The importance of companies from emerging markets and developing economies for achieving the SDGs

Research Paper

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Every January since 2020, the World Benchmarking Alliance (WBA) publishes its updated SDG2000 list. These are the most influential companies and well-positioned companies to contribute to the Sustainable Development Goals (SDGs) and the transformations underpinning the SDGs. They are headquartered in 85 countries, from Argentina to Vietnam, and operate in diverse industries ranging from agricultural products to telecommunications to waste management. Their total revenue surpasses $36.5 trillion which represents almost half (44%) of the global economy.

Through their value chains and through the products and services these 2,000 companies offer, they touch the lives of billions of workers, consumers and families every day. For example, 3.4 billion people use Unilever’s products every day, State Grid provides electricity to over one billion customers in China and Safaricom serves 280 million people across countries in Sub-Saharan Africa and the Middle East. Together these 2,000 companies directly employ about 100 million people, which is comparable to the total labour force of Brazil. Through their supply chains, the reach of these companies is amplified massively: focusing on a sample of 20 large companies from a range of sectors (including Walmart, Apple, H&M, Nestle, Unilever, and Shell) research shows they work with over 6.7 million suppliers, ranging from smallholder farmers to large multinational corporations (MNCs). This means that in total these companies work with hundreds of millions of suppliers. In turn, these suppliers employ many more people and often work with more suppliers further upstream. However, as reliable data at scale is missing, drawing any conclusions about the size of this impact is challenging. And while small and medium-sized companies dominate the numbers in terms of exports and imports, they are now more often linked to global supply chains and production processes orchestrated by MNCs (Grosse, 2021). If managed well, the cascading effects of improving economic, social and environmental performance across the supply chains of these 2,000 companies can have a massive global impact and play an important role in the contribution of the private sector to the SDGs. Research shows that large corporates are moving faster and further than governments have required (CDP, 2019). Particularly in parts of the world where regulations have not pushed companies to act, clear signals from major purchasers can make a substantial difference (ibid).

The growing importance of companies from developing regions for the world economy
Emerging and developing economies have grown impressively: China is expected to pass the US as the world’s largest economy in 2030 (Rapp and O’Keefe, 2022) and India, Indonesia, Brazil and Mexico are expected to join the ranking of the top 10 world economies in 2050 (PwC, 2017). Competitive firms partly drive this GDP growth. Through vertical integration and building capacity of suppliers these companies are considered catalysts for change in their home countries.

Large companies from developing economies have become increasingly global since the 2008 financial crisis (Fleischman, 2021) and their rise has changed the business landscape drastically (Casanova and Miroux, 2021). Their growing importance in the world economy also implies a larger role and responsibility for addressing social and environmental issues. This is reflected in the growing number of companies in the SDG2000 from emerging and developing countries. From 2021 to 2022 the number of keystone companies from emerging and developing economies included in the list has increased by 15% to 818 companies Out of the largest 100 companies in terms of revenue in our SDG2000 list, 41 are from developing countries. Roughly one-third of the Fortune Global 500, an annual ranking of the largest 500 corporations worldwide as measured by total revenue, is now made up of companies from emerging markets and this could increase to 50% by 2025 (McKinsey Global Institute, 2016). Through a combination of growth in their home market, greenfield investments
(establishing a subsidiary in another country), and mergers and acquisitions, they have become leaders in several industries, also internationally (Fleischman, 2021).

Governments in emerging markets in Latin America and Asia often play an important role in supporting the international expansion of companies from their countries (Casanova and Miroux, 2021). The Chinese government, for example, has been central to promoting the rise of Chinese MNCs by encouraging them to invest aggressively in research & development and supporting the expansion of Chinese national champions (ibid). State-ownership should also be considered. SOEs account for a growing share of the global corporate landscape and this trend is likely to continue (OECD, 2020a). Already, out of the world’s largest companies, one out of five is state-owned (Gaspar, Medas and Ralvea, 2020). Their size but also the fact that they are often active in high-impact sectors such as commodities, utilities, banking and transportation makes them particularly impactful (OECD, 2020a). National oil companies, for example, control most of the world’s energy supply and almost three-quarters of the world’s oil reserves (Hults et al., 2012). According to the OECD (2020a). Theoretically SOEs’ commitment to sustainability should be higher than other firms, as they are expected to present a level of social and environmental responsibility beyond pure profits (Cunningham, 2011). However, vast differences can be observed between sectors and geographic regions (OECD, 2020a) and performance in WBA benchmarks shows that SOEs from developing economies perform poorer than their Next to SOEs, family businesses also play an often-underestimated role in the global economy, particularly in emerging economies. In 2010, approximately 60% of private-sector companies in emerging markets with revenues of one billion USD and more were owned by founders or families (Björnberg, Elstrodt and Pandit, 2014). Two-thirds of businesses worldwide are owned or managed by families, employing 60% of the global workforce and contributing to over 70% of GDP (UNCTAD, 2021). Out of the 2,000 companies that WBA will benchmark, over one-fourth is private and over 250 are state-owned. We believe it is especially important to understand the social and environmental impact of these fast-growing segments of the economy to give a full picture of how such large players are contributing or hindering SDG achievement, regardless of their ownership structure or where they are based. Results of the Gender, Automotive, Electric Utilities, Oil and Gas, Food and Agriculture, and Digital Inclusion Benchmarks show that publicly listed companies on average outperform companies with other ownership structures, reflecting the greater exposure to share- and stakeholder scrutiny as well as more and increasingly stringent requirements for publishing non-financial data.

**The importance of companies from developing economies for achieving the SDGs.**

The SDGs are often framed as a “business opportunity” for companies (Corporate Citizenship, 2015; Business and Sustainable Development Commission, 2017); and vice versa there is no doubt the private sector offers an opportunity in achieving the SDGs. However, the private sector is not a homogeneous group: it includes companies ranging from micro, small and medium-sized enterprises (MSMEs) to cooperatives to large domestic firms to big multinationals. Most high-profile initiatives and reports on SDGs & the private sector focus on how Western-based MNCs can contribute and capitalise on the SDGs. In the context of developing countries, the focus is mostly on building the capacity of MSMEs and how MNCs can create sustainability initiatives in these markets.

To deliver on the central promise of the 2030 Agenda for Sustainable Development “leave no one behind”, we should pay much more attention to companies with the biggest social and environmental impact and make sure they are not left behind. This means not just focusing on the well-known brands or those with the largest market cap but also taking into account the role of state-owned, listed and private companies, regardless whether they are from a developed or emerging economy.
Research shows that large, profitable and innovative firms greatly contribute to the development of their respective home countries (Casanova and Miroux, 2021). The success of SDG-focused national development strategies is also often dependent upon the buy-in and active support of the private sector (UNDP, 2020). Compared to their Western counterparts, companies from developing markets have much stronger knowledge of the local context and know how to deal with institutional voids. As a result, their products, price points and value propositions are often more tailored to local markets allowing them to better serve local, and often lower-income, customers (Khanna and Palepu, 2006). This makes them best placed to understand and address those SDGs most critical to their home countries.

However, companies from developing markets generally receive limited funding to support SDG-focused investments even though they have in-depth knowledge of the situation in the countries in which they operate. The COVID-19 pandemic has further complicated matters. It has erased years of progress on poverty reduction and as a result the SDG financing gap could increase by 70% reaching a shocking $4.2 trillion (OECD, 2020b). This makes private investments in the SDGs ever more important (OECD, 2021) and allocations to developing countries should be prioritised. Companies from developing regions tend to direct their investments more to neighbouring developing countries with similar or lower levels of development as their own. This South-South Foreign Direct Investment should be supported as it contributes to narrowing the financing gap and reducing poverty (UNDESA, 2007).

**Increasing attention for ESG factors**

Despite increasing interest for ESG, emerging market companies have been slower to adopt ESG policies and targets than their Western counterparts as they experience less pressure from investors, customers and regulators (Morgan Stanley, 2021). Companies from developing economies are underrepresented in sustainability ratings, rankings and indices. E.g., the list of the 100 most sustainable corporations by Corporate Knights includes only 12 companies from developing countries and about a third of companies disclosing their environmental impact to CDP are from developing countries. Within WBA’s Alliance ecosystem, a pool of 17 Allies which participate in a mapping of their companies of interest against the SDG2000, almost one third of companies included in these initiatives are headquartered in developing countries. Companies from emerging economies now make up about 10% of the Dow Jones Sustainability Index and 21% of the Global Compact 100, a stock index composed of a representative group of UN Global Compact companies, selected based on implementation of the Ten Principles and evidence of the executive leadership commitment and consistent baseline profitability (Casanova and Miroux, 2021; UN Global Compact, 2022).

Access to international capital markets also plays a role in the growing uptake of ESG in developing markets as it is an important source of capital for many firms, especially those with large financing needs and shallow domestic debt markets (Ho Kim, 2021). Investors that look for investment opportunities in emerging markets are increasingly integrating ESG factors into their decision-making processes and want to see comparable data to better understand underlying company and industry risks (OECD, 2021). Along with more attention from investors, a growing number of consumers are demanding accountability from the corporate sector. Middle-class consumers in countries like China, India, Thailand, Brazil, India and Mexico are increasingly holding companies accountable for their impact on people and the planet (Casanova and Miroux, 2021).

However, there remain serious concerns about inconsistencies in quality and quantity of ESG disclosures, immature regulatory frameworks and a lack of coverage by third party ESG research providers (Chung, 2021). This results in significant data gaps which make it difficult for investors to
identify investment opportunities, the impact of their investments well as potential risks. The lack of information is especially apparent for SOEs and private firms as they are subject to less disclosure requirements. WBA’s work helps close this data gap. By providing free and publicly available benchmark results, we provide investors, governments, civil society, individuals and companies with the data needed to make informed decisions. Governments can use the data to strengthen their policies and investors for making decisions that drive positive change. Civil society can better direct their advocacy efforts and individuals can use the data to decide where to work or spend their money.

Despite the enormous growth in global ESG assets and growing value of sustainability-themed investment products, most of these investments are aimed at developed markets. Doubts have emerged about their real-world impacts, particularly in addressing the most pressing social and environmental issues in low- and low-middle income countries (Feyertag and Tyson, 2021). According to UNCTAD, the value of sustainability-themed investment products (including sustainable funds, green bonds, social bonds, and mixed-sustainability bonds) amounted to $3.2 trillion in 2020. Yet, most of these are domiciled in developed countries and target assets in developed markets. This means sustainability financing largely bypasses developing countries, in particular least-developed countries (UNCTAD, 2021).

A deeper dive into the performance of companies from developing markets on the SDGs

Although low disclosure can signal low performance, contextual factors also play a significant role. For example, many companies in Latin America have a tradition of engaging in sustainability and community activities yet they do not necessarily communicate about such initiatives or brand them as ESG (Casanova and Miroux, 2021). Also, disclosure tends to be higher in countries that have more stringent ESG disclosure requirements and stewardship codes (Lopez-de-Silanes, McCahery and Pudschedl, 2020). Across the SDG2000, 1,249 companies mention the SDGs in their public disclosures. Of these, almost one third of mentions come from companies in developing countries. We dived in deeper by looking at mentions of some sustainability-related initiatives and acronyms such as GRI, ESG, CDP, SASB, IFRS, IIRC, and TCFD. We found that 1,564 companies in our SDG2000 mention at least one of these in their reporting or on their websites. Across companies based in developing countries, 70% mentioned at least one of the acronyms. While this research is just the beginning, it shows that large companies in developing countries are increasingly addressing sustainability and the SDGs in their disclosures.

When looking at performance in WBA benchmarks, we find that companies from developing countries score lower on average than companies from developed countries. This signals poorer performance across environmental and social expectations as expressed by the SDGs. Therefore, although these companies are often better equipped to tackle prevalent environmental and social issues in their regions, their benchmarked performance does not match this potential yet. For example, the oil and gas, and electric utility industries have a significant role in achieving SDG 7: Ensuring access to affordable and clean energy for everyone. However, results from our Oil & Gas, and Electric Utilities benchmarks show that companies from developing countries score lower on average on social and environmental performance indicators compared to companies from developed countries. For electric utilities companies from developing markets the average score on environmental indicators was a staggering 27.8 lower (out of 100). Out of the 20 top performing companies in the Digital Inclusion Benchmark, just 15% are headquartered in developing countries. However, companies are catching up and in the 2021 Automotive Benchmark, only companies in developed countries had improving trend scores, signalling their growing alignment with the low-carbon economy. Although disclosures of
emerging market companies can be lower, e.g. in our Food and Agriculture Benchmark, two-third of companies that do not disclose any relevant information are from developing countries, overall, we find that the differences are often not substantial. For example, out of the 1,000 companies assessed on WBA’s core social indicators, 115 companies do not disclose any relevant information out of which 55 are from developing and 60 from developed countries.

When looking at how connected companies from developing economies are to a sample of organisations (17 WBA Allies) in the SDG ecosystem, we find that companies from developing economies are linked to less organisations (2.4) compared to their Western counterparts (3.76). In addition, when looking at the companies that are very engaged with the SDG ecosystem (linked to >5 WBA Allies), we find that over 80% of these companies are from developed countries. Although the sample size is still very small, it suggests that companies from developing markets are underrepresented in sustainability initiatives.

Company engagement is a crucial component of the benchmarking process. This is done to familiarise companies with our methodologies, engage them in the benchmarking process and encourage them to use the results of the assessment. Engagement is also an opportunity to hear companies’ feedback on and their experiences with the benchmark. We learn from companies in developing markets that local institutional contexts can sometimes hinder better performance. For example, companies’ just transition can be bound by national energy policies requiring companies to produce a set amount of energy from fossil fuels. Others disclose that in some cases, conversations with unions can take up to 10 years, making timely change difficult to achieve. Others share that in some of their countries of operation, government support is tied to addressing ESG topics prioritised by the government, leaving little capacity and opportunity to focus on sustainability issues prioritised by other stakeholders.

**Translating potential impact to real world impact.**

While States are the main actors through which the SDGs should be achieved, the aim of creating a ‘Global Partnership for Sustainable Development’ calls for the involvement of the private sector, civil society and international organisations. The achievement of every SDG target requires the business sector to engage at a minimum and to play a central role where resources are most needed (Campaign for a Decade of Accountability for the SDGs, 2021). Companies in developing countries have a strong understanding of and a connection to the local context. This is still highly underutilised in driving development but has great potential for impact.

WBA focuses on the influence and impact that companies can have on achieving the SDGs. This impact perspective means focusing on a diverse set of companies, active in different industries and operating in different geographies. To ensure this potential impact translates to real world impact, accountability mechanisms such as benchmarks, are needed to ensure and accelerate the implementation of the 2030 Agenda by the most impactful companies of the world.
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Reference List


