

# Engine Room Survey 2022

Engine Room businesses embraced technology and new ways of working and are now better equipped to navigate ongoing change. However, New Zealand businesses are demonstrably behind their international peers when it comes to thinking about ESG. Export market focus is turning back to Australia, and shifting away from recent priority markets such as China.

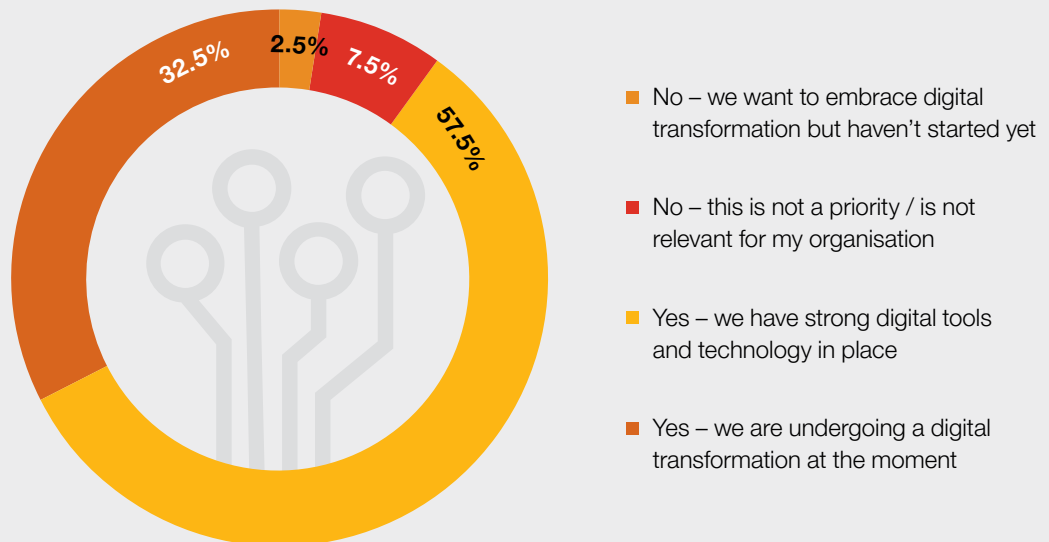


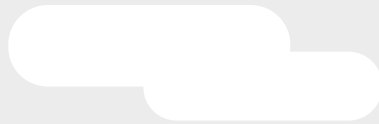
# Introduction

While the legacy of the COVID-19 pandemic continues for many, it's also become a driver for positive adjustments for businesses both internally and in the marketplace. Necessity was behind some of the change, evident last year as businesses looked to streamline and bring forward digitisation plans. This year we can see that 90% of businesses surveyed have already digitised, or are currently undergoing a digital transformation. This is a positive change, as New Zealand businesses previously lagged behind the rest of the world, with only 23% considering digitisation a top priority in 2019, compared to 44% of global businesses.

## Has your organisation undergone, or is your organisation undergoing, a digital transformation?

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With New Zealand businesses and customers embracing digital enablement through COVID-19, 58% of respondents now say they have strong digital tools and technology in place, and another 33% are moving in the right direction. This is in contrast to our 2021 Global Family Business Survey, where only 39% of global organisations said their digital capabilities were strong, demonstrating the importance of digital enablement in the modern business environment and its greater prioritisation by New Zealand businesses. Of those businesses with strong digital capabilities, 57% remain focussed on continuing to improve them.

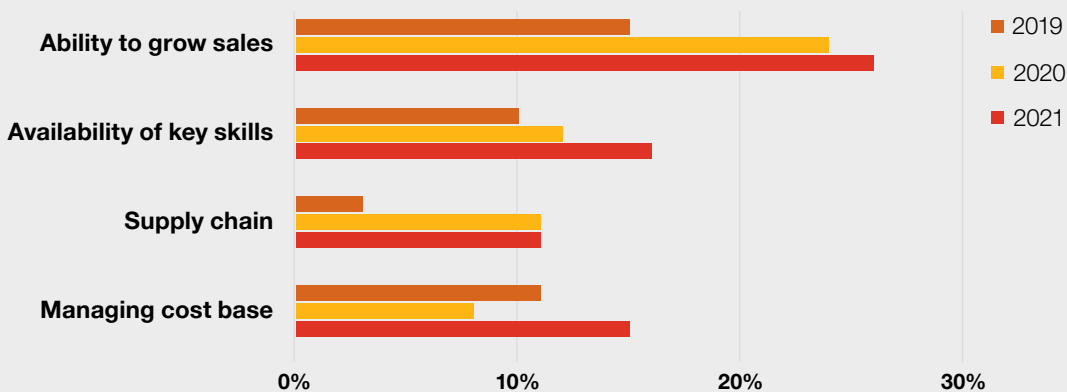
There was also sentiment among the businesses surveyed that the pandemic experience would allow them to return stronger and better equipped to navigate ongoing change. Now in the middle of 2022, it's clear those who made adjustments to their organisation will be in the best position to face new challenges presented by dynamic global markets, inflation, growing supply costs and access to talent.

While those challenges are current, there's evidence that businesses are in tune with the rapidly changing outlook and have adjusted growth and development plans accordingly.

Global economic drivers are changing continually, with factors not considered before the pandemic. This is influencing what businesses assess as their biggest challenges ahead. While the issues are largely the same as in previous years, their significance has increased. The top challenges from our recent survey are:

1. **Ability to grow sales**
2. **Availability of key skills**
3. **Supply Chain**

## Top business challenges over the next two years

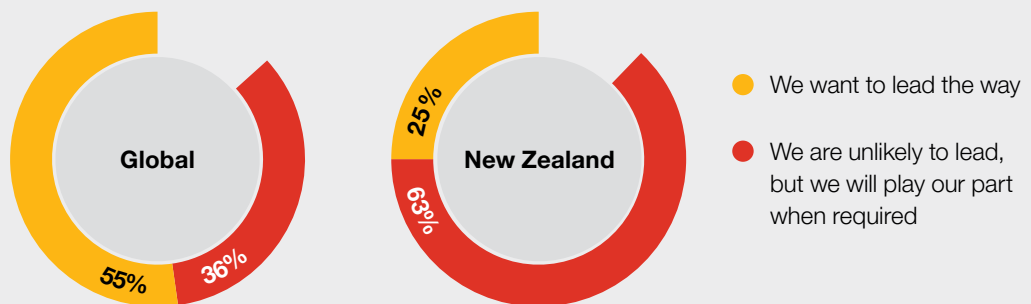




While these top business challenges are to be expected given the current economic environment, what we're not seeing is a significant focus on Environmental, Social and Governance (ESG) concerns. The similarity between our local and global surveys, including PwC's Global Family Business Survey and the New Zealand results of the CEO Global Survey, is the relative under prioritisation of ESG in business strategies. Where small and medium sized businesses in New Zealand differ from their global counterparts in their desire to take a leadership role to address ESG challenges, with only 25% expecting to lead in this space.

What's clear globally is the increasing demand for companies to demonstrate their sustainability and climate credentials, which can have a significant impact on how investors, customers and potential employees view and respond to an organisation. While it might not yet be seen as a priority by many New Zealand businesses, the global market is rapidly changing and ESG is one of the areas where small and medium sized companies have the opportunity to lead. As the most trusted form of business, potentially more agile and relatively free from short-term market pressures, small and medium sized businesses can make a substantial impact by embracing the ESG agenda.

## Delivering sustainable business practices



\*Global figure from the PwC Family Business survey 2021



# Looking inwards

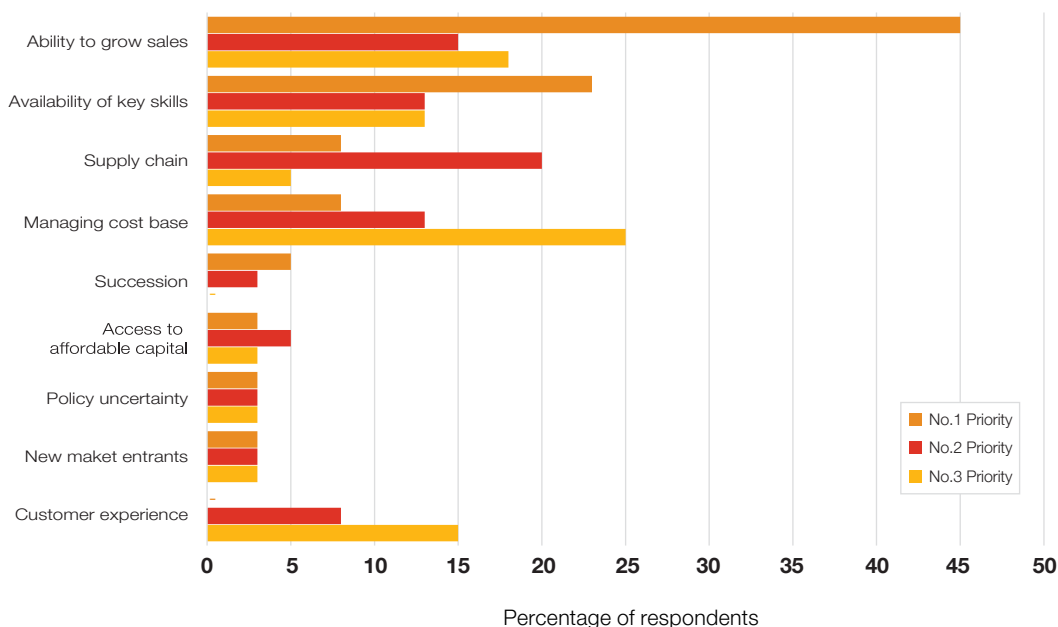
## Setting the right foundation

'Looking inwards' is about factors within an organisation's control. It looks at the challenges businesses face with their operating models, internal efficiencies, capabilities digitisation and supply chain.

The top three challenges that respondents identified in the latest Engine Room survey indicate a significant level of concern about those issues. 78% identified sales growth as the biggest challenge, followed by availability of key skills at 49% and supply chain at 33%.



## Top business challenges over the next two years

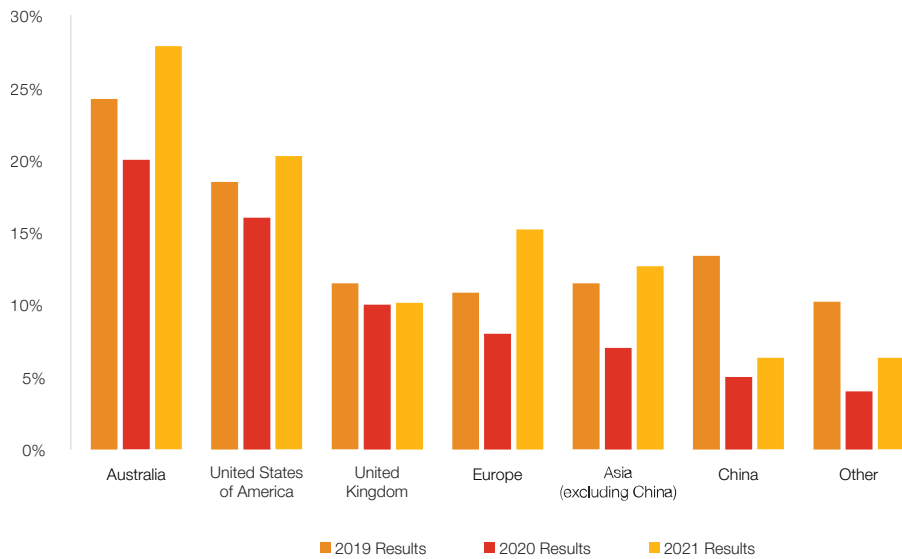


Combined with the continued impact of COVID-19 and, importantly, how both New Zealand and our trading partners react to it, the survey respondents are cautious about their growth ambitions in the near-term, with the majority of businesses preferring steady growth.

In part, we can see a response to this uncertainty is already underway. While many export markets have recovered to pre-COVID-19 activity levels, there has been a shift in focus away from China to markets closer to home, such as Australia, and to domestic growth.

Over the next two years, 40% of respondents identified a focus on growing sales as their priority, while nearly a quarter are keeping a careful eye on the regulation and tax environment.

### Important export markets

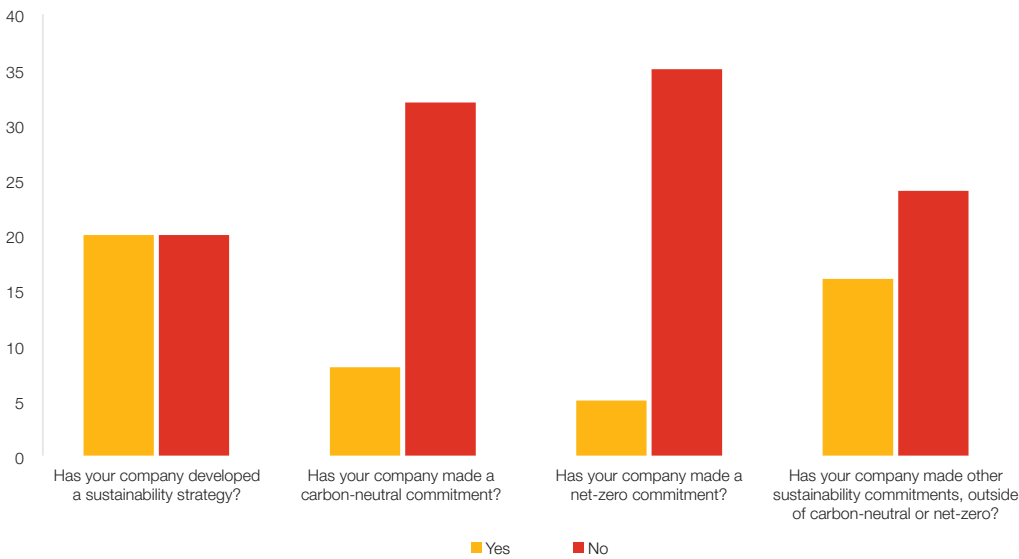


Given the working conditions imposed on businesses by COVID-19, it's clear that those who needed to digitally transform the way they work and the tools they use have done so, clearing the path somewhat towards tackling the challenges that directly relate to growth and revenue.

Strikingly, we can see similarities in how businesses responded about digital preparedness prior to COVID-19 as we now see in the responses about ESG. Only 3% see the impact of sustainability targets being a challenge over the next two years, with the same percentage concerned about changing workforce demographics and diversity. While there is an acknowledgement that protecting our environment and fulfilling our social responsibility is important, New Zealand businesses have yet to embrace an ESG transformation with any sign of urgency or action.



## Sustainability commitments made to date





# Looking outwards

'Looking outwards' is about factors outside an organisation's control. It considers environmental factors such as economic conditions, competitor activities, consumer behaviour and technology trends.

The lingering impact of the COVID-19 pandemic, while ever moving, has become a business-as-usual problem for many of the businesses surveyed. There are still plenty of variables within the pandemic mix to ensure a need to be nimble and avoid complacency.

For exporters, predicting how the world stage will continue to evolve over the next year and beyond is difficult, particularly with the introduction of additional factors into the geopolitical environment. Earlier this year, for example, Russia's initial threats and then invasion of Ukraine led to an immediate spike in fuel prices which impacted not just supply chain costs but contributed further to delays and other logistical challenges.

Further compounding the impact of the Ukraine invasion is the developing geopolitical unrest. This could potentially threaten critical trade relationships, with regional Pacific powers including China, the United States, Japan and Australia all sabre-rattling.



### Global economic growth expectations

↑ 15%

Increase

↓ 48%

Decrease

→ 30%

No change

### New Zealand economic growth expectations

↑ 18%

Increase

↓ 58%

Decrease

→ 20%

No change

### Your own business growth expectations

↑ 75%

Improve

↓ 5%

Decline

→ 20%

Stay the same

Another virus – monkeypox – has also started a slow march into other countries from its West African source, creating a new watching brief to ensure preparedness.

A high inflation environment, high cost of living and accelerated interest rate rises are putting pressure on potential market growth and are reducing company valuations. These factors are on the mind of many business owners and are impacting expectations about where future growth might come from, overall market confidence and exit or succession planning. This unstable economic environment has tempered near-term growth ambition, moving it from global markets like the United States and China to markets closer to home, like Australia.

#### Top concerns impacting business performance in the near-term

- 1 Macroeconomic volatility
- 2 Geopolitical conflict
- 3 Cyber risks
- 4 Health risks
- 5 Climate change
- 6 Social inequality



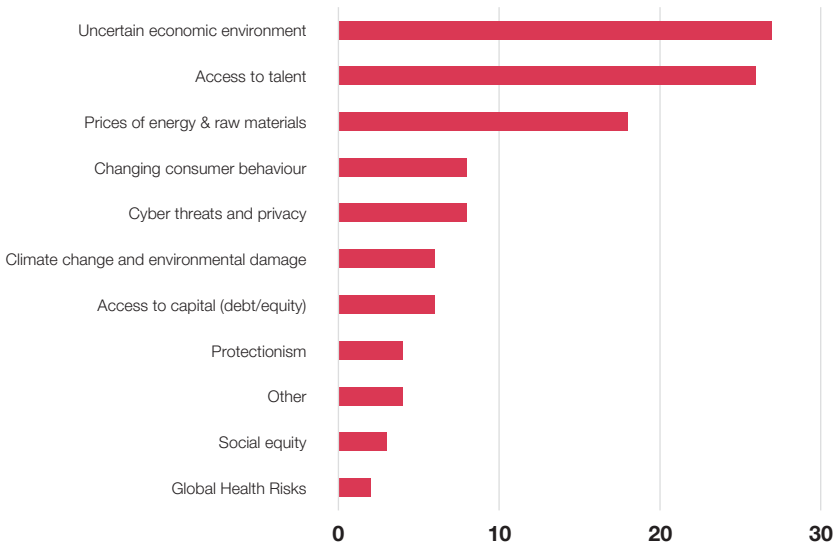
# Looking forwards

'Looking forwards' considers how businesses will respond and perform in the next period. This includes recognising changes that will endure from the pandemic and devising strategies to increase the chances of commercial success in the years to come.

Respondents agree that the short-term prognosis includes many variables, with 67.5% of all respondents indicating concern about the uncertain economic environment. Also at the top of the concern list are access to talent (65%) and the price of energy and raw materials (45%). These challenges exceed other trending concerns by a large margin, with cybersecurity & privacy, and changing consumer behaviour both at 20%.

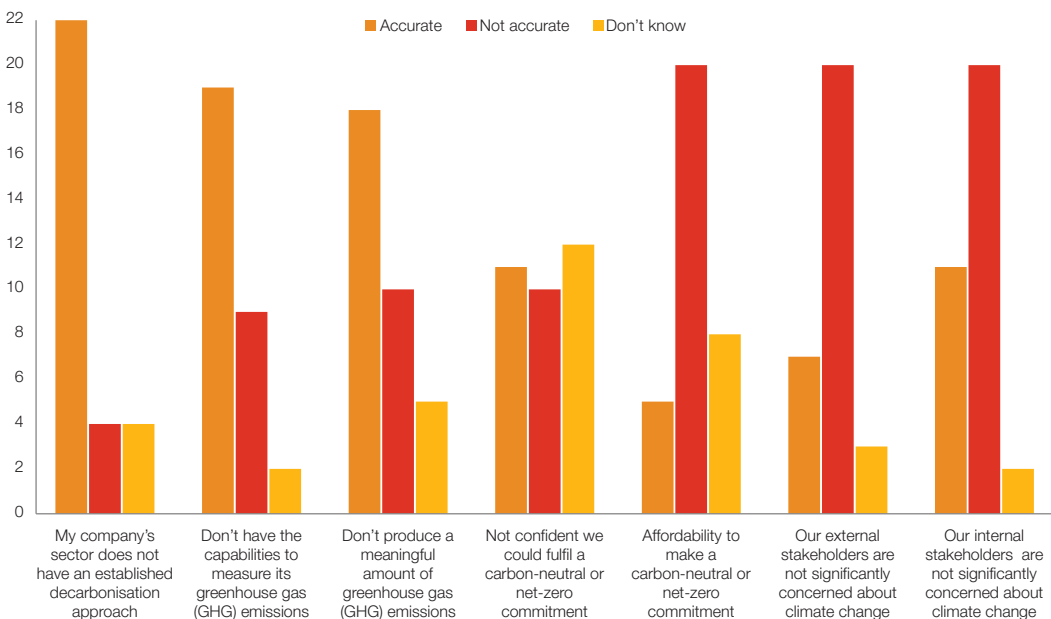
Regardless of your current business challenges, whether it be growing sales, availability of key skills, supply chain or managing your cost base, looking at your ESG strategy is a good place to start. ESG principles and company purpose are now a key area of focus for customers, staff, suppliers and investors. A strong ESG strategy will result in better business outcomes, drive long-term company value and might even be the solution to your challenges you may not have considered.

## Short term concerns on the minds of business leaders



Once again, ESG issues did not feature prominently in the responses, with challenges such as social equity (7.5%) and climate change and the environment (15%) selected by a relatively small number of business leaders. The benefit and impact of sustainability targets were not seen as a priority for any respondents. This might be due to a lack of guidance and clear signals from the government on climate regulation, or the absence of a strong push for private businesses to report their climate impact.

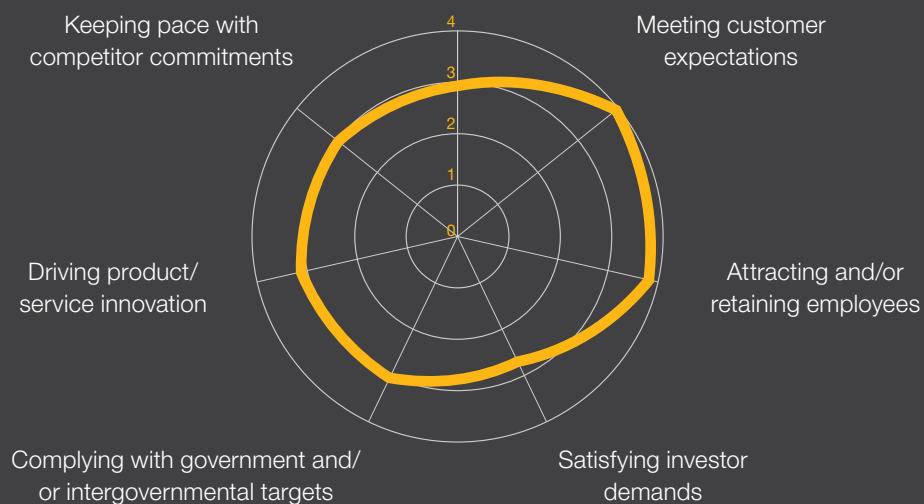
## Reasons why businesses do not have a decarbonisation approach



We see that a focus on ESG is a clear opportunity for businesses to capitalise on a growing trend for better action and visibility in this space. Customers and consumers are becoming more curious about the background of the products and services they buy and are beginning to favour companies that demonstrate their ESG credentials.

It's also important to consider that, globally, talent is becoming hyper-aware of the climate performance of the companies looking to employ them, factoring both the direct efforts for social credibility and the future plans of a business into their decision making.

### Factors aligned to sustainability commitments



### Reasons to put ESG on the strategic plan

Our global observations show that a determined and demonstrated focus on ESG issues will have a long-term impact, not just on talent acquisition and market development, but also on improving governance and the ability to respond to future challenges.

Economic goals linked to strong ESG policies can result in reduced costs, like energy consumption, and increased sales, by targeting savvy customers and consumers and building loyalty. Marketing opportunities can develop based on the nature and outcomes of ESG policy and actions.

The majority of small and medium sized businesses also have the advantage of being more agile and have a greater ability to take a longer-term view of investment in ESG initiatives, setting them apart as natural leaders on sustainability.



## Taking Action

Those without clear ESG plans should start with their “why” and work through a simple process to identify “what” aspects are material to your business, “what” you care about and “how” you will add value to your business by taking action.

### “Why”

Understand how ESG links to the purpose of your business, employees and key stakeholders.

### “What”

Articulate how ESG links to commercial value and decide which aspects of ESG are most relevant to your operation, stakeholder groups and ability to make an impact.

### “How”

Agree how you will deliver on your commitments and embed governance policies and processes.

## What are the risks and exposures?

The risks of not focusing on ESG are wide ranging, from regulatory to physical, to changing customer preferences, and can have a significant impact on future business value. For this reason, some New Zealand businesses will soon be required to disclose how climate change will impact their business through mandatory [Climate Related Disclosures](#). If your business is not currently captured by these reporting and risk assessment requirements, the frameworks still provide an excellent reference point for assessing climate related risks. As a non-regulated organisation, you can pick and choose the areas you want to focus on, embedding the same disciplines that improve business value and resilience.

By undertaking an ESG risk assessment across your business you can address multiple challenges at once. Start by answering some of these basic questions:

- Is your business in a position to adapt to changing regulations?
- Which areas of your business are most vulnerable to ESG risks over different timeframes?
- Does your business understand the risks and opportunities presented by the transition to a more sustainable economy?
- Are ESG considerations embedded at a strategic level in your business?
- Is your business meeting the expectations of current and future customers?

## What are the opportunities?

Most ESG risks can be re-framed in a way that creates future opportunity and tangible business value. The risk assessment can be used as a baseline to identify the areas your business model, suppliers or raw inputs need to change to achieve your ESG targets. These changes often create opportunities for growth through new revenue streams or customers, and greater resilience to things outside of your immediate control. Organisations that embed ESG in their strategy and risk processes, with a focus on monitoring and improving key metrics, often outperform their competitors and fare better in times of crisis.

Education is a key part of starting the ESG journey and, given the speed at which businesses need to act, the best time to start is now. There are many resources available at little or no cost. Identifying people in your business who have a passion for ESG is important and will help to ignite change.

Small changes can have a big impact quickly. By starting now you can embed resilience, build trust and create sustained outcomes for your business, people and customers.

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