ESG: WHERE IS THE VALUE?

SIFA STRATEGY

ESG Review 2025/26 Edition

How to make ESG decision-critical

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“I think it has become more important to us, in part due to the moral imperatives, but also the realisation of the benefits from an efficiency and cost-saving perspective.

“I think ESG is fairly well embedded into strategy in terms of high-level appreciation and incorporation, but it is far less embedded in terms of operationalising it.

“It’s one thing to write a transition plan. It’s another to deliver it. Ours is directionally right, but operationally soft.

“If a company can’t articulate the value of ESG to its business in a few sentences, then the Board probably doesn’t understand it either.

“Organisations won’t properly adopt ESG until they better understand the opportunity of it, whether that be revenue enhancement, cost efficiency, reduction in capex. It’s got to be linked to some kind of financial outcome, and a better understanding of that, before it will be adopted.

“Where the CFO can have a greater impact in terms of immediate profitability, sales impacts and data analysis - that is where the focus will be.

CONTENTS

FOREWORD

Can ESG create or protect corporate value?

This question lies at the heart of whether organisations choose to meaningfully engage with ESG or keep it at arm's length. It determines whether ESG is likely to be properly embedded within strategy, financial planning, and operations, or treated primarily as a reporting obligation.

Our 2025 research reiterates that ESG remains important for UK mid- and small-cap companies. Nearly all organisations expect its relevance to be maintained or to increase. However, confidence in what ESG actually delivers and how it influences decisions is increasingly divergent.

On the positive side, some companies have identified specific ESG factors that deliver clear commercial value, financial return, or competitive advantage. In these companies, ESG is embedded where there are direct links to customer expectations, revenue resilience, return on investment, cost efficiency, or competitive positioning. In almost all cases, this integration has been driven by customer pressure, where failure to meet ESG requirements would have an immediate commercial impact.

For most Boards and senior management teams, however, ESG remains at arm's length. Deeper integration is being consciously delayed. Where ESG impacts do not align with annual budgeting cycles or short-term planning horizons, they struggle to command management attention, in particular in the current economic environment. As a result, ESG activity continues, but with reduced conviction, increasingly framed as a compliance or reporting exercise rather than a driver of strategic or financial decisions.

Breaking out of this 'arm's length' approach requires overcoming a central challenge: translating longer-term sustainability risks and opportunities into financial terms that fit with today's decision-making and planning frameworks. Where the link to value cannot be clearly understood, measured, and quantified, Board level support and momentum will stall.

Financial materiality sits at the centre of this divide. Progress is constrained less by technical capability than by prioritisation. While often framed as a data challenge, the reality is simpler. Management attention follows near-term financial impact. If impacts are not understood in terms of cost, cashflows, valuation, access to finance or cost of capital, they will struggle to compete for management attention and resource. This is reinforced by ongoing perceptions of ESG as a reporting, or compliance exercise, rather than as a contributor to value or resilience.

The forthcoming UK Sustainability Reporting Standards (UK SRS) represent a potentially important inflection point. By shifting the focus from disclosure to decision-useful information, UK SRS, if adopted, will test whether sustainability-related risks and opportunities are genuinely understood, managed, and communicated through a financial lens. For many organisations, this will expose gaps in governance, data quality, and financial integration.

Recent years have been marked by regulatory uncertainty, geopolitical tension, and economic pressure. As a result, stakeholder attention on ESG, particularly from investors, has softened. This reflects shifting priorities rather than disengagement. Underlying pressures such as climate impacts, supply chain vulnerability and workforce challenges, will continue to build. When conditions stabilise, ESG scrutiny will return, and it is likely to do so with greater financial and operational focus.

This period of reduced "visibility" therefore creates a window of opportunity. With external pressure temporarily eased, it gives time for management teams to evolve their approach to ESG. When the pendulum swings back, stakeholder scrutiny will reveal to what extent ESG is truly embedded as a 'business as usual' discipline, or whether it is switched on and off as circumstances dictate. For some, this is a chance to move beyond compliance, reassess financial materiality and more clearly connect sustainability to value and resilience.

The question is not whether scrutiny will return, but rather who will be ready when it does.

Fergus Wylie, Co-founder

Madeleine Palmstierna, Director

KEY FINDINGS – ESG IS ACTIVE, BUT STUCK IN A VALUE DEADLOCK

The 'chicken-and-egg' of ESG value is the central problem.

ESG struggles to influence senior management decisions because its financial value and timeline is unclear. Yet without senior management priority and support, it will sit outside core financial processes and so the value won't be properly tested. Without a credible link to financial impact metrics or valuation, ESG will remain marginal to decision-making for strategy, investment, and performance.

In-depth financial materiality testing remains the challenge.

Over half (56%) of organisations have only conducted high-level or outline assessments, with just 15% progressing to detailed analysis. This is not a capability gap. It reflects hesitation to invest senior time and attention in translating ESG risks and opportunities into financial terms that can stand up to scrutiny and influence decisions.

Embedding is real, but incomplete.

Only 44% of respondents believe ESG is very, extremely, or fully embedded – a continued decline from previous years. This reflects greater realism about what true embedding requires: operational change, long-term assumptions, and difficult trade-offs. ESG is rarely translated into forecasts, capital allocation, or business plans, leaving a gap between recognition and action.

ESG still matters but belief in its value is fragile.

Nearly all respondents see ESG as unchanged (52%) or increasing (44%) in importance. However, belief in its ability to drive performance or inform strategic decisions is weaker. ESG is still widely viewed as a compliance requirement rather than a reliable contributor to value or resilience.

Incentives are lagging behind.

Links between ESG and executive remuneration remain limited. Over half (56%) of respondents report minimal or no linkage. This reflects uncertainty over which ESG outcomes truly drive value, reinforcing ESG's limited influence on behaviour and decision-making.

UK SRS will test integration, not just reporting capability.

Most organisations are in the early stages of UK SRS readiness. While existing TCFD work provides a starting point, UK SRS, if properly adopted, will expose whether ESG is genuinely embedded in governance, financial thinking, and decision-making, rather than simply disclosed.

The Bottom Line

ESG is limited not by lack of activity or commitment, but by the chicken-and-egg trap. Until sustainability risks and opportunities are clearly linked to financial outcomes, ESG will struggle for attention, accountability, and influence.

Organisations that break this cycle, by acting early on financial materiality testing and discussion, integration and governance, will be best positioned when scrutiny returns.

WHAT DOES THIS ALL MEAN FOR COMPANIES?

This research, and our own work, confirms there is no single formula for embedding ESG into strategy or for approaching financial materiality. Differences in sector, business model, senior management bias, value-chain position, customer pressure, capital structure, and internal capability mean that approaches must be tailored.

Despite this, four areas consistently stand out as critical to move ESG forward. These are leadership choices that determine whether ESG remains a compliance exercise or becomes a source of resilience and value.

01 Financial Materiality: Start early and keep it simple.

The most significant barrier to ESG integration remains the ability to understand and articulate financial materiality - both risk and opportunity. This is an evolutionary process where judgement is key, uncertainty is unavoidable and striving for perfection too early will delay progress.

Even organisations that are relatively advanced in ESG integration continue to refine and update their financial materiality assessments and shorter-term quantification. UK SRS will increase expectations by requiring companies to explain how sustainability-related risks and opportunities are assessed through a financial lens, including the assumptions and uncertainties involved. This will demand closer alignment between sustainability narratives and financial information.

Our research suggests companies should:

- Bring the finance and sustainability teams closer together to improve credibility and impact
- Treat opportunity and competitive advantage with the same rigour as risk
- Begin financial materiality work early, even if judgements and assumptions are imperfect. Waiting for perfect data or methodologies risks delaying integration.

02 Leadership determines whether ESG progresses or stalls.

Without senior management sponsorship, ESG will remain in the margins. UK SRS will raise expectations around accountability, oversight, and audit resilience, demanding cultural as well as structural change.

Meaningful ESG integration does not happen without active leadership involvement. Where engagement is weak, financial materiality analysis, transition planning and data quality tend to lack credibility and impact.

As expectations evolve, Boards and senior management will increasingly be expected to:

- Take clear accountability for sustainability-related risks and opportunities
- Build sufficient understanding of financial implications to oversee performance
- Ensure governance processes can withstand audit and investor scrutiny

For many organisations, this will require changes to Board agendas, reporting structures, data systems, and education programmes. The challenge is not simply technical; it is organisational and cultural.

03 Invest in data where decisions depend on it.

Low confidence in ESG data remains a major constraint on integration. While gaps are widespread, particularly for Scope 3 and value-chain metrics, the solution is not to collect everything. The focus should be on the data that directly informs strategy, transition planning, and capital allocation.

Companies should:

- Identify which ESG data is genuinely decision-critical
- Align data development with strategy, transition planning, and financial analysis
- Accept that data quality will improve incrementally, not instantly.

Financial materiality assessments and transition planning can help to identify data priorities and breaking down silos between sustainability, finance, and operations. Trusted data is also essential for unlocking management engagement and evaluating the effectiveness of ESG programmes.

04 Compliance or value is ultimately a choice.

UK SRS can be treated as a regulatory burden or as a catalyst for better decision-making. The difference is intent, not technical capability. Many companies still approach ESG primarily through a compliance lens, under which UK SRS becomes another cost or tick-box exercise.

Our challenge to companies is to use UK SRS as a launchpad to:

- Strengthen oversight and understanding of performance drivers
- Improve strategic decision-making and stakeholder engagement
- Connect sustainability more clearly to value creation and capital allocation

Over time, sustainability disclosures will no longer be viewed as "non-financial". Companies that integrate governance, data and financial analysis early will be better positioned as capital providers' scrutiny and possible assurance expectations increase.

Finally, ESG decisions involve trade-offs across time horizons. Where these trade-offs are not explicitly owned, whether by the Board, the executive team or ESG Committee, ESG will remain theoretical. Clear accountability for these decisions is as important as data or disclosure.

ESG TODAY – STEADY ACTIVITY, BUT WITH LESS CONVICTION

Headline Finding: ESG activity has not slowed, but confidence in ESG as a system is weakening.

Overview

Despite louder political and media scepticism - particularly in the US, and alongside regulatory withdrawals in the EU - ESG activity within UK companies has remained broadly stable over the past two to three years. Programmes and commitments remain in place. What has shifted is executive confidence in the ESG system itself.

Many senior leaders now question the broader ESG agenda. Concerns about regulatory consistency and enforcement, geopolitical disruption, and the practicality of delivering a full transition to a low carbon economy are increasingly common. As a result, organisations are becoming more cautious about how visibly they talk about ESG. Activity continues, but more quietly, with greater emphasis on reassuring stakeholders about growth, returns and operational performance in order to limit reputational and legal risk.

Internally, ESG programmes continue, but with more selectivity and focus. Where confidence in outcomes is weaker, ESG is less likely to shape capital allocation decisions, long-term planning, or strategic trade-offs. The result is a reduced belief in the impact ESG has on decisions, alongside a reduced appetite for incorporating ESG in assumption-heavy modelling.

Implications for Leadership Teams

When confidence in the system weakens, ESG does not disappear, it moves down the agenda. In periods of uncertainty, ESG activity tends to continue, but its influence on strategy and investment reduces. Management should be conscious of whether ESG is shaping decisions or simply being maintained to meet reporting expectations. The risk is that ESG stays siloed and is never meaningfully tested to determine if it can and should shape core business decisions.

What Leaders Are Saying

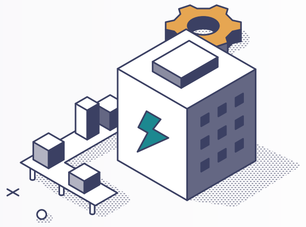
“We’ve always done this and had it at heart. The frameworks came later and we’ve made a big push to look compliant as far as we can. The focus hasn’t changed for us. The noise has.

“The direction of travel is obvious. What’s unclear is who’s actually going to enforce it.

“There is less discussion, less attention, and less patience. Priorities are shifting. Nowadays it is tough with constant changes and no regulatory commitment.

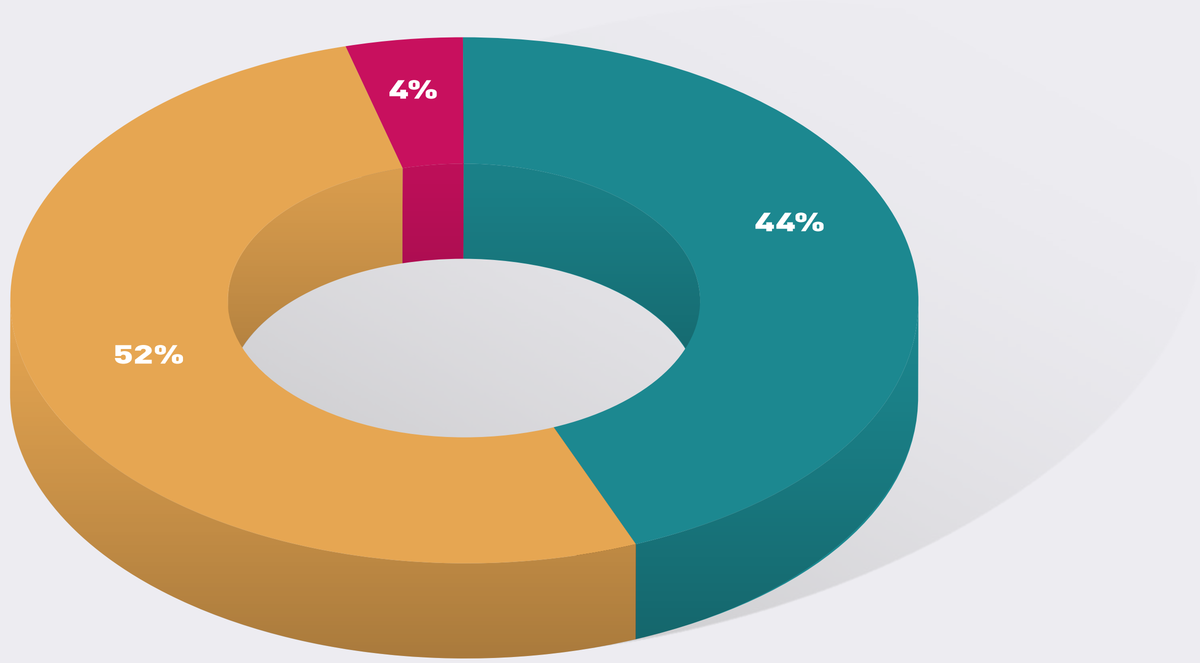
“There are other much more significant issues that feel like they will come to the fore before the business has to focus on ESG – the macroeconomic environment, huge social upheaval and more.

“Every single conversation about ESG is held with frustration and questions. Outside we show we care, but inside it is a one pager in an appendix, and no one believes in it.



Has ESG become more important, less important or about the same to your organisation over the past 2-3 years?

More Important, Unchanged, Less Important



EMBEDDING ESG – GREATER REALISM, NOT REDUCED EFFORT

Headline Finding: Embedding ESG is no longer about intent, but about competing priorities.

Overview

Our previous research showed reasonable confidence that ESG was being effectively embedded across organisations. In 2022, 80% of respondents believed ESG was very, significantly, or fully embedded. In 2024, this declined to 52%. This year, that confidence is lower still (44%), not because the work has slowed, but because expectations and the challenges have become more realistic.

Embedding ESG properly is proving harder, slower, and more disruptive than many expected. Doing it right requires changes to operating models, capital trade-offs, and new ways of measuring performance. Management teams now have a clearer sense of what "embedded" actually means and turning that understanding into action has been far more difficult than initially expected.

ESG is being frequently tested against other priorities. Where ESG can be linked to performance, resilience, or value protection, it gains attention. Where it cannot, it understandably slips down the agenda. This reflects the trade-offs leadership teams are making, rather than a loss of commitment.

Implications for Leadership Teams

The question is no longer whether ESG is embedded, but where it sits among competing priorities. As ESG integration becomes more demanding, it increasingly competes with other initiatives for capital, time, and attention. Management needs to be clear where ESG supports business performance, but also honest about where it does not. Progress depends less on commitment and more on prioritisation.

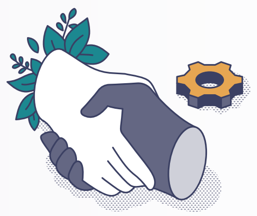
What Leaders Are Saying

"If a company can't articulate the value of ESG to its business in a few sentences, then the Board probably doesn't understand it either. There must be the right data and evidence developed over time, but the basic value proposition should be clear.

"It feels like we're committing to targets that assume a world that doesn't exist yet.

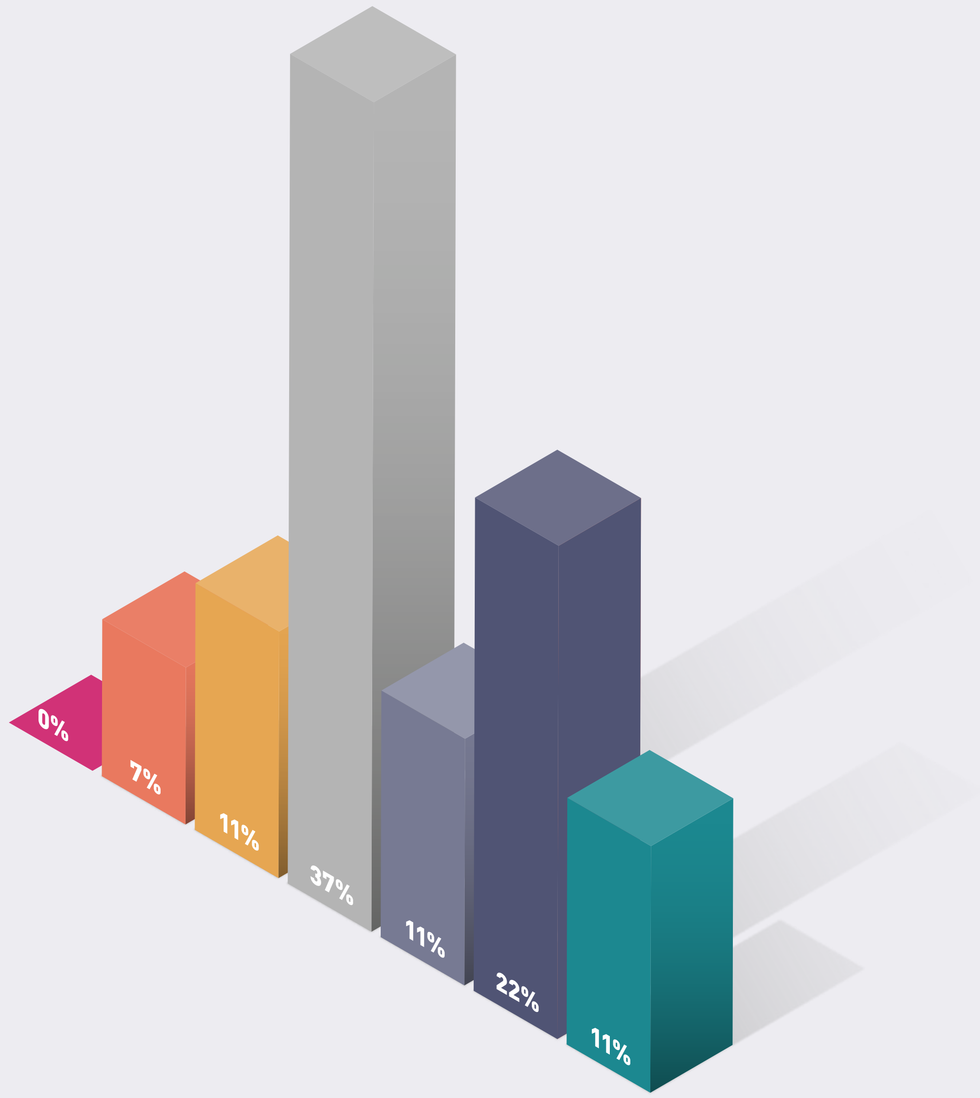
"I think it is fairly well embedded into strategy in terms of that high-level appreciation and incorporation, but it is far less embedded in terms of operationalising it.

"We're finding that the customers that we serve aren't necessarily as interested as they first make out. As a result, our ability to be a financially viable business, whilst really investing and embedding ESG across it, is limited by our customer base.



To what extent is ESG embedded within your operations and strategy?

Not At All 1 2 3 4 5 6 7 **Very Significantly**



ESG AS A VALUE DRIVER, OR COMPLIANCE FUNCTION?

Headline Finding: How ESG is framed will determine its value to the organisation.

Overview

For most organisations, ESG is still seen primarily as a risk management and compliance function. Regulation and disclosure requirements reinforce this view, pushing teams to focus on compliance and minimum standards, rather than value creation.

This framing directly shapes how organisations behave. Time and effort go into meeting requirements and preparing reports, while potential upsides from outcomes such as stronger customer relationships, greater resilience, and long-term value generation often receive less structured attention. Without clear financial evidence, ESG is unlikely to be treated as a source of competitive advantage.

Where ESG does influence growth or competitiveness, it is because the link is direct and commercial, for example access to customers, contract wins, cost stability, or a return on investment. These cases demonstrate that ESG can support resilience, growth, and value, but only where it is treated as commercially relevant, rather than primarily ethical or reputational, which most organisations readily accept.

Implications for Leadership Teams

How ESG is framed determines what it can deliver. If ESG is treated primarily as a compliance or risk function, it will deliver compliance and risk mitigation, but little more. This is not necessarily negative, but management teams should properly test whether ESG could also support resilience or value creation. This is a strategic choice, not a technical one.

What Leaders Are Saying

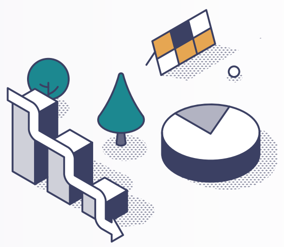
“ I don’t see ESG as competitive advantage. It preserves our licence to exist.

“ If you strip away regulation, a lot of ESG disappears from the conversation.

“ Right now, it’s hygiene, not strategy.

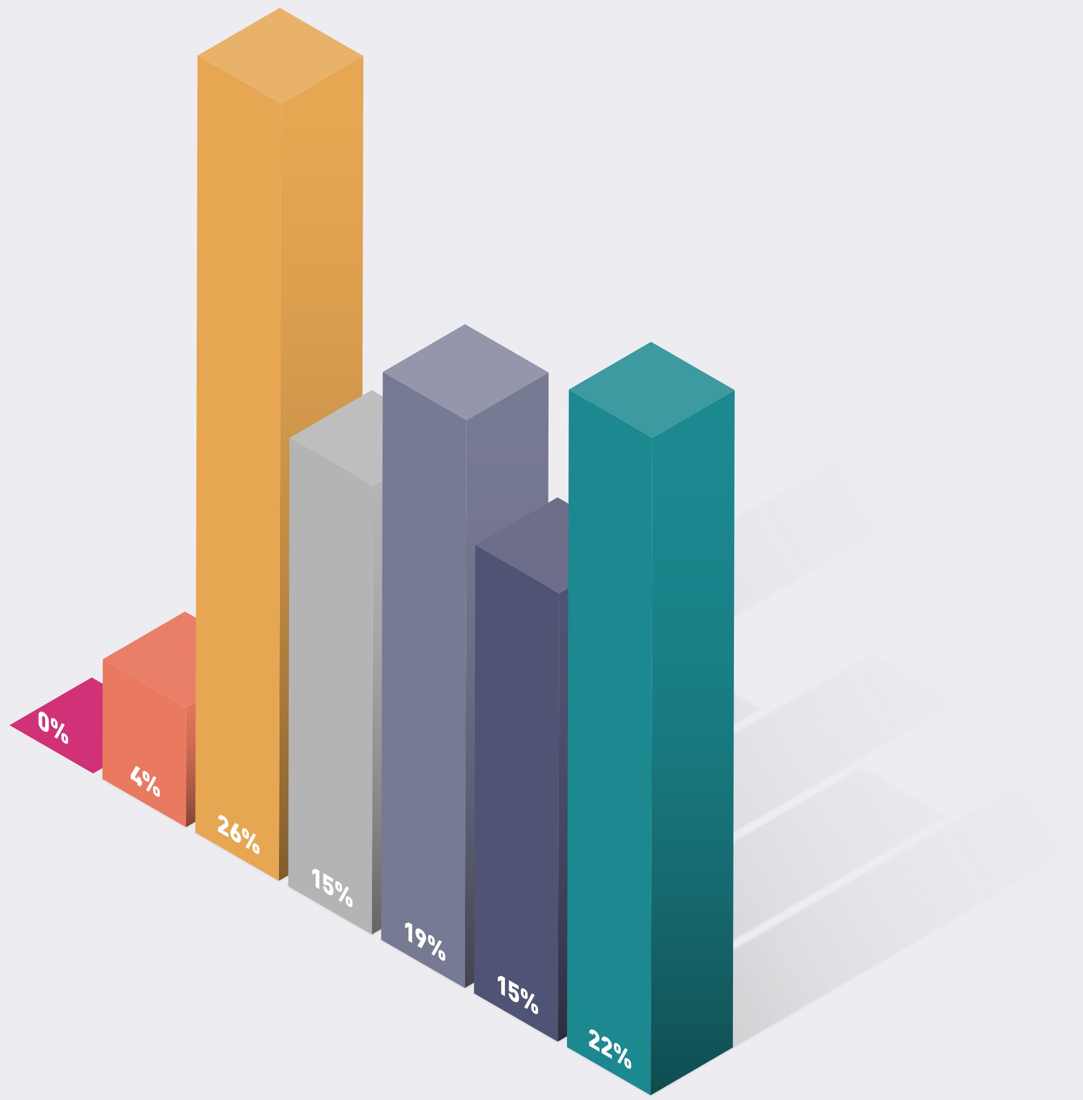
“ I think it has become more important to us, in part due to the moral imperatives, but also the realisation of the benefits from an efficiency and cost-saving perspective.

“ How well we do on embedding it is down to a clear articulation of the why - an articulation of how it relates to their day-to-day activity, where the benefits come from, rather than it just being a regulatory risk.



To what extent do you believe that ESG can generate competitive advantage for your business?

Not At All 1 2 3 4 5 6 7 **Very Significantly**



UNDERSTANDING FINANCIAL MATERIALITY IS THE KEY TO ATTENTION AND ACTION

Headline Finding: Financial materiality determines whether ESG earns attention.

Overview

Financial materiality does not determine how ESG is managed, but it does determine whether sustainability issues can compete for attention in financial decision-making.

Financial materiality assessments are often the weakest point in ESG integration, not because organisations lack the skill to do them. Finance teams routinely model uncertainty, long-term scenarios, and imperfect data. Instead, the barrier is often organisational permission. In many cases, finance teams are not deeply involved, because ESG is not yet seen as an important enough issue to warrant sustained attention.

Where ESG impacts are expected to affect short-term EBITDA, cashflow or valuation, they attract attention and resource. Where impacts have not been tested in financial terms, ESG struggles to compete with other priorities. Without a credible financial link, sustainability issues remain abstract and are easily deprioritised.

This challenge is made more difficult by the lack of accepted methodologies. Companies are left to design, and defend, their own approaches, which leaves many to delay this work until regulation forces action. With the potential arrival of UK SRS, organisations will be required not only to link sustainability issues to financial statements, but to explain how those links were made and what they mean.

Climate Dominates, But Scope is Widening

Climate continues to dominate financial risk and opportunity discussions, driven in part by mandatory TCFD and CFD reporting. However, many organisations still find climate financial analysis difficult to conduct with confidence.

Awareness of non-climatic pressures – skills shortages, supply-chain disruption, and regulatory change – is increasing. These issues are widely recognised but are not yet consistently translated into quantified, decision-useful insight. The challenge, particularly for social issues, is not identification, but financial interpretation.

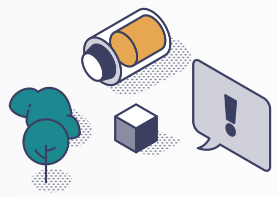
Implications for Leadership Teams

Financial materiality determines whether ESG influences decisions or is set aside, but it does not, on its own, change how the business is run. Management needs to decide whether to properly test materiality and accept the uncertainty that comes with translating longer-term sustainability risks and opportunities into financial thinking today. Waiting for perfect data or accepted methodologies, may feel prudent, but it effectively delays integration and leaves ESG outside core decision-making until forced by regulation or an adverse event. Waiting may have consequences.

What Leaders Are Saying

“We could spend months modelling this and still be guessing. You might come to the same conclusion if you just put a finger in the air and see where you land.

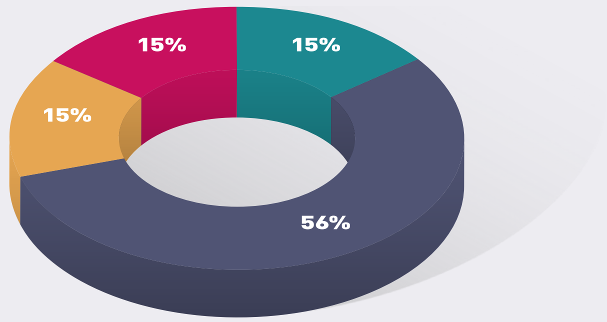
“The fact that very little of this is financially material means it will struggle to get airtime and to get teams involved as they're so busy.



Understanding Financial Materiality is the Key to Attention and Action

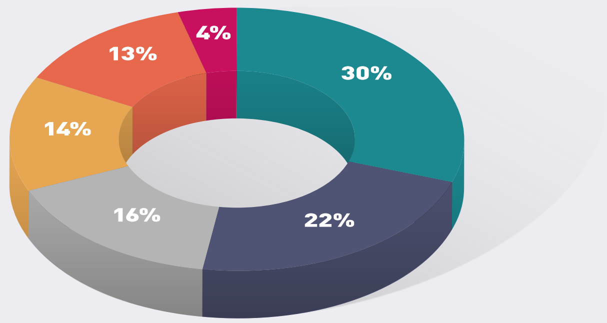
Have your most significant ESG risks or opportunities been subjected to a financial materiality test?

Detailed, Outline, In Progress, Not Started



Which ESG-related risks or opportunities do you believe could have the most significant financial impact on your company now and in the future?

Climate Change, Regulation, Governance, Workforce, Biodiversity, Social



ESG NOT YET EMBEDDED IN FORECASTING AND BUSINESS PLANNING

Headline Finding: Even where ESG is considered financially material, organisations hesitate to embed it into forecasts.

Overview

Despite growing awareness of ESG risks and some progress on financial materiality assessments, most organisations stop short of integrating ESG into formal forecasting and business planning.

Financial materiality assessments are often treated as analytical exercises, while forecasts are seen as commitments that require justification, monitoring, and accountability. This shift from insight to accountability represents a material step up for finance and leadership teams.

A key barrier is uncertainty. Where ESG is modelled, it is typically scenario-based, assumption-heavy and expected to materialise over longer timeframes than typical planning cycles. In some cases, sustainability impacts are already partially embedded in business-as-usual activity, making them difficult to isolate, quantify or explicitly model.

This creates tension with how performance is measured, incentives are set and capital is allocated. Most business plans prioritise short-term delivery, while ESG risks and opportunities often extend beyond normal strategy and forecasting horizons – not to mention, frequently beyond management tenure. As a result, for many organisations, keeping ESG outside forecasts, can feel pragmatic, particularly given competing demands on finance teams.

Governance also plays a role. Once ESG assumptions enter forecasts, they become subject to scrutiny, from executives, Boards, auditors and increasingly, regulators. Given uncertainty around methodologies, assumptions and data, exclusion may feel like a rational risk-management choice, even where ESG risks are acknowledged.

Over time, this approach becomes harder to defend. Regulatory developments, such as UK SRS, will require clearer explanations of how sustainability risks and opportunities are reflected in financial planning and disclosures. Organisations that delay integration may find themselves forced to act under time pressure, with less control over assumptions and narrative.

Implications for Leadership Teams

Excluding ESG from forecasts does not remove risk, it just removes visibility and accountability. Keeping ESG outside formal plans may reduce short-term friction, but it limits the organisation's ability to demonstrate active management of sustainability risks and opportunities. Early integration, even imperfectly, allows capability, governance, and confidence to develop over time.

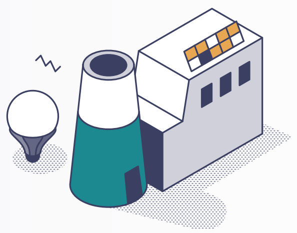
What Leaders Are Saying

“ Finance people deal in defined numbers and short timeframes. ESG asks them to work in hypotheticals over decades.

“ If we can show it dents EBITDA, people engage. If not, it struggles to get airtime.

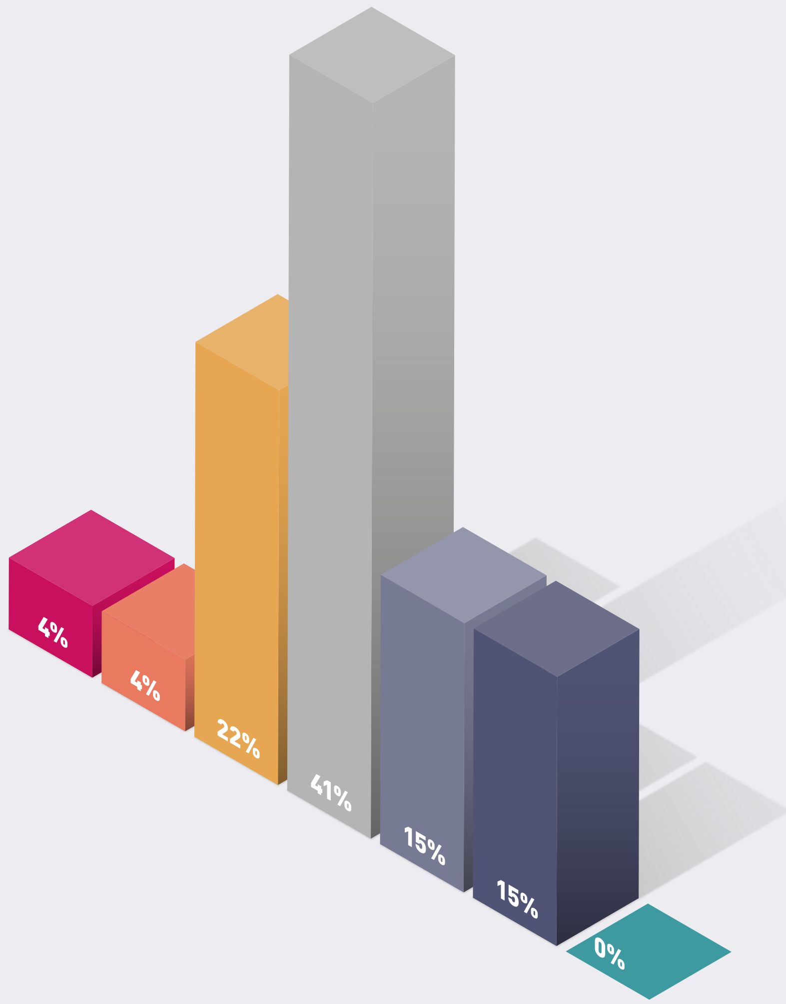
“ Because of the time horizons, it just doesn't really make sense.

“ We keep ESG out of the forecast because once it's in, we have to explain it.



To what extent have you incorporated the potential financial impacts of ESG into your business plans or financial forecasts?

Not At All 1 2 3 4 5 6 7 **Very Significantly**



WHO OWNS ESG FINANCIAL INTEGRATION?

Headline Finding: Finance is involved, but ESG still operates alongside, not within, core financial processes.

Overview

CFO and finance team involvement in ESG is increasing, reflecting its growing relevance to planning, risk management, capital allocation, and disclosure. However, this involvement often remains superficial. Finance is typically reviewing disclosures, sense-checking assumptions and supporting compliance, rather than owning ESG-related trade-offs.

As a result, organisations may feel further along than they are. Finance involvement can create the impression that ESG is financially integrated, while in practice it continues to operate in alongside core decision-making.

Ownership is often unclear. ESG frequently spans multiple functions, with no single team accountable for translating sustainability risks into financial outcomes or resolving trade-offs. The challenge is often cultural. ESG and finance teams often operate on different timelines, use different language, and may approach uncertainty differently. As long as ESG is treated primarily as a reporting requirement, this integration will remain limited.

Implications for Leadership Teams

Effective integration requires ESG to sit within the same processes that govern investment, risk, and strategy. When ESG operates alongside these processes, no one owns the trade-offs between sustainability impacts and financial performance. This often leads to ESG issues surfacing late, rather than shaping decisions early. Management needs to be explicit about where ownership for ESG-related financial judgement and integration sits.

What Leaders Are Saying

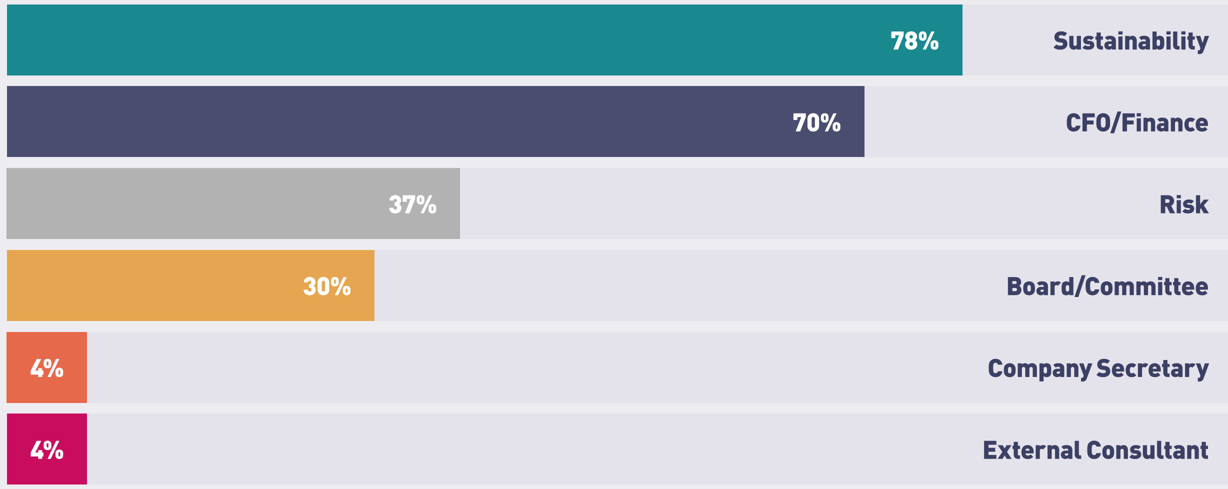
“There is commercial, there is procurement, there is ESG and there is finance and we don’t talk unless we have to. We are in different worlds.

“If you talked to finance, it’s only when they get to writing the annual report that we suddenly get this spike of questions. You have to train people in what matters.

“There’s a challenge translating sustainability factors into accounting language, whereby the finance function can actually understand and use them within their own models effectively.

“The disconnect is because of the way that we look at budgets, the term that we look at budgets on, and the term that we expect these things to be relevant over. The finance team is working to much shorter-term timescales than what we’re looking at from an ESG and climate-risk modelling perspective.

Who primarily leads and manages financial assessment and integration of ESG?



TRANSITION PLANNING – PROGRESS IS REAL BUT DELIVERY IS UNEVEN

Headline Finding: Transition planning is recognised, but questions remain over delivery

Overview

Most organisations accept the need for transition planning, with 81% of organisations having begun this work, largely in response to climate regulation and investor expectations. However, for many, plans remain high level and narrative-driven rather than operational or financially integrated.

Uncertainty around policy, technology, costs, and timing continues to slow progress. As a result, transition plans are often treated as "directional" statements rather than tools for managing risk, capital allocation, or performance. Where plans do exist, they tend to be early-stage and frequently sit outside core strategy and planning processes.

Many organisations remain reluctant to commit to detailed assumptions or milestones. This limits accountability and reduces the usefulness of transition plans as management tools, particularly where trade-offs with growth or profitability are required. Effective transition planning requires co-ordination across governance, strategy, sustainability, finance, and operations - something only a minority have achieved.

Regulatory developments like UK SRS will likely drive the evolution and increased depth of these plans and we expect the credibility of transition planning to be increasingly scrutinised by customers, value-chain partners, and the capital markets. The risk will no longer be the absence of a transition plan, but rather how it is defended and delivered.

Implications for Leadership Teams

Transition planning should be treated as a strategic management discipline, not a disclosure exercise. It is not just about having a document in place. Without clearer assumptions, ownership and integration into planning, transition plans risk becoming compliance "artefacts" rather than decision-making tools. The credibility of transition planning will depend on its connection to data, capital allocation, operations, and governance. Management needs to test whether transition plans are actively used to guide decisions, or whether they remain operationally weak.

What Leaders Are Saying

" It's one thing to write a transition plan. It's another to deliver it. Ours is directionally right, but operationally soft.

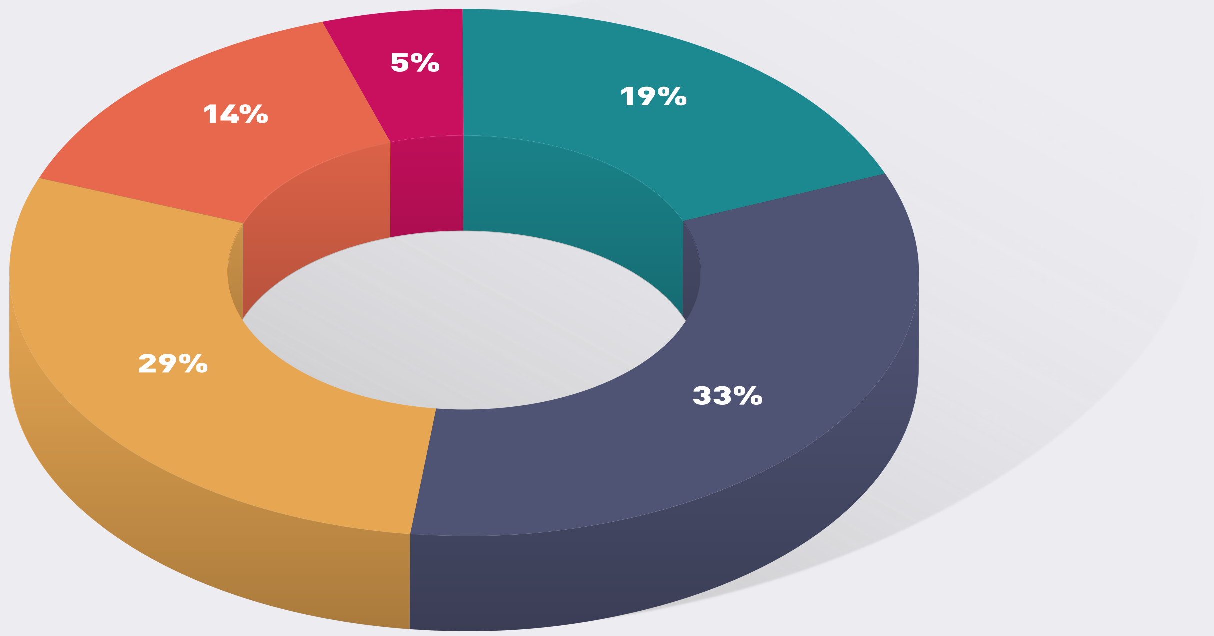
" We have a plan, but I wouldn't yet call it a strategy.

" I think unless there's some very clear consequences and deadlines, and a kind of carrot and stick mentality, the shift is always going to be shooting with the breeze, right? Some will use this as an area to open doors and talk around, but as blunt as it sounds, it's more a marketing ploy. Unless there is a punishment for not decarbonising, this is just another piece of paper.

" We have started on a process but given we're in transition as a business, this transition planning is on hold as we don't know where our business will be in three years, let alone where our emissions will be.

Have you developed an internal climate transition plan?

Detailed, Outline, In Progress, Under Consideration, Never



CONFIDENCE REMAINS LOW IN ESG DATA

Headline Finding: Data gaps will persist as long as ESG data is not viewed as decision-critical

Overview

Confidence in ESG data remains low, particularly for Scope 3 and value-chain metrics which are beyond an organisation's direct control. Only 11% of respondents believe they have robust data and processes in place. This low level of confidence reflects more than technical complexity. In many cases, it is a question of priority.

Where ESG data directly informs strategic choices, such as customer commitments, capital investment or supplier strategy, organisations will invest and data quality will improve. However, where it does not, gaps will persist.

That said, Scope 3 emissions continue to pose a significant challenge. While legislation is increasing transparency requirements, confidence in Scope 3 data is likely to remain constrained. Larger organisations are reliant on smaller players for data accuracy, and without aligned incentives and support, improvements will be uneven and slow.

Rather than attempting to collect everything, leading organisations are using financial materiality, scenario analysis, and transition planning to identify the data that matters most, allowing them to focus attention and drive improvements. Furthermore, regulatory requirements such as UK SRS will ask more of companies in setting up data governance processes that can withstand audit scrutiny putting more pressure on companies to really establish foundations in the right way.

Implications for Leadership Teams

ESG data quality reflects how important it is to decisions. Data confidence improves when information is required to support real choices around strategy, investment, and risk. Management needs to set the tone by signalling which ESG information genuinely matters to them for decision-making.

What Leaders Are Saying

“ Start simple. The discipline of asking the right questions matters more than perfect data on day one. Data improves when someone has to make a decision with it.

“ We don't trust half the numbers, but we still have to publish them.

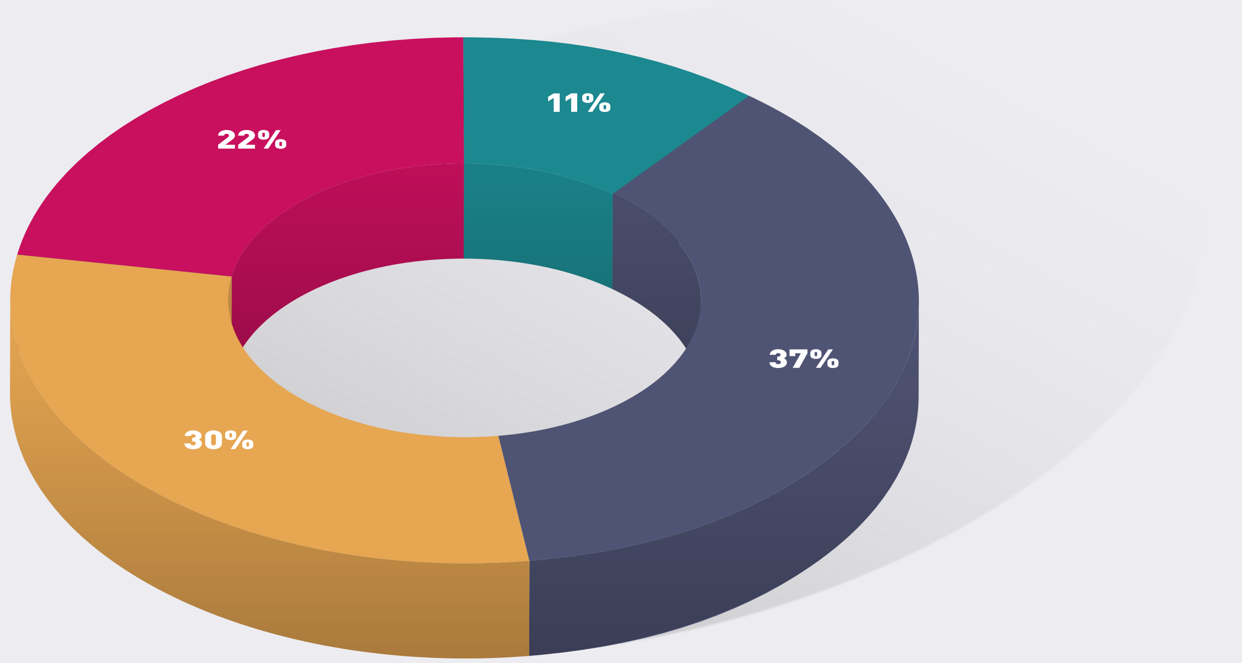
“ There are varying levels of reliability which isn't fantastic. It is a work in progress, and it is getting better but it is so time consuming. Not only with finding the data but also getting people onboard.

“ There is a lack of data. It doesn't really exist in an easily accessible form or consistent, standardised form.

“ If we are confident in data, it would be easier to measure and understand potential impacts but that means the data has to be clear, better and simpler, and it's not.

How confident are you in the quality and availability of ESG data to support decision-making and understanding of potential financial impacts?

Robust, Partial, Developing, Insufficient



WEAK LINK BETWEEN ESG AND REMUNERATION METRICS

Headline Finding: Caution towards inclusion of ESG in remuneration structures raises questions over ESG's influence on performance.

Overview

Over 25% of companies do not link ESG performance to executive remuneration. This typically tends to reflect uncertainty about which ESG outcomes drive value, rather than resistance to ESG itself. In some cases, however, progress on ESG is already being made to meet regulatory requirements, leading some organisations to question whether additional financial incentives are necessary to drive behaviours that are happening anyway.

Where ESG is linked to pay, it is often scorecard-based rather than financially weighted and sits alongside other objectives rather than directly influencing outcomes. This approach often reflects limited confidence in ESG data quality and in the ability to identify, measure and consistently track performance metrics related to ESG that are genuinely decision-useful.

As understanding of financial materiality improves, remuneration structures are likely to come under renewed scrutiny. Greater clarity on what issues truly matter may make it easier – or harder – to justify the chosen remuneration approaches, both internally and externally.

Implications for Leadership Teams

Remuneration exposes where organisations are confident, or uncertain, about ESG's contribution to performance. Until leadership teams are clearer on which ESG factors materially affect performance, the approach to incentives will remain cautious.

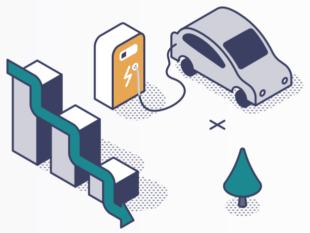
What Leaders Are Saying

“It is linked by what I would call soft factors. We're battling on measurement.

“The view is we're a responsible business, and we're going to do it anyway, so it doesn't need to be incentivised.

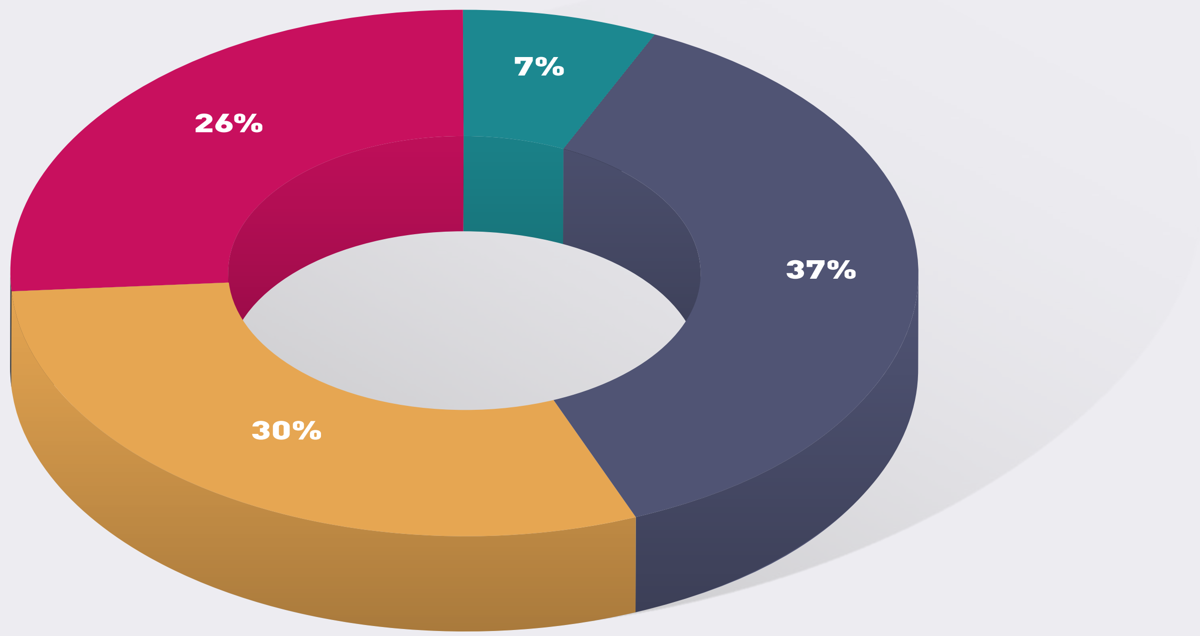
“We don't believe in doing anything for lip service, and because we're quite far ahead, we feel it would be glib to put anything into the pay structure of the senior management. There are no stretching targets that we can put in there that would make management work any harder around sustainability. If we did, it would just be for the sake of it.

“We totally agree with incentivising management for ESG, but when we looked at what we could actually use, we couldn't think of any metric that would be practically sensible or helpful to the business.



To what extent is the leadership team's remuneration directly linked to the company's ESG performance?

Substantially, Moderatly, Minimally, Not Linked



STAKEHOLDER INFLUENCE – REDUCED ENGAGEMENT IS NOT REDUCED EXPECTATION

Headline Finding: Regulation and customers drive majority of action, while investors are quieter but not disengaged.

Overview

Currently, ESG programmes are primarily driven by regulatory requirements and customer expectations, with a focus on emissions and energy. For customers, ESG is seen either as an essential box to tick to win commercial contracts, or as an important activity to enable responses to larger players in the value chain who are passing on the regulatory pressure and questioning.

For employees, engagement is strongest where ESG connects directly to attraction and retention and there is a clear generational interest among younger employees for genuine engagement with sustainability. Management's role as setting the tone for ESG was also viewed as essential to determining the success and depth of embeddedness and integration.

At the same time, investor engagement on ESG has declined or remained static. Where it occurs, it is often generic rather than focused on company-specific strategy or performance. This should not be interpreted as a loss of relevance or interest. It is more a pause in questioning, than a pause in expectations. Investors are quiet because ESG disclosure has become standardised, not because it is less relevant or they are comfortable with the company's current actions. As disclosure expectations increase and possible assurance requirements tighten, investor attention is likely to return, unevenly but at pace.

Implications for Leadership Teams

Reduced engagement should not be mistaken for reduced expectation. While investor engagement on ESG is currently quieter, expectations have not diminished. As disclosure requirements get stricter, scrutiny is likely to return unevenly but quickly. Leadership teams should consider structured stakeholder engagement, across investors, customers, suppliers, and employees, to ensure that ESG, and wider corporate, expectations are clearly understood and met.

What Leaders Are Saying

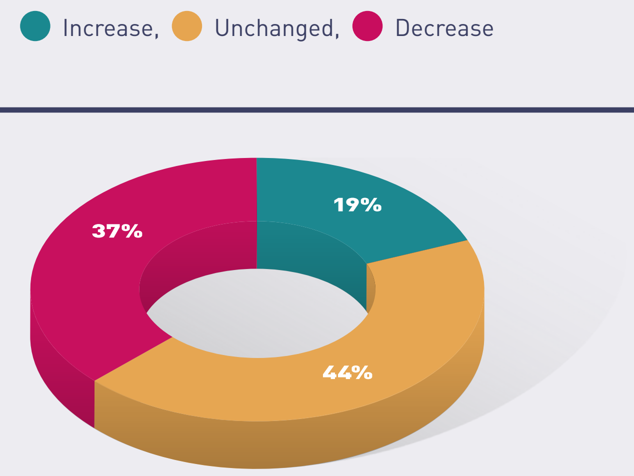
“Regulation is definitely driving a lot of our work. If we were a privately-owned company, I think we would probably be focusing our efforts on stuff that delivers more societal impact rather than disclosure impact.

“The financial pressures in the UK at the minute have overshadowed everything, along with the political and geopolitical changes. When you sit down key clients that we've got, they say, actually, it's not top of the agenda. But we still have to do it.

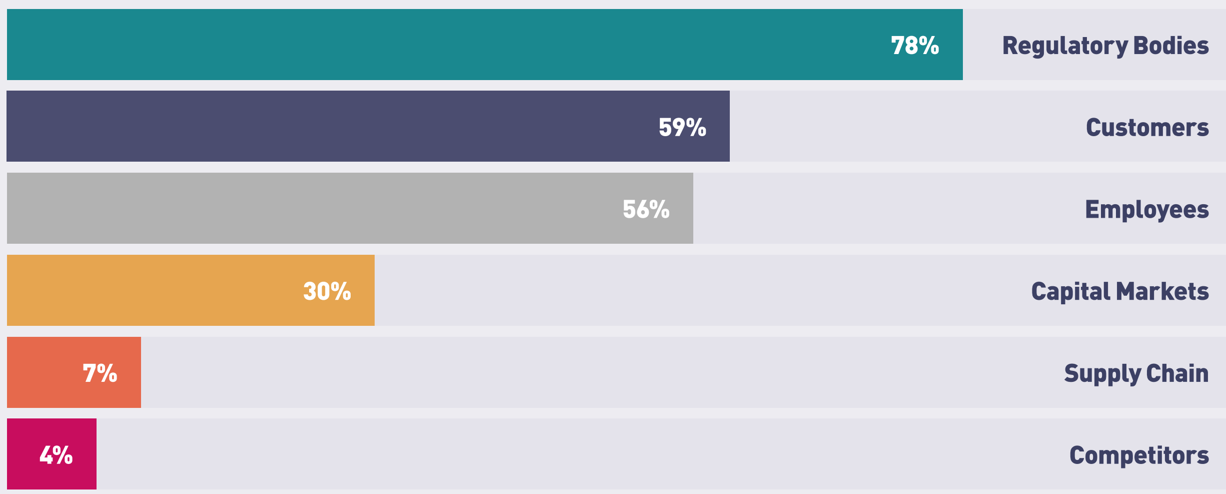
“It's not sustainability in a technical sense, but it's how our customers think about sustainability. So addressing it helps meet their expectations in that space.

“With ESG, it is always going to be the regulatory bodies. It starts there anyway...

How has investor engagement on ESG changed in the past 12 months?



Which stakeholders are driving your ESG programme most strongly?



MOST COMPANIES ARE NOT PREPARED FOR UK SRS, BUT PREPARATION HAS STARTED

Headline Finding: UK SRS will test how far ESG is embedded, not just company reporting capability.

Overview

Many companies believe they are partially aligned with UK SRS through existing TCFD reporting, with only a minority considering themselves to be fully prepared. However, for most, there is much to do internally to develop the processes and capabilities to meet the new requirements. The gaps go beyond the mechanics of reporting and stretch into governance, financial materiality, and integration with financial disclosures.

UK SRS will expose the potential disconnect between sustainability narratives and the financial reality. With more information and financial connections being mandated and forced into the public eye, there will be less opportunity for companies to talk their way around ESG engagement and progress.

For context, the FCA Listing Advisory Panel notes that more than 50% of the IFRS S2 cross-industry disclosure requirements are additional to TCFD, and another 26% are substantial advancements to the TCFD recommendations. Existing TCFD disclosures will help many on the way, but the gaps will become more evident with time. Companies may appear compliant on paper, but if internal integration is weak, this will become increasingly hard to hide.

Implications for Leadership Teams

UK SRS is as much about organisational maturity as it is data requirements. Companies that treat ESG in parallel may be able to comply with requirements but will likely struggle to demonstrate credibility. The risk is not failing to report, it is exposing gaps between narrative and strategy, planning, and financial decision-making.

What Leaders Are Saying

“ It will be seen as a compliance cost in the short term – but it will expose who has really integrated ESG and who hasn’t.

“ UK SRS will expose whether this is real or just well-written.

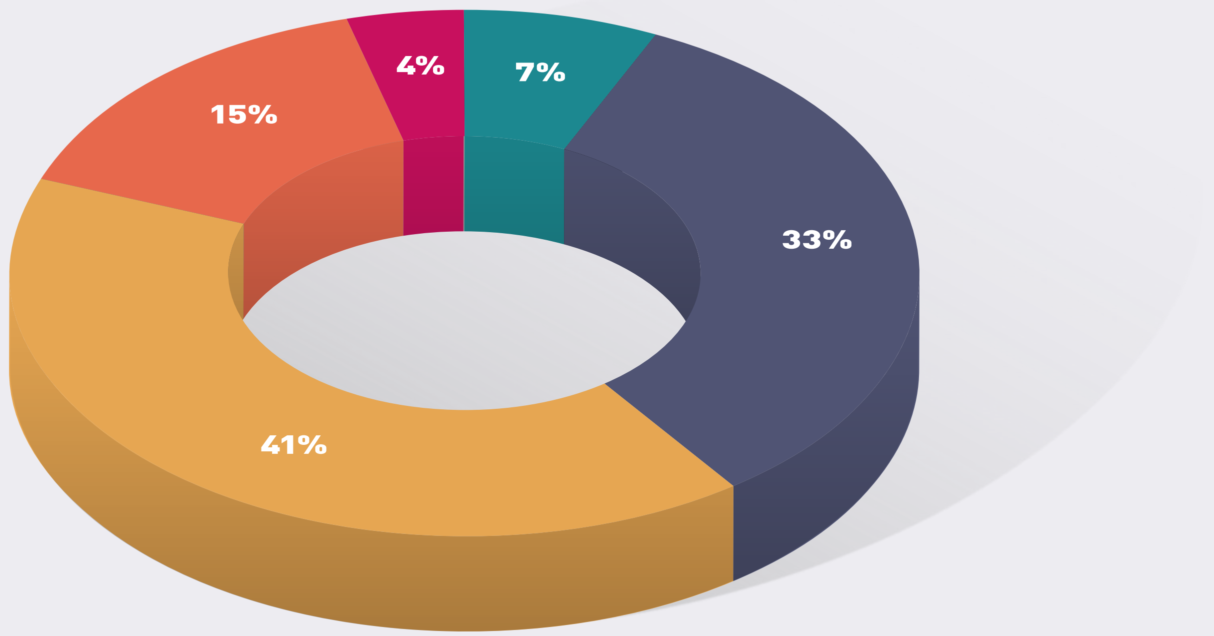
“ We will be able to comply, but I am not sure we will be able to convince.

“ We have assumed that UK SRS is going to come into play. We are trying to do a drive on it this year before we have to disclose it next year.

“ We’re starting at that middle point really where I guess we have a good few years to catch up on the key metrics, but when you then enter into the world of CSRD or the SRS, we are quite some way off.

How prepared is your organisation for UK SRS?

Fully, Partially, Starting, Not Started, Not Relevant



RESEARCH SCOPE

SIFA Strategy conducted 27 in-depth interviews with senior executives and Board members of UK-listed mid- and small-cap companies, providing insight into ESG governance and integration. The companies who participated span multiple sectors, with market capitalisations ranging from £64m to £2.8bn (average £700m). Interviews took place between November and December 2025.

The discussions explored the current status of ESG within organisations with a focus on how sustainability considerations are influencing strategy, operations, and decision-making. We examined:

- the extent to which ESG is embedded into strategy and operations.
- whether ESG is viewed as a source of competitive advantage or a licence to operate.
- progress on financial materiality, forecasting and capital allocation; and
- the role of stakeholders, regulation, and organisational readiness for the forthcoming UK Sustainability Reporting Standards (UK SRS).

Where relevant, findings are compared with prior years to highlight emerging trends. Sector-specific analysis is not presented due to sample size, though insights can be discussed on request.

ABOUT SIFA STRATEGY

At SIFA Strategy, we help management teams to identify, implement, and embed ESG priorities to drive company value, resilience, and long-term performance.

Our senior team works directly at Board, committee, and executive levels, translating sustainability priorities into practical actions that strengthen governance, aligning with regulation, and integrating ESG into strategic and financial decision-making, not just as a matter of compliance and reporting.

Whether as part of a wider transformation programme or a targeted project, we provide specialist expertise to help organisations manage risk, meet stakeholder expectations, and unlock new opportunities. Our work is grounded in rigorous analysis and tailored to the specific needs of each client, across industries and jurisdictions.

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