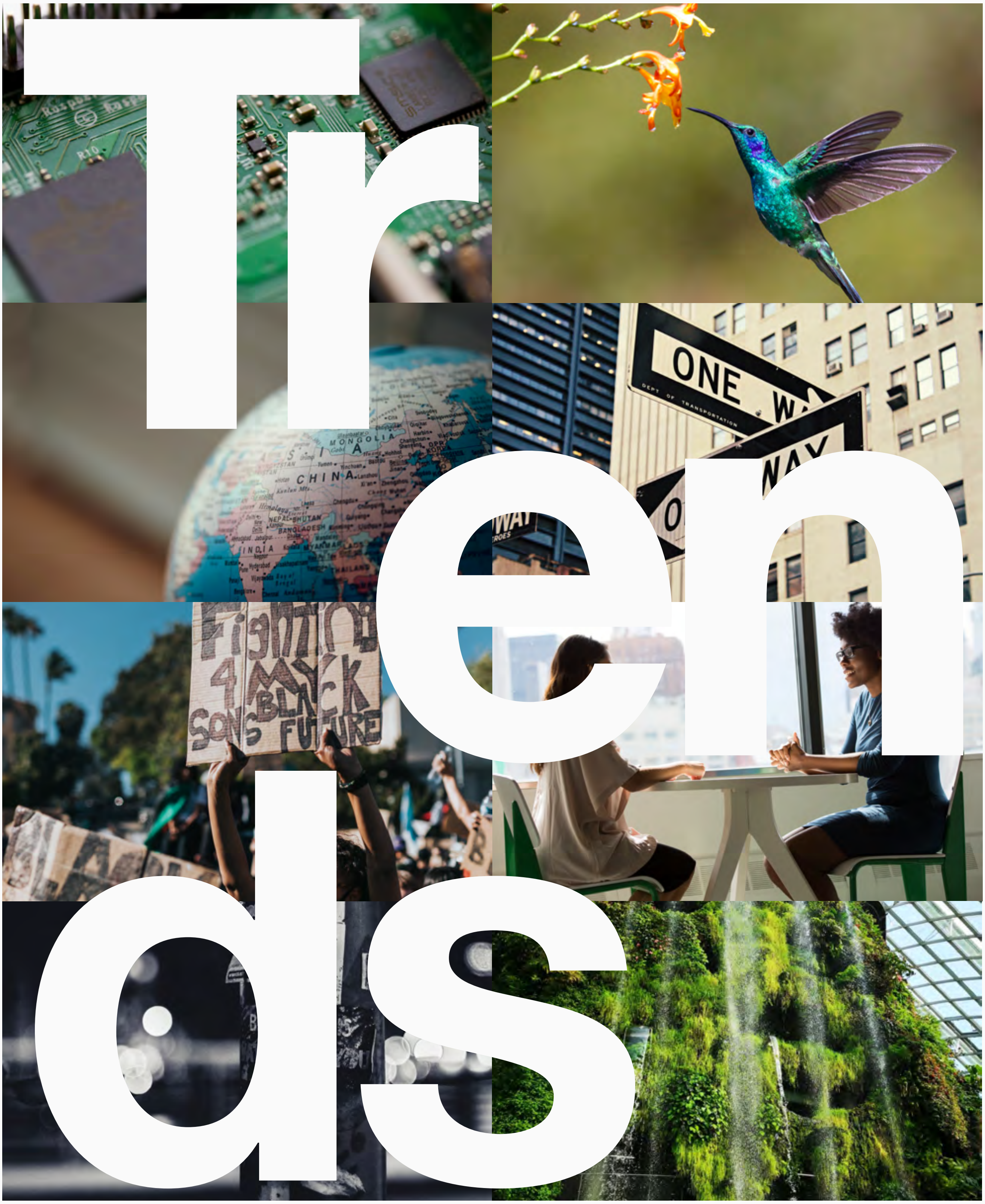


What's Next for Sustainable Business?

2021 Trends Report

The SustainAbility Institute by ERM

Contents

Intro duction

Welcome to our 2021 Sustainability Trends report.

Since inception about two decades ago, this report was produced by SustainAbility as a boutique, independent consultancy and think tank. Each year, it explored which long-term sustainability trends were cresting and why, considered the trends' influence on business, and outlined what the private sector could do in response to advance the sustainable development agenda.

SustainAbility was acquired by ERM in 2019. In October 2020, the SustainAbility Institute by ERM (the Institute) launched, and this is the first Trends report produced by the Institute. The 2021 effort is true to our past work, again shining a spotlight on the most dynamic issues influencing corporate sustainability and explaining what companies are doing to address them. But it represents an evolution also.

ERM celebrates its 50th anniversary this year. Over five decades, the firm has built a leading reputation for excellence in operationalizing sustainability, which to us means bringing corporate sustainability strategy, commitments, and policy to life in every part of an organization, or "from boots to boardroom" as we express it internally.

To align with ERM's approach and expertise, and to help ERM realize its purpose, *shaping a sustainable future with the world's leading organizations*, the Institute is designed to produce *actionable insight*. Our thought leadership and guidance helps our clients and partners understand the evolving sustainability agenda and accelerate the actions they are taking to address sustainable development.

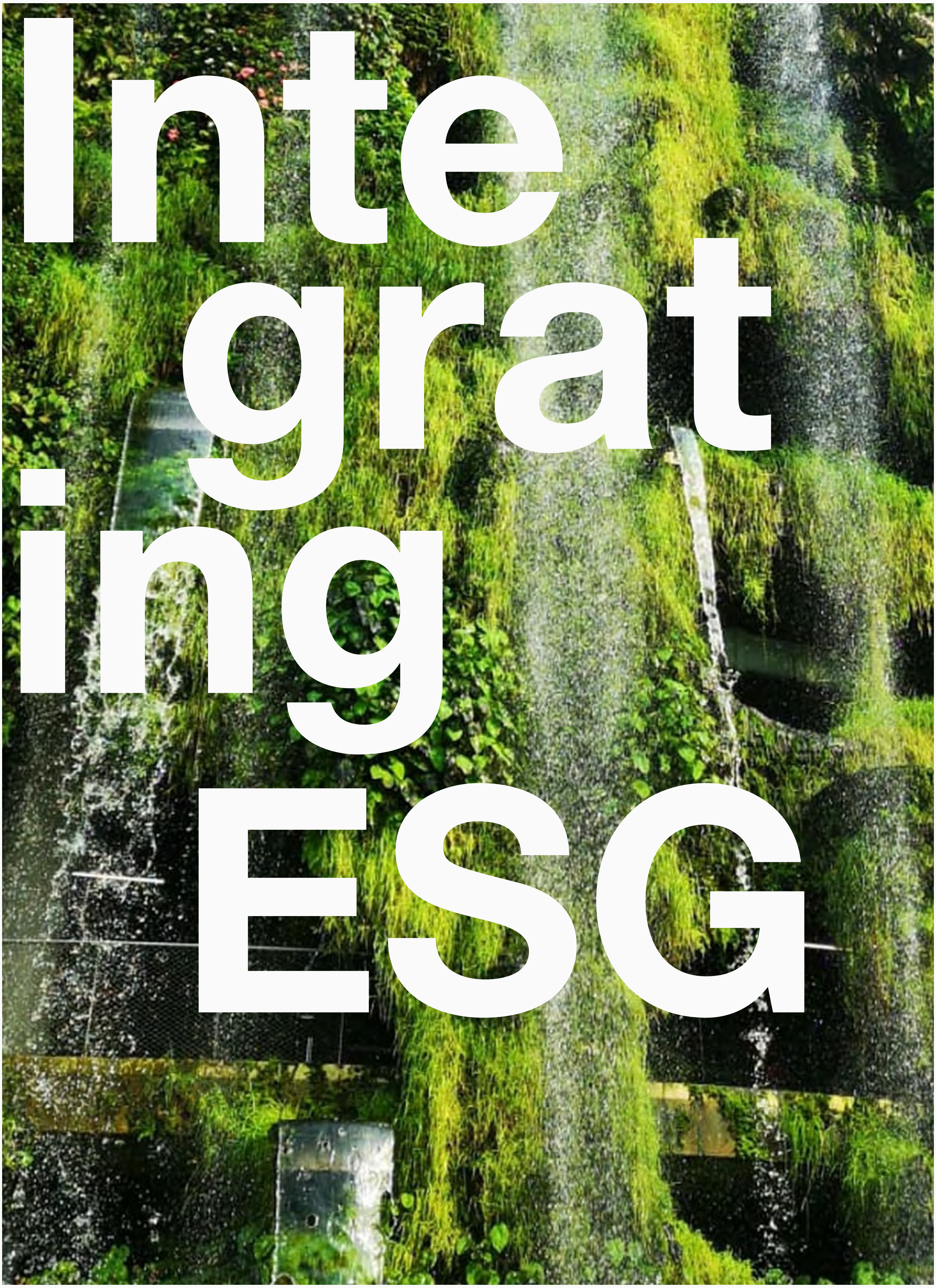
Given the accumulated knowledge and experience existing in the field today, we felt a shift in emphasis in trends analysis was due, and we have rebalanced our approach. Beginning this year, we plan to work with a constant set of sustainability trends until 2025, then evolve the list mid-decade and every few years thereafter.

The ten trends we have identified will be familiar to sustainability practitioners. You'll see policy, climate, equity, supply chains, sustainable consumption, and other mega-trends explored and interwoven in the pages that follow. We spend less time defining themes than in the past, and more time on what is being done in response. With each trend, we reflect briefly on what is most dynamic about it at this moment in time. We then focus on what the trend demands from the private sector for pandemic recovery to 'build back better' and for the current 'decade of action' to position society to achieve both the Sustainable Development Goals by 2030 and the goals of the Paris Agreement on climate change by mid-century.

This work is urgent, truly the cause of our lifetimes. We believe emphasizing how the greatest number of companies can operationalize sustainability in every facet of their organizations is the best way for the Institute and ERM to catalyze the creation of the just and sustainable society we hope to see.

We are always interested in feedback and partnership. We especially want to know if this report proves as actionable and operational as intended to help you and your business thrive while navigating the disruption that creating a sustainable economy must include. Please be in touch with any questions or suggestions, and best wishes for 2021.

Integrating ESG



Worldwide disruptions and economic shocks notwithstanding, interest and investment in ESG soared in the last twelve months, a trend that will continue in 2021 and beyond.

Recent years have seen growing evidence that robust management of environmental, social, and governance (ESG) issues strengthens overall business performance and resilience while also benefiting society at large. A growing number of companies now consider ESG to be a key component of their overall business strategy, and investor interest in ESG topics continues to rise rapidly as well.

The pandemic has presented a unique opportunity to examine the relationship between ESG and business performance in a time of crisis. One of the strongest proof points came in the form of ESG fund performance data. Research by multiple analysts and banks has shown that ESG funds have consistently outperformed since COVID-19 landed, rattling societies and economies.[1] Fidelity International estimates that, in the first three quarters of 2020, stocks with higher ESG ratings had better returns in every month save for April.[2]

Driven by strong performance and greater awareness, 2020 saw record capital inflows into ESG investment options. According to some estimates, investors directed nearly four times the amount of capital into ESG funds last year than they did in 2019.[3] This trend was reflected in both stocks and bonds and is expected to continue until ESG is applied to nearly all assets under management in some form.

Interest in ESG has been growing among all types of investors, including private equity, which historically has been slower to embrace ESG thinking and approaches. A recent ERM survey of private equity investors found that 93 percent of respondents believe that focusing on ESG themes will generate "strong investment opportunities," while 86 percent expect the pipeline of ESG investment opportunities to increase over the next three to five years.[4]

The changing regulatory landscape, especially in Europe, will further accelerate ESG integration. The European Union (EU) is currently in the process of undertaking an extremely ambitious regulatory overhaul of the financial system, with the objective of increasing the pace of transition to a low carbon economy.[5] Other countries and regions are likely to follow the EU's lead with similar new regulatory requirements, which will make ESG even more integral to investors and private sector operations.

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The majority of investment firms are starting to feel asset owner and peer pressure on ESG. While until recently we saw only the few largest firms, the leaders, taking proactive action on ESG and exploring the investment trends behind sustainability mega trends, this is changing fast. We are increasingly getting enquiries from the next tier of funds, who may not yet have a systematic approach on ESG but want to change that. This mid-market is where the next explosion will be.

Jaideep Das
Partner, ERM

In response to increasing interest in ESG by investors and companies, the following evolution is likely:

Mainstreaming of ESG in investment processes and company operations will continue to accelerate

Mainstreaming of ESG will continue, with a growing number of investors integrating ESG considerations into investment decisions, and more companies making ESG core to their strategies. Currently, one in every three dollars of U.S. assets under management is guided by ESG strategies, with the share being even higher in Europe.[6] This represents a 42 percent increase in the U.S. in the last two years, a trend that is likely to continue. According to the previously mentioned ERM 2020 survey, 86 percent of polled private equity investors have access to dedicated ESG teams providing subject matter expertise, a sign that ESG is gaining traction with all types of investors.[7] Looking into the future, Deutsche Bank estimates that 95 percent of all investment decisions will incorporate ESG by 2035.[8]

Like investors, companies are also increasing ESG integration in their strategies, decision-making, and disclosure. A growing number of companies submit data to ESG ratings agencies such as CDP, DJSI, MSCI, and Sustainalytics, and 90 percent of S&P 500 Index companies published a 2019 sustainability report.[9] This represents a significant increase from 20 percent in 2011, another trend that will persist.

Companies and investors will seek a more balanced approach to E, S, and G by increasing focus on social issues

In addressing E, S, and G, companies and investors have historically placed the greatest emphasis on governance topics. Environmental issues, in particular climate change, have gained increasing prominence in the last decade, but social issues have been relatively overlooked until more recently. The pandemic and other recent events have changed that. COVID-19 has brought importance of social factors to the fore, underscoring the critical role that individuals and their well-being play in the success of business and society more broadly.

According to a survey by BNP Paribas Asset Management conducted in mid-2020, over 70 percent of investors said that social considerations will become "extremely or very important as we move forward."[10] This represents an increase of 20 percentage points from before the pandemic, closing the gap on environmental issues (up 11 percent to 74 percent) and governance (up 4 percent to 76 percent). Surveys of business executives have shown similar trends as well. According to a recent survey of U.S. companies, 83 percent of executives feel an urgency for business to be a critical part of creating solutions for pressing social issues such as racial injustice, COVID-19, and inequality.[11] As a result, we will see continued efforts by investors and companies to balance approaches to E, S, and G topics driven in part by greater appreciation of topics related to employees, diversity, inequality, and social cohesion.

The ESG ratings and rankings landscape will continue to evolve rapidly

The ESG ratings and rankings space will continue to remain dynamic, closely watched by companies and investors. The appetite for data, especially by investors, will continue to grow fueled by rising interest in ESG and lack of uniform standards. We are likely to see more acquisitions of ESG ratings and rankings agencies by mainstream credit agencies and banks.[12] In 2020, Morningstar acquired a majority stake in Sustainalytics, a Netherlands-based ESG ratings agency.[13] In 2019, two other leading credit agencies also made important moves into the ESG ratings space. Moody's acquired Vigeo Eiris, and S&P bought a majority stake in RobecoSAM's ESG ratings business.

While these market moves are important signs of ESG ratings becoming part of the mainstream financial services, greater converge is still years away. There are tens if not hundreds of ESG ratings and rankings in the market, with new ones emerging every year. Before uniform standards emerge, companies will continue watching the space closely in order to meet rapidly changing disclosure expectations and comply with new regulations (e.g., the EU Taxonomy Regulation).

Valuing human capital

With events of 2020 underscoring the centrality of workforces to business resilience, and with many investors and financial institutions reexamining their stances on human capital management and reporting, discourse and action on this topic will continue to evolve rapidly.

After increasing greatly in profile in recent years, the topic of human capital is now front and center for companies, investors, and other stakeholders.

Businesses across every industry understand that people management is a key ingredient for long-term resilience, recognizing that people and their adaptive abilities are central to companies' ability to pivot, adjust, and to develop and implement new ideas. This is leading more companies to articulate executive and board aspirations to put people at the center of all they do, and more organizations like JUST Capital to make more effort to hold companies to account on these commitments.[14]

Along with companies themselves, investors are increasingly concerned with human capital management and performance because they see its potential to add value to their portfolios. For them, effective human capital management indicates that a company has a potential competitive advantage based on its ability to demonstrate sound business practices, increase workforce engagement and stability, and attract top talent. BlackRock reinforced its commitment on this topic with its January 2020 release Investment Stewardship's approach to engagement on human capital management.[15] Many investors also have been signing up to and participating in human capital initiatives like the Human Capital Management Coalition and ShareAction's Workforce Disclosure Initiative, which advocate for increased corporate disclosure on human capital topics.[16,17]

Movements and developments such as #MeToo and Black Lives Matter, as well as corporate responses to COVID-19, have accelerated human capital discourse. This meant companies across all industries and geographies needed to quickly alter their thinking on how to maintain employee resilience, leading many to increase focus and investment on worker physical and mental health, safety, and well-being. Responses ranged from new measures to keep front-line workers safe, to supporting the multitude of office workers suddenly working from home.

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COVID-19 has highlighted the importance of human capital and investing in people. It is at times of crisis that you need most to depend upon your human capital, and those progressive businesses that have realized this have been more resilient. In 2021 we expect there to be even greater demand for businesses to support society by building good health, well-being and resilience in their workforce and supply chains.

Mark Gough
CEO, Capitals Coalition

Given its momentum over recent years, and the ways the pandemic elevated the "S" in ESG, human capital will require considerable business scrutiny and investment in 2021 and beyond. In response to this ongoing increase in focus on human capital management, the following evolution is likely:

More companies will adopt a 'whole person' approach to employee well-being

Recognizing how crucial people are to ensuring long-term business resilience, businesses are reconsidering what it means to keep workers safe and evolving their approaches to apply 'whole person' perspectives to worker management.[18] Recent surveys suggest that the shifts to home working forced on so many people during COVID-19 are likely to stick, which will require companies to invest more in employees' home working set-ups as well as programs around well-being and mental health.[19]

The business-employee relationship will continue to evolve

We will see further evolution of the relationship between businesses and employees as companies rethink how they operate to reflect the growing focus on human capital. This will lead to changes ranging from how they onboard new staff, to engaging, managing, supervising, and recruiting people 100 percent remotely.[20] Business will put more focus on what employees deem important and how they can be retained. Companies will also pay close attention to shifting worker demands driven by demographics such as Gen-Z employee attitudes around flexible styles of working, levels of autonomy, and the values they seek in an employer.[21]

Going forward, it is likely that more companies will rethink internal engagement strategies as well, for example undertaking activities such as 'pulse surveys' more often. Such efforts enable organizations to take employees' temperature related to the employment contract and how well it is working, which will allow business leaders to listen, reevaluate, and respond accordingly.

Demand for more detailed and diverse human capital data will increase

Business will need to respond to more demand for human capital disclosures as investors continue to reassess what human capital elements are most material and request related performance data. Companies will need to provide more detailed and different types of human capital disclosures in response to developments already enacted such as the U.S. Securities and Exchange Commission (SEC)'s August 2020 addition of human capital resources to the S-K Regulation disclosure topics.

Future changes to disclosures are likely to emerge in response to the Sustainable Accounting Standards Board's (SASB) 2020/21 exercise to assess human capital management themes within its sector standards, and due to the merger of SASB and the International Integrated Reporting Council (IIRC). As we suggest in a recent paper on the connection between human capital and health and safety, companies will develop more integrated and cross-functional approaches to provide such data, both to meet stakeholder expectations for more and better data on this topic, and to capture the value inherent to their own investments.[22]

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The global developments of 2020 rapidly accelerated the world's attention on environmental, social and governance issues, especially social and human capital. They also dramatically influenced how all stakeholders view, measure, and value human capital management performance.

Mike Wallace
Partner, ERM

Responding to climate change

Given the global momentum on climate action that is building in advance of COP26, the climate ambitions of the Biden Administration, and the emphasis on low carbon initiatives in governmental pandemic recovery packages globally, 2021 is set to be a pivotal year for climate change.

After many years of awareness-building on the issue, the last decade saw climate change come to be recognized as one of if not the most prominent and urgent global challenges. Despite this, governments, businesses, investors, and other stakeholders have struggled to meet this challenge with adequate action to slow and reverse global warming as required. Accelerating progress over the next few years will be essential to meeting the goals of the Paris Agreement.

One of the rare silver linings of the COVID-19 pandemic has been the opportunity presented to speed the low carbon transition by making it central to plans for economic recovery. The European Union (EU) has led the way by making green transition a key part of its record-breaking €1.8 trillion ($2.17 trillion) stimulus package, more than 30 percent of which will be spent fighting climate change. Other countries, including Canada, the UK, Norway, Chile, and South Korea, have pledged to make green recovery a priority as well, and the Biden Administration has promised to make investment in green infrastructure central to U.S. pandemic recovery efforts.[24,25]

The focus on green transition in government stimulus plans is likely to spur greater climate action from the cities, the private sector, and other non-state actors. More than 823 cities and 1,541 companies globally have already committed to achieving net zero emissions by 2050, and this number will continue to climb in the lead up to COP26 in November.[26] The summit in Glasgow will mark the first time that the countries will be formally reviewing progress against Paris Agreement commitments and negotiating any revisions required to keep global warming under 1.5°C.

Market forces also continue to drive transition to low carbon solutions. While the coal industry has been facing unfavorable regulatory and market conditions for several years, the first six months of 2020 saw more coal generation capacity being shut down than coming online for the first time on record.[27] Investments in renewable energy and uptake of low carbon products and solutions (for example, electric vehicle sales hit new highs last year) continue to rise, fuelled by plummeting costs and growing demand.[28,29]

Despite the rapidly changing landscape, the pace of change remains too slow. In 2021 and over the next few years, all players, especially governments and the private sector, will have major roles to play in terms of putting the world on track to limiting global warming to 1.5°C by setting and achieving aggressive net zero goals, accelerating adoption of low carbon solutions, and advocating for effective, business-smart climate policy.

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2020 was a ‘pause’ associated with the pandemic, with global emissions dropping by about 7 percent compared to 2019. Many companies realized they could conduct business with less travel, and this will hopefully lead to lower emissions long-term. We need a green recovery from the pandemic and its economic challenges, which includes reduced emissions and helps society adapt to warming already underway. This can be led by business in partnership with a renewed government commitment after four years of federal climate inaction and reversals.

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Diana Liverman
Regents Professor and Director of the School of Geography, Development, and Environment, University of Arizona

In response to rapidly growing expectations for companies to play a central role in achieving a net zero economy by 2050, the following evolution is likely:

The number of corporate net zero commitments will continue to climb

The last twelve months have seen a huge increase in corporate activity on climate, with the number of public net zero commitments more than doubling.[30] This will continue in 2021 as the private sector seeks to address growing societal expectations for business to play a leadership role in achieving a net zero global economy by 2050. Historically, consumer goods and technology companies have led corporate decarbonization efforts, but the oil and gas sector and other heavy industry players are now joining the ranks in meaningful numbers as well. In late 2019,[31] Repsol became the first oil and gas company to set a net zero goal, followed by industry peers Equinor,[32] Shell,[33] and BP[34] in 2020.

While so far there is no uniform established approach to setting a net zero target, this is likely to change in late 2021 when such a standard is expected to be adopted by the Science Based Targets Initiative (SBTi).[35] The existence of a standard is expected to bring more scrutiny of corporate commitments by advancing comparability and will further increase expectations for all companies to commit to decarbonization of their operations. Companies will also face pressure to set net zero commitments that apply across the entirety of their value chains, and to go beyond net zero by achieving negative emissions, even capturing the equivalent of historic emissions as Microsoft announced its intention last year.[36]

The uptake of carbon capture solutions will accelerate

After several years of declining interest and investment, there are signs that worldwide interest in carbon capture, utilization and storage (CCUS) is growing and likely to increase further in 2021. This CCUS renewal has been driven by the public and private sectors' growing realization that achieving the goals of the Paris Agreement without capturing CO2 already in the atmosphere may well prove impossible. Since 2017, plans for 30 new, large-scale CCUS facilities have been announced in Europe, the U.S., China, Korea, New Zealand, and other countries.[37] In the last year alone, the capacity of CCUS facilities operating and under development grew 33 percent worldwide.[38] Fully deployed, these projects would increase existing global CO2 capture capacity by more than three times.[39]

The UK government has pledged £1bn ($1.4 billion) of public funds to help develop four major CCUS schemes by 2030 as part of the government's commitment to a "green industrial revolution," while other national governments are accelerating investments as well.[40,41] One of the leading projects in the UK aims to transform the carbon-intensive Humber region into Europe's largest joint hydrogen production and CCUS project by 2026[42]. Interest and investment in CCUS will continue to grow in 2021 and beyond, especially as a solution applicable to emissions-intensive industries such as cement, iron, steel, and chemicals.

Momentum will continue to build around hydrogen

In recent years, hydrogen has been enjoying unprecedented political and business momentum, which will continue to accelerate over the next few years. A growing number of countries, especially in Europe, consider hydrogen to be one of the most important tools available for achieving long-term decarbonization goals, and many believe it will be critical for transforming hard-to-abate industries. The European Commission recently launched an ambitious strategy to increase capacity to produce green hydrogen.[43] According to the strategy, the EU aims to increase hydrogen production six-fold by 2024 and more than 40 times by 2030, in part by expanding its use to steel-making and heavy-duty transport.

While analysis from the International Energy Agency shows interest in and uptake of hydrogen continues to increase rapidly, for hydrogen to make a significant contribution to the clean energy transition, it needs to be adopted in transport, power generation, and buildings.[44] Unfortunately, these are also the sectors where hydrogen solutions have been slow to take off. To realize hydrogen's full potential, innovation like that expressed in the hydrogen-fueled, zero-emission aircraft concepts recently revealed by Airbus as well as significant public-private collaboration will be essential.[45] Policy incentives to accelerate adoption, help drive down costs, and spearhead creation of industrial hubs will also play a very important role.

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For many of the companies that have already developed long term GHG reduction commitments, there's expected to be an increasing focus on more near term carbon reductions including undertaking demonstration projects that will include energy storage, microgrids, and the use of green hydrogen.

Michael J. Bradley
President and Founder, MJB&A,
an ERM Group company

Safeguarding natural systems

With the buildup to the UN's Biodiversity Conference, the development of the Taskforce for Nature-related Financial Disclosures (TNFD), and the launch of an updated version of the Equator Principles, recognition of business impacts and dependencies on nature is at an all-time high.

Global populations of mammals, birds, amphibians, reptiles, and fish are 68 percent smaller than they were in 1970.[46] Around a million species face extinction worldwide, and species extinction rates are rising.[47] The COVID-19 pandemic has re-emphasized the inextricable link between human and environmental health, with greater recognition that biodiversity loss and ecosystem change increase the risk of new infectious diseases.[48] Biodiversity loss, human-caused environmental damage, and natural resource crises all rank as top global risks according to the latest survey of 650 World Economic Forum leaders, with biodiversity loss ranking among the top five global risks by impact and likelihood.[49]

A broad range of stakeholders are eagerly awaiting the outcomes of the UN's 15th Annual Conference of the Parties (COP15) on biodiversity in Kunming, China, now scheduled for May 2021 after being postponed last year.[50] This gathering of global leaders will agree a new global biodiversity framework for 2021 to 2030 to galvanize action around protecting biodiversity and natural capital worldwide. The new framework will replace the largely unmet Aichi Targets that were established for 2011 to 2020.

As host, China will want to demonstrate leadership on biodiversity, and its leaders have recently taken actions including accelerating the formulation of relevant policies and regulations, establishing a National Committee for Biodiversity, and progressing a national biodiversity strategy out to 2030.[51] ASEAN nations were amongst the 50 world leaders to welcome new commitments for biodiversity at the One Planet Summit in January 2021, such as protecting 30 percent of global lands and oceans by 2030.[52]

The European Commission adopted a new Biodiversity Strategy of its own in 2020, with a target to turn 30 percent of the EU's land and 30 percent of its seas into "effectively managed and coherent protected areas" by 2030.[53] Worldwide, 84 countries signed the Leaders' Pledge for Nature in September 2020, which commits them to put biodiversity at the heart of pandemic recovery strategies, develop an ambitious global biodiversity framework, and mainstream the proper valuation of biodiversity in sectoral and cross-sectoral policies.[54]

September 2020 also saw financial institutions, governments, and international organizations launch efforts towards establishing a Taskforce on Nature-related Financial Disclosures (TNFD) to enable companies and investors to address their dependencies and impacts on the natural world.[55] Following the success of the Task Force on Climate-related Financial Disclosures, the TNFD aims to mainstream the effective assessment, mitigation, and disclosure of nature-related risks by providing a standardized reporting framework for companies and investors.[56]

Meanwhile, the latest update to the Equator Principles framework (EP4) for assessing the environmental and social risks associated with project financing explicitly encourages projects to report on biodiversity for the first time, while also laying out more stringent requirements for climate-related risk assessments.[57] These developments accompany ongoing engagement of corporates on biodiversity issues by shareholders such as the Church of England.[58]

To respond to rising stakeholder expectations and the ongoing depletion of nature, the following evolution is likely:

More companies will adopt and/or strengthen biodiversity strategies, and an increasing number of strategies will address biodiversity impacts across the value chain

Driven by rising investor and broader societal expectations, increasing numbers of companies including Solvay,[59] Iberdrola,[60] and BP[61] are putting biodiversity strategies and policies in place. The TNFD and EP4 in particular express the demand from lenders and other stakeholders for companies to carry out stricter processes to identify, assess, and respond to nature-related risks. While companies currently focus on biodiversity at the project level, as lender requirements increase, corporate efforts will come to encompass impacts across the whole value chain, and this will lead to more firms conducting supply chain assessments of biodiversity risks. Some sustainability leaders are taking pre-emptive action in their supply chains now, for instance Unilever's recent promise to cease business with suppliers linked to deforestation in the production of palm oil, soy, and packaging.[62]

Companies will continue to deploy nature-based solutions to address both nature- and climate-related impacts

Nature-based solutions (NBS) are increasingly accepted as a method to protect and restore biodiversity while simultaneously helping to address challenges such as climate change, water security, and the maintenance of human health. Business coalitions including Business For Nature[63] make the business case for NBS as cost-effective tools to address global challenges while mitigating business risks, and individual companies such as Shell are deploying them.[64] Several multi-stakeholder efforts are seeking to mainstream NBS and ensure their credible implementation. For instance, IUCN's new standard for NBS,[65] guidance on NBS for companies from the World Business Council for Sustainable Development,[66] and the announcement of a new corporate engagement program to develop science-based nature targets from the Science Based Targets Network,[67] will all advance NBS understanding and practice. These signals suggest the prominence of NBS will only increase in years to come.

More companies will collaborate and/or join multi-stakeholder coalitions designed to address nature-related impacts and dependencies

There are increasing opportunities for business to collaborate to address business impacts and dependencies on nature. This includes the recent call for input on a new science-based target for nature[68] and new multi-stakeholder coalitions including Business for Nature[69] and Champions for Nature.[70] Supporting collaborative initiatives and joining multi-stakeholder collaborations signals to stakeholders the importance that a company places on biodiversity and helps firms upskill and learn from peers, NGOs, and other actors. As companies become more aware of their ecological footprints, the case for joining these coalitions will grow. Companies will also need to forge collaborations to collectively influence supply chain actors. Such supply chain collaboration is demonstrated by the Cerrado Manifesto Statement of Support, which recently brought 163 companies together to demand soy commodity traders stop sourcing from deforested land in the Brazilian Cerrado.[71]

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We are seeing much more active discussion around supply chain biodiversity impact assessments. This is happening as companies are forced by lenders and other stakeholders to think about the impacts of their supply chains on natural systems.

Julia Tims
Technical Director, ERM

Building sustainable and resilient supply chains

In response to climate change impacts, widespread disruption due to the pandemic, investor scrutiny, and other stakeholder expectations, businesses are taking more proactive action than ever to mitigate sustainability risks in their supply chains.

Firms increasingly understand how supply chain risks relating to environmental impact, employee health and safety, process safety, and labor violations, alongside traditional risks such as price, quality, and on time delivery, are essential to maintaining business continuity.[72] This shift has been driven by a range of factors including an increase in the acute and chronic impacts of climate change, the widespread disruption to supply chains experienced during the pandemic, and rising investor and other stakeholder scrutiny of supply chain issues such as greenhouse gas emissions, biodiversity, and human rights.[73,74]

In addition, consumer interest in sustainability and product origins is adding further pressure, especially in the consumer goods sector. In one recent survey, 67 percent of consumers in the U.S. said they wanted to know the origin of the food they buy.[75] Additionally, in a twist no one expected, reports suggest that empty supermarket shelves early in the pandemic spurred a rise in direct consumer sales as many consumers sought out local alternatives, shifting some supply chains overnight.[76]

With supply chains accounting for as much as 90 percent of a company's sustainability impact, companies have a unique opportunity to improve their overall social and environmental footprint by addressing issues in the supply chain.[77] A recent global study of more than 40,000 companies by rating agency Ecovadis found that there is ample room for more sustainable practices in corporate supply chains, with 80 percent of evaluated suppliers lacking supply chain due diligence measures, 57 percent not monitoring working conditions, and 44 percent with no employee health and safety preparedness initiatives.[78]

Companies increasingly recognize a need to build supply chain resilience to unpredictable systemic shocks such as pandemics, terrorist attacks, natural disasters, and cyber-threats. A recent survey of automotive, pharmaceutical, aerospace, and information technology industry experts found that major supply chain disruptions lasting a month or more happen on average every 3.7 years in these sectors.[79] These events create severe impacts for customers, employees, communities, and investors. While business cannot prevent all such disturbances, it can minimize the financial, operational, and reputational impacts of such events by improving supply chain preparedness and resilience.

In recognition of all this, it is not surprising that 93 percent of global supply chain leaders are planning efforts to increase resilience, with 44 percent saying they would do so even at the expense of short-term savings.[80]

This was backed up by a recent survey of more than 700 sustainability experts globally by GlobeScan and the SustainAbility Institute by ERM which identified "redesigning and strengthening risk and business continuity planning to account for long-term systemic risks" and "transforming global supply chains" among the top priorities companies must address to increase long-term resilience to systemic shocks.[81]

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With increased awareness of supply chain disruptions from the pandemic, companies are evaluating if they are ready for future acute and chronic events, such as physical and transition risks of climate change, that could have an even bigger impact on supply chains.

Ramesh Narasimhan
Business Unit Managing Partner, ERM

Although companies are starting to take note of the benefits of investing in more sustainable and resilient supply chains, many programs and initiatives are at an early stage of maturity. In coming years, the following evolution is likely:

Business will accelerate efforts to increase supply chain transparency

Recent supply chain disruptions have led many corporates to realize they don't know basic information about their suppliers. Multinational companies often have hundreds of Tier 1 suppliers, each reliant on many more suppliers at Tier 2 and beyond. This can make it challenging to quickly establish basic information such as the location of suppliers, the ultimate source of inputs, and the volume of products bought from each supply chain actor. To gain greater visibility into their supply chains, companies are increasingly adopting digital tools including artificial intelligence and Internet of Things to monitor real time data relating to weather forecasts and traffic scenarios, and to conduct supply chain mapping.[82] Although in some instances companies may have adopted these tools to respond to the pandemic, it is likely they will remain in use after the crisis given their ability to impact the visibility, performance, and resilience of supply chains.

Companies will seek to better evaluate the sustainability performance of their suppliers by putting in place more sophisticated management systems and processes within their supply chains

Companies with existing supply chain management approaches in place – such as survey, audit, education, and engagement initiatives – performed better during the pandemic.[83] Such practices lead to stronger supplier relationships, greater transparency, and improved supplier health and safety measures. With supply chain management systems established, companies can respond to ESG risks as they arise and more easily take resilience-enhancing steps like building in redundancy and avoiding having a concentration of suppliers in one geography. With the deeper implementation of more robust management systems, firms will be better prepared to grapple with questions such as how to strike the best balance between local and global operations, including whether to bring production facilities closer to home.

Companies will need to effectively engage both internal and external stakeholders to achieve supply chain improvements

Stakeholder engagement will continue to be key to effective supply chain management. To drive supply chain improvements, companies must ensure board accountability and regular reviews and engage all relevant corporate functions including quality, compliance, procurement, and legal.[84] Influencing suppliers where a business is a sole or key purchaser can be straightforward. When this is not the case, companies may need to collaborate with peers in their industry to achieve leverage and influence desired outcomes. Although companies can be reluctant to rely on supplier audits done by another company, sharing data and insights on suppliers' ESG performance creates the opportunity to refine risk assessments and drive collective performance improvements. Frameworks such as the Pharmaceutical Supply Chain Initiative (PSCI) and EcoVadis are enabling some multi-stakeholder collaboration to happen around supplier evaluation. Beyond such examples, businesses will need to form other partnerships and cross-sector collaborations (including through industry groups) to incentivize more suppliers to achieve increasingly ambitious sustainability goals.[85,86]

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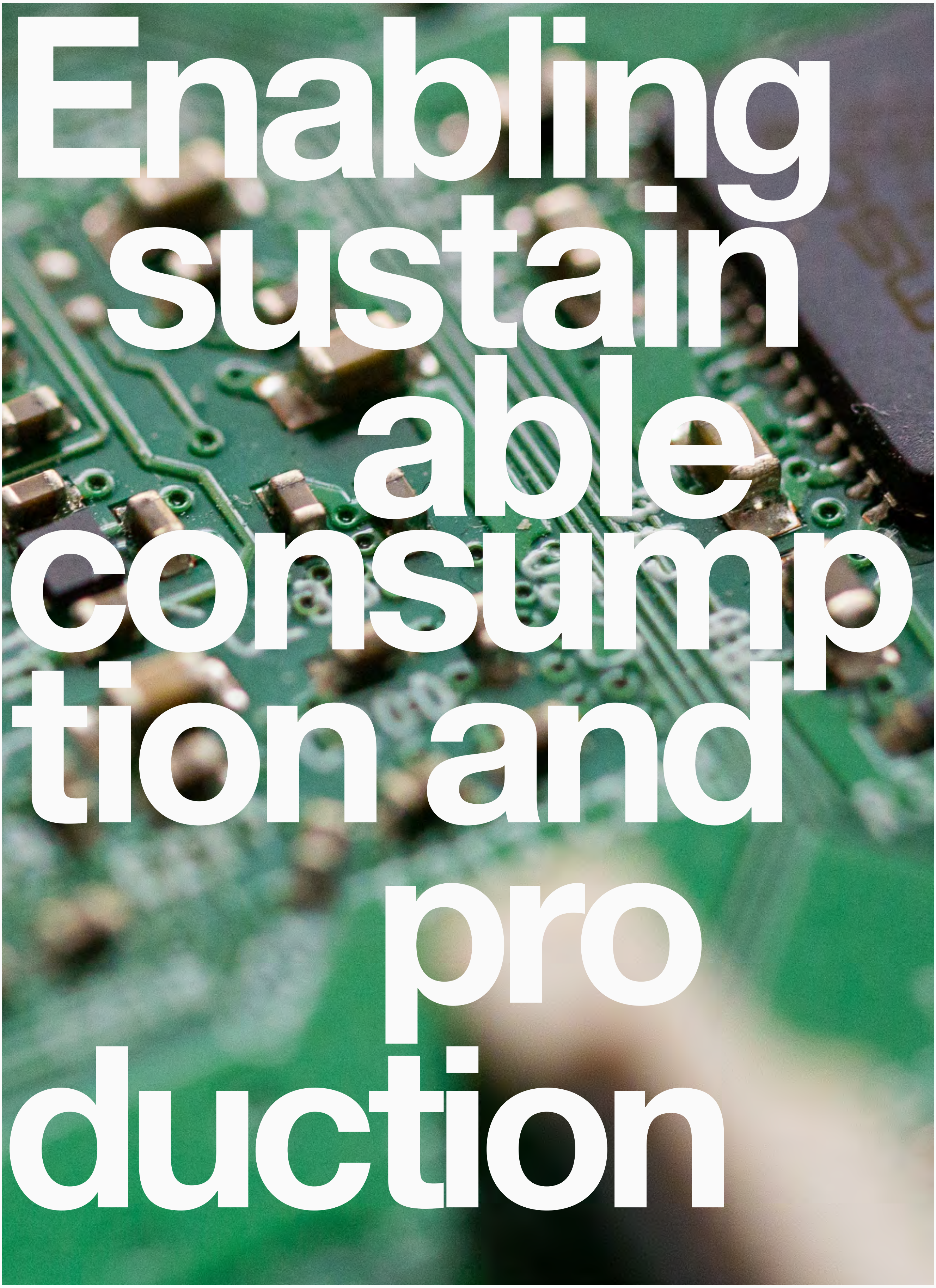
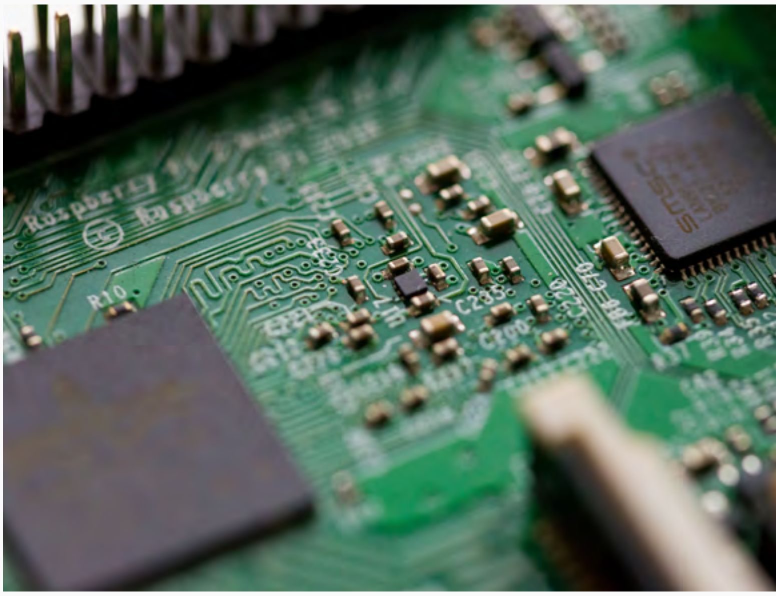
Corporate supply chains continue to increase in complexity. Therefore, investors, customers, and other stakeholders expect companies to identify and manage their environmental, social, and governance supply chain risks, impacts, and opportunities. These issues can have significant operational, financial, and reputational risks if not managed effectively.

Margie Flynn
Senior Partner, ERM

Enabling sustainable consumption and production



New regulatory agendas and growing recognition of the business benefits of resource efficiency and circular value chains are advancing more sustainable consumption and production patterns. Business has a vital role to play in this transition through product stewardship, its relationship with consumers, and the incorporation of circular economy principles.



Over the last 60 years, the rate at which society consumes natural resources has increased far more than the earth's ability to regenerate them. Society's aggregate consumption now exceeds the planet's capacity to renew itself by 56 percent.[87] Since 2010, the volume of primary materials needed to meet basic human needs globally (food, clothing, water, and shelter) has increased by 17.4 percent.[88] Worldwide, food worth $400 billion annually is wasted post-harvest during transport, storage, and consumption.[89] Gold, platinum, and other precious metals worth at least $10 billion are discarded every year as electronic waste, and this waste is growing at a rate that far exceeds the rate at which it is recycled.[90,91]

To make consumption sustainable, business and other stakeholders must decouple economic growth from the use of the earth's finite natural resources. A recent survey of 27,000 consumers in 27 markets found that the depletion of natural resources remains as important an issue as ever, and that consumers want easy to achieve, accessible ways to live sustainably.[92]

Around the world, regulators are responding with actions aimed at catalyzing sustainable consumption and a circular economy. China has announced an evolution of its waste ban to include all solid waste imports from 2021,[93] while countries like Malaysia, Vietnam, and Thailand continue respond to enormous influxes of imported plastic and other waste materials with bans of their own.[94] Meanwhile, the European Commission (EC) has published a new Circular Economy Action plan to encourage more sustainable products, improve resource use, and catalyze a transition to more circular business models.[95] The EC has also released an ambitious chemical strategy for sustainability designed to phase out of all but essential per- and polyfluoroalkyl substances (PFAS), ban the most harmful chemicals in consumer products, and boost innovation for safe and sustainable chemicals.[96] In the U.S., the Biden administration has promised to tackle longstanding issues in connection with hazardous substances in products.[97] As the impacts of major regional changes like these are felt globally, companies need to monitor emerging regulations carefully.

Businesses and other stakeholders continue to recognize the value of the earth's finite resources and take steps towards a more sustainable future. For instance, companies are supporting more sustainable consumption patterns and realizing cost savings by using resources more efficiently in manufacturing. In 2020, CDP awarded 10 businesses including Danone, HP Inc., and Firmenich a 'triple A' score to recognize their leadership on climate, forests, and water transparency and action.[98]

To push further, some businesses and other stakeholders are making pledges intended to accelerate the transition to a circular economy. In June 2020, more than 50 signatories from business, governments, NGOs, and international organizations pledged to catalyze the circular transition post pandemic.[99]

For companies, this pledge represents a commitment to providing products and services to consumers in ways that eliminate waste and benefit the environment. It makes commercial sense because reusing and recycling materials previously considered waste can lead to significant cost savings. One recent estimate calculates that the global opportunity for material savings in fast-moving consumer goods value chains alone could be as much as $700 billion per year.[100]

Many of the solutions business requires to create truly sustainable products and to support a transition to circular value chains already exist. To take just one example, a recent analysis of ocean plastic flows found that existing technologies could be used to reduce plastics reaching the ocean by 80 percent annually.[101] However, to achieve this, industry will need initiatives that are broader in focus and concentrated in countries with high rates of plastic waste reaching the world's seas. As with other circularity transition challenges, eliminating waste and supporting more sustainable consumption will require industry to step up its efforts and take targeted approaches.

To enable sustainable consumption and production, and respond to increasing momentum around shifting to circular business models, the following evolution is likely:

Companies will strengthen focus on the design for sustainability of products and services

Companies like Amazon,[102] Roche,[103] and Unilever[104] are adding sustainability standards into design processes and conducting full life cycle analyses of their products and services in response to their own improved awareness as well as greater interest from customers and other stakeholders. Some brands including Oatly and Adven are also exploring 'hand-printing,' where a life cycle approach is used to identify how the product benefits the environment, the result of which can be expressed in marketing.[105,106] Firms opting to focus more on sustainable design must balance other factors such as cost and ease of use, both of which are important to consumers.[107]

Progress on circular efforts will be spurred by adoption of new tools, frameworks, and standards

Several new circular economy measurement frameworks and metrics were launched in 2020, including the Circular Transition Indicators by the World Business Council for Sustainable Development and Circulytics from the Ellen MacArthur Foundation.[108,109] Although the plethora of definitions and methods that companies currently use to track progress towards circularity overwhelm, greater focus on verifiable data and the facilitation of accountability mechanisms will likely spur progress, and some companies are already starting to use these tools internally to assess their material flows.[110] To ensure successful circular progress, companies must have a clear vision of what the circular economy means for them, how this aligns with their business goals, and how they can seize the investment opportunities it presents.[111]

Companies will monitor and respond to an ever more complex regulatory landscape regarding product safety and sustainability

Policymakers such as the EC and the U.S.'s Environmental Protection Agency are continuing to look at new and legacy chemicals as evidence mounts linking chemicals such as the ubiquitous PFAS to cancers and other harmful health impacts, outraging consumers.[112,113] These developments, in combination with the EU's new Circular Economy Action Plan, and new bans on waste imports Asian countries are introducing, mean companies worldwide will need to track and navigate increasingly complex and fragmented regulations carefully to avoid potentially damaging financial and reputational impacts.[114]

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Shifting towards a circular economy requires corporates to turn broad objectives into reality. As a first step, companies have to come up with a definition for what 'circular' means to them – whether it's greener chemistry, improved resource recovery, a plastics recycling program, or some other concrete objective – and then ensure it makes sense with their other business and sustainability goals.

Kathleen Sellers
Technical Fellow, ERM

Applying technology to sustainability

COVID-19 reaffirmed how essential digital technology is to modern work and life, and the connections between access and equity. In the years ahead, business must tackle digital inclusion and other issues associated with technological adoption, while accelerating digital transformation.

One of the most noticeable effects of the pandemic has been a rapid increase in global adoption and dependence on digital technology. As economies shifted due to lockdowns, huge numbers of people and businesses turned to digital technology to enable them to continue working, learning, connecting with others, shopping, and more. An amazing 97 percent of business leaders say the pandemic has accelerated digital transformation in their companies, and this U.S.-focused survey from March 2020 found that 77 percent of respondents thought that interruption to their mobile or internet connectivity during the pandemic would be a very or moderately big problem.[115,116]

This rapid shift in how and where we use technology has led to changes in the way we live and work that are likely to persist long after the pandemic is under control. For instance, with many companies investing in remote working tools for their staff, and 69 percent of people surveyed saying that flexible working is one of the most important factors in choosing a job, new, remote, and flexible working routines established during the pandemic seem likely to stay.[117]

However, despite digital technology being vital to pandemic response in the workplace and beyond, it has also exacerbated existing social issues including the digital divide. In developed countries, a significant proportion of people worry about paying for services like broadband, especially those from marginalized groups and people from low-income households.[118] Globally, although 97 percent of people live within reach of a mobile signal, only half the population is online.[119] Whereas 87 percent of European households have access to the internet at home, just 18 percent of African households do.

Addressing the digital divide can enable financial inclusion, provide access to healthcare, information and education services, reduce poverty, and increase economic growth.[120] One estimate suggests that increasing the percentage of people in developing countries connected to the internet from 48 to 75 percent could add $2 trillion dollars per year to world GDP.[121] With protests and the pandemic pushing social justice up the global agenda, lawmakers, companies, and others will face increasing pressure to ensure existing social fractures are not worsened and that our ever more digital world is also ever more inclusive.[122]

Add to these dynamics rising concern amongst citizens, regulators, employees, and other stakeholders about the spread of misinformation, social media's influence on politics, and data privacy, and 2021 looks set to emerge as a year of reckoning for digital technology. With European and U.S. based regulators launching anti-trust[123] investigations into firms including Google, Facebook, and Amazon, and proposing fines[124] for technology firms should they fail to rapidly remove illegal and harmful content from their platforms, technology firms face an uphill battle to meet societal expectations and facilitate the sustainable future they often claim they are helping to build.

In response to these dynamics, the following evolution is likely:

Companies will accelerate the pace of digital transformation to improve business resilience and sustainability performance

Through 2020, companies turned increasingly to cloud-based services,[125] new software tools, artificial intelligence predictive solutions, data analysis techniques and even robotics[126] to support business continuity, COVID-19 response planning, and improved ESG information management and performance[127] across the value chain. The pandemic also highlighted the importance of timely and accurate data, analytics, and reporting to enable crisis response and promote transparency – all areas where companies will likely focus more attention in 2021 as they seek to build resilience and instill confidence amongst their stakeholders. As companies build their digital presence, they will need to mitigate cyber risks, including through behavioral change and education initiatives, which are needed to ensure that policies are understood and implemented by staff and contractors on the ground.[128,129]

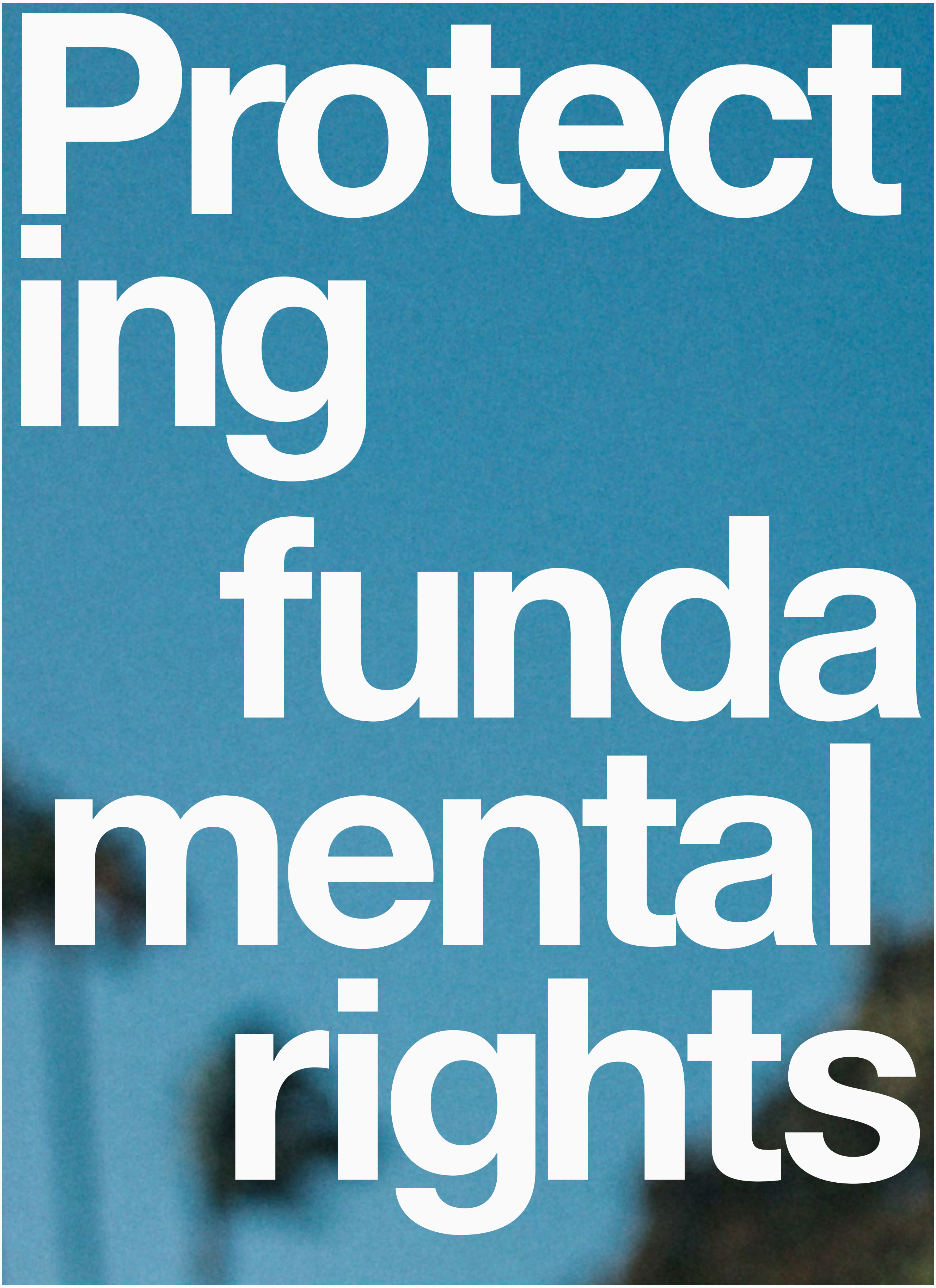
Businesses will face growing expectations to facilitate affordable access to technology and take action to ensure inclusive digital solutions

In response to the pandemic, companies such as HP,[130] KDDI,[131] and Saudi Telecom[132] provided free or low-cost online educational content and devices. In 2021, firms may find themselves pressed to continue and scale such efforts to address the digital divide and ensure affordable access to digital tools and skills for low-income groups. Pressure will also build on companies to ensure their own employees, contractors, and suppliers have access to the digital infrastructure and skills they need to continue working productively.[133]

Regulators and stakeholders will place more scrutiny on technology firms

With increasing dependence on technology has come increasing scrutiny. In 2021, technology companies will need to engage regulators and other stakeholders to understand and stay ahead of evolving expectations, especially when lawmakers threaten to hold them more accountable for their societal and environmental impacts. As a result, technology companies will need to carefully monitor and navigate emerging regulations around issues such as data collection and privacy,[134] anti-trust,[135] and e-waste.[136] To retain license to operate and maintain trust, companies will need to take time to understand stakeholder values and shape their offerings accordingly, finding ways to make technology development and implementations processes more collaborative, inclusive, and transparent.[137]

> *COVID-19 was a major disruptor accelerating the adoption of digital technologies and solutions. The ongoing pandemic impacts individuals and businesses to a degree never imagined.*
>
> **Sammy Lakshmanan**
> Global Head of Digital Services, ERM



Protecting fundamental rights

With inequality and racism in the spotlight along with ongoing scrutiny of companies' human rights records, the business world in 2021 and beyond will work to create deeper social value in local communities, go further on human rights due diligence, and ramp up responses on Diversity, Equity, and Inclusion.

While governments have the ultimate duty to protect human rights within their territory and/or jurisdiction, business also has an important role to play and has engaged the rights agenda for years now. The UN Guiding Principles on Business and Human Rights (UNGPs) explain that all businesses, irrespective of size, sector or geography, have a duty to prevent, mitigate and, where appropriate, remediate, human rights impacts.[138]

Frameworks like the United Nations Sustainable Development Goals (SDGs) have human rights at their core, listing goals relating to eliminating socioeconomic and gender inequality, eradicating poverty, ensuring quality education, and providing decent and dignified work.[139] Yet businesses do not only protect human rights because they are part of frameworks like the UNGPs and the SDGs – they do so because they realize their long-term resilience depends on a thriving society. As the latest progress report on the SDGs shows, despite advances, many human rights challenges remain, and progress in some areas, for example child labor and violence against women, has been undermined by the pandemic.[140]

A variety of mechanisms hold companies responsible for protecting and improving the lives in the communities they touch. Health and safety regulations, human rights laws, and guidelines and standards relating to the identification, assessment and management of impacts on communities all influence corporate behavior in this space. Businesses are also motivated by the realization that failure to effectively manage social issues can result in material risks like costly delays to projects and other business activities, and/or serious reputational consequences.

While the pandemic made stark businesses' reliance on healthy and thriving societies for their own long-term resilience, other events of 2020 also helped to reinforce the role that business needs to take in protecting human rights. Social movements like Black Lives Matter led companies to develop new and more ambitious goals around Diversity, Equity, and Inclusion. This included, for example, Visa Inc., which committed to increase representation of U.S. Black and Latinx executives at vice president level and higher by 50 percent in three years.[141]

In the financial world, human rights-related standards also continue to evolve. In 2020, EP4, the latest version of the Equator Principles, an environmental and social risk management standard applied by over 130 signatory financial institutions for international project financing, was released, raising the bar on its requirements for human rights assessment and consultation with indigenous communities.[142]

> *Companies are moving from evaluating not only how they contribute to impact but how they drive impact, and more businesses are looking at how they collectively contribute 'social value'.*
>
> **Sabrina Genter**
> Partner, ERM

Human rights will always be an area requiring corporate focus, but the types of human rights issues demanding attention will keep evolving. In response to the ongoing increase in focus on corporate action in support of protecting fundamental rights, the following evolution is likely:

Companies will face rising expectations on human rights assessments from lenders and they will extend assessments further into supply chains

Due to the new requirements contained in EP4 and ongoing scrutiny from a range of stakeholders, more companies will be required to undertake human rights assessments before being granted project funding. The lead up to 2030 will see the stakes continue to rise around human rights given initiatives like the UNGPs10+ project, which aims to increase application of the UNGPs between now and the end of the decade.[143] In response to growing expectations and rising standards, more companies will consider how to apply their leverage to influence human rights good practice across their supply and value chains, and many will follow through on lessons such as those learned from Boohoo's failing to provide fair working conditions throughout its supply chain.[144]

Effort will shift from maintaining license to operate to actively building trust and creating social value within communities

Many companies have long referred to a need to create and maintain a social license to operate, which is defined as "the ongoing acceptance of a company or industry's standard business practices and operating procedures by its employees, stakeholders, and the general public."[145] In the coming years, more companies will take actions like BHP, who are actively rethinking how they approach and frame their interactions with surrounding communities.[146] BHP describe their approach as shifting "from license to value," which is achieved by moving from focusing on obtaining permits and approvals towards "tolerance and acceptance to trust and partnership," a place where their plans take into account new ways that value can be created which benefit both the company and the communities.[147]

Companies will reassess, and expand, their Diversity, Equity, and Inclusion (DE&I) programs and practices

In today's increasingly uncertain, evolving and, still highly inequitable world, DE&I continues to rise up corporate agendas. This shift reflects more awareness and expectations from an increasingly vocal range of stakeholders. The business case for DE&I is compelling. Notable institutions report connections between robust DE&I performance and social and economic gains for business.[148] Others demonstrate how diverse, inclusive, and equitable workforces also enable business growth and innovation, and/or demonstrate how companies with a poor DE&I performance record have been shown to be less likely to exceed profitability targets.[149,150] But DE&I challenges are complex and highly interconnected. As a result, in future years, more organizations will need to change their approach to managing DE&I. In particular, they will increasingly seek out new, intentional, systems-based DE&I strategies that support an organization's growth, innovation, and value-creation goals.

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More firms than ever have invested in DE&I initiatives, yet many still struggle to sustain change and generate measurable improvements. Companies are now recognizing that viewing DE&I as a one-time initiative - or taking a piecemeal approach - will fail to produce or sustain meaningful benefits.

Judy Analco
Consulting Director, ERM

Shaping policy, regulations and norms

In 2020, we saw humanity's delicate interdependences severely tested, then were reminded what we can achieve working together. As we enter 2021, some are calling for a new globalism.[151] This new mind-set challenges business to be bolder, more transparent, and more collaborative, and to use its leverage to shape policy, regulations, and norms in support of long-term sustainability challenges.

Business has a crucial role to play in shaping policy, regulatory frameworks, and norms. Directly, businesses can use their leverage to support and encourage sustainably minded action from policymakers. Corporations can also influence progress indirectly by showing what is possible, for example by establishing high voluntary targets, and by sharing their knowledge and experience with others seeking to up their ambition.

In engaging governments and peers in these ways, leading companies can shape norms and rules that favor more sustainable outcomes by 'pushing the ceiling' at the same time as 'raising the floor.'

Many examples of companies amplifying their voice on political and other issues were highly visible in 2020 and early 2021. In February 2020, over 1,000 companies publicly backed a statement in support of the Task Force on Climate-related Financial Disclosures (TCFD).[152] In another notable case, over 1,000 CEOs put their name to the United Nations Global Compact Statement from Business Leaders for Renewed Global Cooperation, promising common commitments around global cooperation and calling on government to also play its part in achieving SDG 16 on peace, justice, and strong institutions.[153] With the U.S. rejoining the Paris Agreement, 47 companies recently came together to submit a letter calling for President Biden and the new Congress to work together on bipartisan climate solutions.[154]

Companies also became more vocal on issues relating to racism and discrimination as they processed and responded to the Black Lives Matter movement. And many businesses responded forcefully in the wake of major political events like the January 06, 2021 events at the U.S. Capitol, speaking out publicly to condemn the violence and in support of the democratic process.[155]

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Businesses must share data and information in order to help shape policies and regulations that will be practical and achievable.

Stefanos Fotiou
Director, Environment and Development Division, UN Economic and Social Commission for Asia and the Pacific

In response to increasing focus on the corporate role in shaping policy, regulations, and norms, the following evolution is likely:

Corporate climate advocacy will grow louder and be more consistent

COP26 is likely to attract greater corporate interest and involvement than any COP previously. In the buildup to COP26, we expect companies will raise their voice in climate advocacy and that this will include backing for policies that remove fossil fuel subsidies and support carbon pricing.[156] Corporations are responding to rising expectations by joining alliances like Race to Zero, which aims to send a message in the lead up to COP26 that business, cities, regions, and investors are united behind efforts to meet the Paris goals.[157] In 2020, we saw growing investor and societal scrutiny focus on the apparent hypocrisy of companies declaring net zero goals publicly while still advocating for climate damaging regulation.[158] Companies will have to work harder to prove their climate-related actions are consistent. One type of response that will become more common as a consistency check is for businesses to audit whether the positions taken by their trade associations align with their own climate stance.

Companies will increasingly seek systemic policy, regulatory, and normative change through partnerships

Corporations have recognized for decades that addressing systemic issues that impact business success requires collective action. In recent years, even competitors like Unilever and Nestlé have come to find collaborative advocacy increasingly effective and something they use more and more often. For example, Nestlé lists more than two dozen key partnerships on its website across its strategic pillars, including the Consumer Goods Forum, the Responsible Labor Initiative, and the 2030 Water Resources Group, and the company emphasizes the importance of "joint action to achieve sustainable results."[159] Leading frameworks like the World Business Council for Sustainable Development (WBCSD)'s industry-specific SDG Roadmaps have also helped accelerate corporate action by providing a way for companies in a sector to come together to review where they can make the most impact on the SDGs and map out an action plan to inspire the whole industry.[160] Organizations will collaborate on a widening range of topics in the coming years, perhaps particularly in the near term on human rights and equity issues, several examples of which are featured in recent research from the SustainAbility Institute by ERM on the power of collaboration. This will be true within sectors, across sectors, and in multi-sector partnerships including NGOs, government, and consumers.[161]

Business will continue to aim to reshape societal norms around Diversity, Equity, and Inclusion

Companies such as Target,[162] JPMorgan Chase,[163] and Coca-Cola[164] have made bold statements to proclaim their solidarity with issues raised during the Black Lives Matter protests that swept through the world in 2020, and many other businesses will be taking new approaches to their Diversity, Equity, and Inclusion policies and management (as we explain in our section on Protecting Fundamental Rights). The corporate world, through the powerful voice and influence they convey, can also play an important role in influencing broader social norms on topics and attitudes on issues like these. Through brand advocacy campaigns with strong social messages, organizations like Starbucks,[165] L'Oréal,[166] and P&G[167] are influencing social norms on key issues. In 2021 and the years that follow, we expect to see more companies leveraging mainstream advertising campaigns to shape attitudes around inequality, racial justice, diversity, and inclusion, in addition to backing this up through amending their own internal policies.

> *When it comes to policy and regulations accelerating environmental transformation, the European Union is a global leader, adopting and implementing the Green Deal strategy, which is designed to ensure the EU can meet its 2030 and 2050 sustainability goals. For the corporate sector, this means much more than compliance. The growing focus is on developing strategic sustainability solutions to exceed policy and market demand.*

Linda-Jean Cockroft
Partner, ERM

Moving towards stake holder capital ism

Stakeholder capitalism had significant momentum before 2020, and now the pandemic, racial justice protests, and the need to rebuild the global economy together guarantee that companies will invest even more in ensuring they meet the needs of their diverse stakeholders, especially customers, employees, suppliers, communities, and shareholders.

Stakeholder capitalism was born in 1973 when the first Davos Manifesto encouraged corporation managers to "create long-term value by engaging all stakeholders to address important societal priorities."[168] The concept is still in play decades later, recently gaining more traction. Last year, the 2020 Davos Manifesto declared "the purpose of a company is to engage all its stakeholders in shared and sustained value creation. In creating such value, a company serves not only its shareholders, but all its stakeholders – employees, customers, suppliers, local communities, and society at large."[169]

Signs indicate that stakeholder capitalism principles are being explored in earnest by both political and corporate leaders. For example, Jacinda Ardern, on taking office as New Zealand's Prime Minister in 2017, referred to capitalism as a "blatant failure," suggesting that measurement of economic success must value more than just GDP and consider how to measure whether people have a "meaningful life."[170] One important aspect of discussion about stakeholder capitalism has been around what constitutes fair corporate tax and tax distribution. An OECD/G20-led effort to end tax avoidance strategies involving 130 countries is expected to result in an agreement in mid-2021, providing another signal that the world's business leaders are willing to rethink the status quo.[171]

Other aspects of stakeholder capitalism are becoming more mainstream as corporates recognize that many existing business models must change to allow more sustainable options to be established. More companies are openly declaring stances on societal issues ranging from climate change to inequality, building these positions into their vision of who they are as a company and how they do business. For example, Unilever recently announced that everyone who directly provides goods and services to the firm will earn at least a living wage or income by 2030; the company also communicated a host of new commitments around diversity, equity and inclusion.[172] The growing uptake of environmental, social, and governance (ESG) (explored further in our section on Integrating ESG above), offers further indication that companies and investors recognize the value of businesses understanding and addressing their material sustainability issues, which are increasingly recognized as complementary if not synonymous to the growing range of ESG topics.

Though we appear to have reached a point where stakeholder capitalism has some sustained momentum, it is crucial that companies are held to account for their statements in support of it and whether they to "walk the talk."[173] One area where this is already being tested is around COVID-19 vaccine access. With widespread acknowledgement that a resilient economy needs a healthy population, there will be a sharp debate ahead on how to provide COVID-19 vaccinations as well as diagnostics and therapeutics globally. The debate will also cover who should bear the cost. While governments will lead this discussion, its resolution will be critical to the private sector and demand business involvement as well.

In 2021, we will see more pressure on companies to disclose on forward-looking, impact-related measures.

Linden Edgell
Partner and Global Sustainability Programme Director, ERM

In response to ongoing focus on stakeholder capitalism principles, the following evolution is likely:

More companies will rethink their business models in response to societal and market pressures

Some companies are radically changing the very essence of their business models. Companies like Engie and Equinor are reinventing themselves to respond to pressures emerging during the transition to the low carbon economy and to address changing expectations from society.[174,175] ArcellorMittal's commitment to carbon neutral steel manufacturing by 2050, and Syngenta's focus on sustainable agriculture, provide further examples of companies considering radical new approaches to running their businesses and making products.[176,177] We also see a rise in the number of companies espousing inclusive business models that aim to provide services to those in the lowest socioeconomic groups.[178] Through 2021, we expect to see more companies considering how they can fundamentally remake business models to better respond to the widest possible range of stakeholder needs.

Companies will apply new metrics and measurement systems to assess their societal impact

Investors and other stakeholders, including groups ranging from the Capitals Coalition and the Sustainability Accounting Standards Board, to the Impact Management Project, are seeking more consistent, forward-looking, and meaningful measures of corporate performance and impact. All of these will require new types of information from companies. Organizations like the World Benchmarking Alliance are acting to fill this gap by developing a set of core social expectations against which business performance can be scored. Still others like JUST Capital are seeking to hold companies to account in delivering on stakeholder capitalism principles through polls and data sharing and by ranking companies.[179] These developments, along with a rise in companies becoming B Corp certified, all reinforce a shift towards companies being able to better articulate and quantify impacts in stakeholder capitalism terms. Next year and the years that follow will likely see the rapid emergence of new metrics and new reporting tools in this arena.

Companies will help provide equal and fair access to COVID-19 vaccination

If businesses are to walk the talk on stakeholder capitalism, they will be expected to contribute to ensuring equality of vaccine access over the coming months and years. Although vaccines are already being distributed across multiple countries, the distribution and logistics process is riddled with challenges.[180] Experience shows that low- and middle-income countries tend to wait longer than wealthier nations to get access to vaccines and other vital health products, which can worsen inequity between regions. Within countries, uneven access to vaccines can mean that minorities, women, migrants, and other marginalized communities face longer waits and poorer health outcomes.[181] There are already instances of companies stepping up to provide donations to support both vaccine development and distribution, for example corporate donations to support CEPI's coronavirus vaccine development, manufacturing, and fair allocation efforts.[182] Companies have also made commitments to fund access to future COVID-19 vaccines, using financing instruments such as Gavi COVAX AMC, which incentivizes vaccine manufacturers to make early at-risk investments in manufacturing capacity.[183]

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We need more well-run companies, making better decisions, delivering the necessary product, service, and business model innovations that contribute to a flourishing, sustainable society.

Filippo Veglio
Managing Director & Senior Management Team, World Business Council for Sustainable Development

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