition to customers, suppliers and employees. With one in three companies across Asia Pacific predicted to generate more than 30% of their revenues from digital products and services by 2023, governments are increasingly recognising the importance of the digital economy as a key lever of corporate and country competitiveness. Many territories in Asia Pacific have released national digitalisation strategies to attract talent and investment, for example Singapore's Smart Nation 2025 Blueprint, Malaysia's digital economy blueprint, Indonesia's roadmap and Hong Kong SAR's Smart City Blueprint. These strategies are foundational and signal a widespread recognition at government level, that a thriving digital economy aids social equity, facilitates a resilient future, and provides synergies for cross-border collaboration and investment.

Case study

Human-led and tech-powered, PwC transformed BHP's shared services model into a single operating business. Working globally with BHP's people, culture and technology, PwC mapped and analysed BHP's end-to-end process to identify opportunities for optimisation and automation, both in the short and long-term. By analysing BHP's processes, PwC was able to uncover variation and waste reduction opportunities, resulting in improved frontline safety and productivity.

Embracing digital to stay relevant

Embracing the opportunities digital brings, from automation to emerging technology, is necessary to respond to the increasing complexity and competitiveness. Digital can enable businesses and governments to counter the disequilibrium with better data, deeper insights and more efficient processes that empower new business models and create new revenue streams.

Successful digital transformations are integral to an organisation's strategy and must meet market, customer and employee expectations. While there is an opportunity to digitise nearly all aspects of an organisation (from products and processes to culture and operating model), it is vital to understand and prioritise the areas within a business that will maximise value proposition delivery and increase market relevance. ESG initiatives and reporting can come alive with high-quality data and analytics for benchmarking, enabling smarter decisions and easing compliance burdens. Supply chain convolutions and challenges can be made manageable through the thoughtful application of technology.

People, processes and technology are required to drive and sustain digital transformation. Addressing the current technology talent shortage can be achieved through digital upskilling and reskilling programs, which can be a differentiating factor for organisations and can unlock operational efficiencies and resiliency. There is also an opportunity for governments to play a role in driving the upskilling agenda through public-private sector partnerships.

Lastly, culture and change management are foundational to any successful digital transformation. For example, employees will need to adopt new ways of working that integrate technological skills, while business leaders must fully embrace a digital mindset by accepting data-driven decision making and increasing cyber awareness. Radical change necessitates a clear organisational priority and change management program.

The question is no longer whether digital can provide value, but **'how can digital increase resilience and agility, and reduce cybersecurity and data privacy risk in an increasingly complex environment?'**

For Asia Pacific, embracing the digital revolution presents the opportunity to thrive in a digitally focused future. Rising to this opportunity positions businesses and governments to respond to today's challenges and build resilience and agility to proactively engage with the challenges of tomorrow.

Case study

Central to global trade are goods travelling by ship. In the new reality, this has been tested by congestion and container shortages. Coordinating shipments, representing 90% of the world's traded goods, is a mammoth task. Rising to this challenge, a cross-functional and globally networked team from PwC advised on a platform to support the creation of the Global Shipping Business Network, which is powered by blockchain. Having cleared antitrust and regulatory hurdles, the platform reduces cargo processing times from days to hours. This project demonstrates that tough problems require a diversity of capabilities and a deep commitment to collaboration.

4 Workforce

Rethink upskilling, embrace flexibility and deliver on purpose-driven work to build trust

Today's workforce challenges are complicated and require something more from employers than previously expected. Employees across Asia Pacific are rethinking their lives, with work topping the list. Talent is on the move to a degree not seen before. Thousands of expats continue to shift around the region — some countries seeing fewer expat numbers, others burgeoning. Many locals have returned home, and millions of workers have quit or changed jobs. Most want flexibility in a manner not previously demanded or offered.

According to PwC's Asia Pacific Workforce Hopes and Fears Survey, the balance of power between workers and their employers is shifting. Employees say they want more meaningful work, to bring their authentic selves to work, and to trust their employer. They want a better deal around fair pay. Simply raising wages to retain and attract talent is unsustainable in the long run. Employees are hoping for greater transparency, equity and flexibility at work.

And with four generations now in the workforce, employers are challenged to understand and meet the wide variance of employee expectations. With one third of the workforce planning to ask for a raise in the next 12 months and one in five intending to switch to a new employer, these results — against the backdrop of previously outlined issues across Asia Pacific — should be a wakeup call for companies across the region, many which have grappled with skill and talent shortages for years.

Leadership of today's workforce requires a more people-centric approach. One that is representative and inclusive, that trusts and empowers, is collaborative and empathetic. Traditional models of hierarchical leadership are out-dated and no longer effective. Despite this, research indicates an asymmetry between CEOs and their people regarding changing workforce dynamics. In PwC's Asia Pacific CEO survey, CEOs were asked how the top threats (health risk, cyber risk, macroeconomic volatility, climate change, geopolitical conflict and social inequality) could inhibit growth. Except for social inequality risk, they were most concerned about the near-term impact to revenue. Attracting and retaining talent appeared less concerning in the context of delivering short-term top line growth.

> "The voices of employees have become stronger, and employers need to listen. The culture and values of an organisation must align with its workforce, otherwise people will vote with their heads and hearts, and ultimately their feet.
>
> *Norah Seddon*
> *People & Organisation Leader, PwC Asia Pacific and Australia*

This disconnect highlights a significant area of opportunity. How leaders respond to the changing dynamics of their workforce will play a major part in shaping long-term strategic success. An interlinked response to address the skills shortage, embrace hybrid work, and deliver on societal purpose (ESG) is key.

Address workforce planning

Many employees are looking for short to medium-term career plans (one-two or three-five years), while also expecting their employer to teach them the digital and technical skills they need to succeed long term. When employees and employers reach a mutual partnership, skilling is one area that can see real return during short to medium-term periods. Yet too often companies see upskilling as a short-term fix for plugging immediate capability gaps, rather than a way to develop a strategically competitive workforce. To build a future-ready workforce, employers must holistically consider the skills they need (from employees and the company) in the longer term, then build a mutually beneficial program to deliver them.

Embracing flexibility and trust

Flexible work is here to stay, with 90% of the workforce in Asia Pacific preferring to work remotely or hybrid. In a future where hybrid work is the norm, balancing retention risk is essential, and a dictatorial approach —such as mandating specific in-office days — is likely to fail. Instead, empowering people to influence the way they work and when is likely to better resonate — especially among employees with in-demand skills who have gained notable bargaining power with employers. Companies also need to be careful not to overlook the 38% non-hybrid workforce who are significantly less engaged and less satisfied than people who can work from home. The key is for leaders to understand their employees' preferences and give them a say in shaping what their jobs look like. Ultimately it comes down to leaders trusting and empowering people to know what works best for them and the company, and then reaching a partnership that works.

Delivering on societal purpose (ESG)

Money matters, but so does meaning. Although workers want to be rewarded fairly, they also value other things: 64% want work that provides a sense of fulfilment and meaning, 62% want to bring their authentic selves to work. While companies are embracing ESG shifts, they could be leveraging this more to gain a competitive advantage, especially to attract specialised workers. One of the most powerful ways to nurture meaning and fulfillment is to create a clear link between what people do every day and broader societal purpose. Those businesses succeeding will have clarity on what employees want by gathering data on employee sentiment, segmenting people, and prioritising action plans for key groups. They will make ESG real by breaking down what it means for their people, aligning purpose, and outlining the role employees can play in delivering on these agendas. And by promoting what is being done, employees can have greater clarity about how the organisation's purpose aligns with their own values.

5 Environmental, Social and Governance

Accelerate progression of ESG priorities to differentiate in the market for capital and talent

Regional progress against the UN's Sustainable Development Goals (SDGs) remains challenging for Asia Pacific. A combination of crises, impacts of legacy fossil fuel-dependent economic development priorities, and ongoing geopolitical challenges place Asia Pacific further behind to achieve SDG targets. ESG is therefore fast becoming not just a priority, but a differentiator in society's collective goal to accelerate progress across a range of complex and inter-related issues. Creating meaningful change and measurable value, ESG is smarter business for a stronger world. It is a key consideration that drives decisions across supply chains, enterprise growth, digital adoption, workforce, overall social impact and associated investment. There has been a shift from viewing ESG as a reporting exercise focused on risk mitigation, to seeing it as a major value creation opportunity throughout the business cycle.

Businesses demonstrating accelerated progression against both environmental and social targets, underpinned by transparent data and governance, are differentiated. This differentiation can be seen not only in public and private company valuations, but also in the competition for talent where 'meaning' (purpose, authenticity and wellbeing) leads the way when choosing an employer.


New Zealand

Environment

Momentum has not declined when it comes to Asia Pacific's business leaders doubling down on their path to net zero. 60-69% of Asia Pacific CEOs have committed to either a net-zero or carbon-neutral target — well above global peers by 9-13% respectively. As businesses' and governments' net-zero ambitions scale up, Asia Pacific needs to accelerate its annual decarbonisation rate by 13 times to reach the 15.2% global rate required. Encouragingly Asia Pacific countries outperformed their global peers in reducing their carbon intensity in 2021 led by Australia, China, Indonesia, Malaysia, New Zealand, South Korea, Thailand and Vietnam. Collaborative actions between government, business and investors — including across borders — is more important than ever to continue this momentum. Increasingly, a key pillar of the decarbonisation journey needs to include innovation by business in driving both a fair and circular economic transition. Through longer product life cycles (for example a reduction in virgin material usage), targeted innovation and service-based business models, there is the potential to generate over USD$324 billion in Asia Pacific economic output and 1.5 million jobs in the next two decades.

Meanwhile, pressures are increasing from regulators, investors, and more eco-friendly Asia Pacific consumers who collectively are demanding businesses show demonstrable progress towards net-zero targets, whilst the focus on biodiversity and other environmental issues amplifies. Shareholder activism is significantly on the rise in Asia Pacific, adding pressure to perform and leading to regulatory reform and increased governance. As emissions regulations emerge, there is momentum around Scope 3, energy transition, supply chain and digitalisation impacts. Value is evolving in line with the maturity of stakeholder capitalism. Businesses complying with regulation and aligned to leading EU taxonomies are differentiating themselves — and increasingly attracting market valuation premiums of 20-30%.

Social

A turbulent global geopolitical and economic backdrop in Asia Pacific is creating greater uncertainty and reinforcing inequalities across nations. This is compounded by the dynamics between stakeholder groups including employees, employers and supply chain workforces. Businesses are faced with both a significant challenge and opportunity: creating inclusive business models while maintaining commerciality of their products and services. Recent data suggests that if available and armed with the right information, consumers will be willing to pay a premium for sustainable products and services. Social impact should therefore not be thought of in a vacuum— the consideration of diverse cultures, vulnerable groups, and the welfare of local communities must be central to the product development lifecycle.

Two priorities emerge to pragmatically action this ambition. Firstly, businesses on their journey to net zero must also consider how to deliver a Just Transition — ensuring inclusive opportunities for those stakeholder groups most impacted by a shift away from carbon intensive activity. Secondly, businesses that deliver on their social purpose can use this as a 'premium' for their employee value proposition — which is critical in attracting and retaining talent who are actively choosing employers whose activities are aligned to their conscience, not just compensation.


Indonesia

Governance

In Asia Pacific, amidst the pandemic the [hierarchy of trust has flipped](). Governments became more trusted than business. Faced with a trust deficit, businesses need the right level of transparency, competency and standardisation of high-quality data to build back confidence in stakeholders, including employees and investors. However, there is a lack of clarity around what to do regarding trust and transparency. Data in relation to climate and social impact remains fragmented, immature and difficult to source and analyse. This makes creating a baseline for improving targets — and reporting on them — especially challenging. Governments and regulators around the world continue to drive regulatory changes which scrutinise operations and supply chains in the region, particularly in the areas of workforce, social impact and human rights. Businesses that master transparency and data, in these areas — and who understand and act upon a constantly evolving global regulatory environment — can leverage this to access capital on beneficial terms and take the lead on trust with their stakeholders.

From 'Good Intention' to 'Value Creation'

The growing interest in broader ESG issues across the region presents significant opportunities to embed ESG improvement levers into business resilience, climate initiatives, and visions for transformation. Businesses who can proactively prepare for increased transparency will have improved market differentiation and an increased ability to impact climate and social issues. In doing so, leaders should direct commitment and action into the most effective and practical activities:

Set an ESG vision, link it to an employee value proposition, and take a public stance

ESG is a differentiator. It's also a way businesses can ensure stakeholder needs are addressed. Moving from acceptance and vision to implementation and action necessitates understanding where you are, where you'd like to be, and how you'll get there. Understanding this, and communicating to employees what is being done, will help businesses embrace the competitive talent market and act as a catalyst to refine its vision. A vision will aid in developing an employee value proposition, supporting an operating model and organisational structure that will be purpose led. A public stance on the most relevant social values demonstrably linked to products, services, and the employee value proposition is vital to managing and upholding stakeholder expectations.

Use climate tools to understand risk, invest in a data ecosystem, and make portfolio adjustments

As much as 80% of an organisation's supply chain emissions come from as few as 20% of its purchases. Businesses need to commit to understanding and cutting these emissions, often through portfolio adjustments and working proactively throughout their supply chains. Companies with energy transition underway, or a portfolio of businesses already on the net-zero path, can use data to look for enablers and accelerants. Also key, is a proper evaluation of risks, especially physical risks from climate changes. Impact assessment tools bring together economic and operational data. They determine the effects of a decision — such as portfolio changes — on ESG criteria including pollution outputs, $CO2$ emissions, labour practices and social welfare. This granularity helps leaders make strategic decisions, understand trade-offs and identify opportunities. Orderly and high-quality data ecosystems bring confidence and clear reporting, which enables businesses to better meet regulatory requirements, increase awareness of risks, and ultimately build trust and transparency with communities and the market.

Realise the ability to attract premium returns and sought-after talent

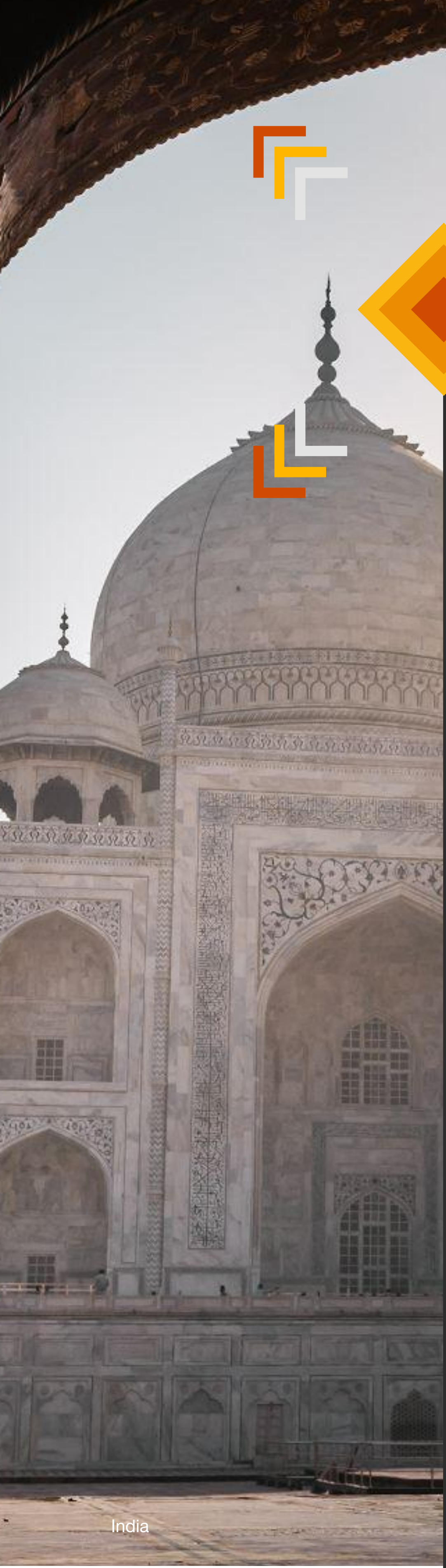
A successful transition to net-zero can be significantly accelerated by leveraging capital investment from the private sector. Businesses exhibiting ESG capability — and delivering on environmental and social impact — have a lower cost of capital, a better chance of being prioritised by investors, may earn the right to price their products and services at a premium, and are attracting and retaining premium talent through their employee value proposition.

The ESG revolution is here. Societal needs and business opportunities are converging to transform the way companies design their strategies, drive performance, differentiate in capital investment markets, and secure talent. ESG can help reshape uncertainty into opportunity, complexity into clarity, problems into potential. With it we can move forward with measurable success and create sustained outcomes that fuel responsible growth.

Asia Pacific businesses remain at a critical transition point: the shift needs to be away from reporting to ‘look good’, into a more focused, transformative mindset around Value Creation — combining ESG and innovating the portfolio of products and services to ‘do good’ and deliver sustainable premiums.

Ivy Kuo
PwC Asia Pacific ESG Leader

Australia



India

Advancing together, now

For many years Asia Pacific has benefited from a strong set of regional fundamentals. It has shown great resilience in the face of past challenges, and its burgeoning economy has lifted fortunes across the region. However, faced with threats to growth and the current state of disequilibrium, it is now incumbent upon businesses in Asia Pacific to be much more deliberate and proactive in decision making, and more strategic in planning — to drive equitable growth and enhance regional competitiveness and resilience.

The challenge for business leaders is a daunting one. They must create value and sustained outcomes for multiple stakeholders whose interests are not always aligned. They must quickly decide where to optimally deploy time and resources and in doing so, understand the impacts of these decisions across the entire value chain. Success in today's world needs leaders to be bold. To adapt and evolve at speed. To collaborate, and build trust and resilience, focussing attention across supply chains, regional enterprise growth, digital economy, workforce, and the evolving ESG landscape. These five aligned and mutually reinforcing areas are key challenges for leaders, yet also represent the areas of greatest opportunity. They are success factors that can differentiate and have lasting impact.

Rarely in history have business leaders had to deal with this many challenges, each coinciding and uniquely complex. And never have leaders had to respond to them all at once. We face a new reality, and a complicated road ahead with twists and turns that underscore the need to come together. Businesses must transform to drive competitiveness and prosperity, and lead Asia Pacific to a future as the world's most resilient and sustainable economic powerhouse.

It's Asia Pacific's Time to respond to the new reality.

We must act now!

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