Sustainable Business Went Mainstream in 2021

Juan Moyano/Stocksy

How do you know when something becomes the norm? Trends in corporate sustainability have been mostly consistent — an expanding climate crisis, lightning-speed growth in clean tech, rising pressure from many stakeholders, and more. But I generally felt a sense of, "these trends are growing and will be dominant... someday." In the past year, however, "someday" seems to have finally become "today" — and there is no going back.

The discussion around what most now call "ESG" (environmental, social, and governance) has become far more common than I've ever seen in my 20 years in the field. It's now ubiquitous, and some data backs that up. Virtually all of the world's largest companies now issue a sustainability report and set goals; more than 2,000 companies have set a science-based carbon target; and about one-third of Europe's largest public companies have pledged to reach net zero by 2050. On the social side of the agenda, companies have been expanding diversity and inclusion efforts, committing funds to fight racial inequity, and speaking out on societal issues they used to avoid.

None of this equates with actual action to reduce emissions or tackle inequality, but it's clearly not fringe anymore (which fossil fuel giant ExxonMobil found out when activist investors forced it to take on sustainability-friendly board members). To me, we've reached the end of the beginning. No business leaders seriously doubt that sustainability should be on the agenda, and companies are moving from incremental improvements to bolder, systemic approaches that create a net positive impact on the world.

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So what happened this year that built such momentum? It's hard to summarize a complicated, volatile time period.

I've left out some large stories, because it's unclear if they're blips or part of a larger more permanent shift toward sustainability. For example, is global inflation a reflection of a long-term resource constraint — a mega-trend that's driving efficiency and forcing an exploration of circular and regenerative business models — or is it just a hangover from the warped buying patterns of the Covid years?

I've tried here to touch on big themes and stories from 2021 that seem more lasting, and offer some thoughts on what to look out for in 2022. Here we go.

The Big Stories of 2021

Business defends democracy.

On January 6, insurrectionists stormed the U.S. Capitol, supported by many in Congress. Starting on January 7, many companies pulled their donations from all politicians, or just the ones who voted to overturn the election of 2020. I never would have imagined companies picking sides — they want influence in both parties. But the threat to democracy was real, so American Express, Marriott, Dow, and dozens more took a stand. A few months later, corporate giants also spoke out against state laws meant to restrict voting.

This is an important story if only for how far it expands the role of business in society. But what's happened since is unclear. Reports vary on the percentage of those companies that re-started donations to insurrectionists (some say only 23% have kept the policy). Either way, the attack on democracy is not over, so companies will face serious choices again.

Global climate meeting falls short.

The COP26 meeting in Glasgow ended the same as every COP: there was clearly progress in what countries committed to, but given the scale of a crisis that the UN Secretary General called "code red for humanity," it was woefully inadequate. If all countries hit their targets, we *may* hold warming to 1.8°C. That's much better than where we were headed before the conference, but still above the 1.5°C that will helps us avoid much worse outcomes. And these are still just commitments, with no enforcement mechanism. The bottom line is that emissions are still rising.

The gap between science and policy is an opportunity, and a responsibility, for business to take a bigger role. Corporate ambition levels did rise dramatically this year, with rapidly proliferating net zero goals. Innovative goals included PepsiCo aiming for enough regenerative farming to offset its whole agricultural footprint, or mining company Fortescue talking about net zero for its heavy industry customers. Maersk even advocated for a $150 per ton carbon tax on shipping fuel. All good, but a tremendous amount of work remains to make these targets a reality.

Sustainable finance and ESG explode into the mainstream.

The acronym “ESG” took over in the sustainability world, mostly because it’s more of a financial sector term and banks are, finally, serious. Anecdotally, I’ve talked to many sustainability executives who once rarely met with investors, but are now going to dozens of meetings a year. The investors are asking. For the 5th straight January, the year kicked off with Larry Fink’s letter to corporate CEOs and investors in his company, Blackrock, the largest asset manager in the world. His letter included this gem: “There is no company whose business model won’t be profoundly affected by the transition to a net zero economy…companies not quickly preparing themselves will see their businesses and valuations suffer.”

The message is that managing climate and other ESG issues is core to business value. Many banks agreed: JPMorgan Chase, Citi, Morgan Stanley, and Bank of America (to name a few) committed from $1 trillion to $2.5 trillion to invest in climate action (clean technologies) and sustainable development (e.g., affordable housing and efforts to improve racial equity). For context, I worked with Bank of America in 2008 on the first commitment of this kind — it was for $25 *billion*. Trillions is serious, mainstream money. And at the COP26 meeting in November, a new group representing $130 trillion in assets (that's a lot — well above global annual GDP) formed the Glasgow Financial Alliance for Net Zero, co-chaired by Michael Bloomberg and former Bank of England head Mark Carney.

Supply chains: The carrot, the stick, and the dumpster fire.

Let's start with the dumpster fire: global supply chain flows. The dramatic shift in the flow of goods from distribution to businesses to at-home buying has not worked itself out yet. But it's not just about manufacturing and shipping. We're also seeing shortages in truck drivers still willing to do the job at current pay and conditions. Some pushback from people seeking more meaning or higher-paid work in jobs where wages have been stagnant for decades is a sign of inequality hitting a breaking point.

But the mess hasn't stopped companies from making supply chains more sustainable, especially as "scope 3" emissions (those from your value chain) have become more of a focus. Companies are demanding more information, setting higher standards, and pushing suppliers to, for example, place climate and human rights demands on *their* suppliers. Some use the stick: Salesforce "asked" its suppliers to set science-based targets and help Salesforce be more sustainable, or risk paying a fine. Others try the carrot: Tesco and Santander teamed up to offer Tesco suppliers preferential financing rates for improving their businesses, but only for those making progress on sustainability goals.

Auto industry goes all-in on electric vehicles.

There are many indications of the blistering pace of the shift to the clean economy, including ever-cheaper renewable energy dominating all-new electric capacity. But nothing seemed as dramatic this year as what's going on in the auto industry. It's been building for a few years, but now major automakers and dozens of countries say that they'll stop selling gasoline cars in the next 15 to 20 years. Ford, in just one example, announced it would invest billions to build four large battery and EV plants in the U.S. With this pace of investment, it seems there's no turning back and EVs are the future. To put a final point on it, Tesla's Elon Musk was named *Time* magazine's Person of the Year.

Tech industry does its best Jekyll and Hyde.

Tech giants can be major advocates for sustainability. Some like Salesforce try to help with the housing crisis and homelessness in their home cities, and others continue their aggressive push on climate action. Microsoft and Google are working toward 24/7 renewable energy (only green electrons, full time) and investing in carbon sequestration. Google also offered new tools to "help one billion people make more sustainable choices," like showing users which flights they searched for have the lowest footprint. The search giant also started to tackle our biggest problem, misinformation, by stopping ads with climate misinformation and eliminating YouTube videos that promote lies about vaccines.

This is all great work. And yet, Meta's largest brand, Facebook, continues to be the hub of global misinformation. A brave whistleblower exposed how much the company knows about the negative impacts it has, from fomenting anger and mistrust globally, to making body image issues for girls worse (through Instagram). The Hyde side of climate leaders like Microsoft and Google popped out when they stayed quiet as the U.S. Chamber of Commerce tried to kill a budget bill in the U.S. with the most spending on climate investment in history. These are real disconnects and can't last.

I could add many more stories, but let's turn our gaze forward now.

What to Look for in 2022

There are some other trends that were more promise than reality in 2021, but could gain steam in the year ahead.

A loud, growing youth voice.

At the climate summit in Glasgow, while the Boomer and Gen X leaders stumbled toward moderate improvement in climate goals, Swedish climate leader Greta Thunberg led youth groups in chants of “blah, blah, blah.” Young Millennials and the Gen Z-ers that are entering the workforce today are speaking out. This includes more than 1,000 McKinsey consultants who wrote an open letter to their bosses calling the firm out for working with fossil fuel companies and other clients that could “alter the earth irrevocably.” (It’s a safe bet the consultants are millennials and Gen Z as 80% of McKinsey employees are under 40). The talent war is real, and engaged workers looking for values — especially the younger ones that make up 50% or more of the workforce — have the power. Expect them to use it.

An ESG tug-of-war, with both acceleration and backlash.

The rush of money into ESG will continue. Much of the pressure is coming from, again, younger people — members of wealthy families asking for more focus on impact investing. But we’re starting to see pushback on what ESG even means. A former Blackrock exec published an essay saying that ESG was “a dangerous placebo.” The concern he raises is legitimate — does putting money in funds labeled “ESG” really tackle issues like climate and inequality? It’s unclear, and the world of ESG is undefined. Companies providing ESG metrics are growing and evolving, but it’s early days. We need patience as a lot of kinks are worked out. Remember, the three major financial statements that we take for granted took centuries to evolve.

More standards and regulations.

To help manage the ESG anarchy, regulators and watchdogs will continue to develop standards for companies to follow. The IFRS foundation, the body that sets international financial reporting standards, announced the formation of the International Sustainability Standards Board (ISSB) to develop disclosure standards. There will be an increasing harmonization of how companies report on their impacts and assess the environmental and social issues that are material to their businesses. It's wonky, but standards make the world go 'round.

Continued expansion of business's role in society.

In the last couple of years, business and NGO leaders have felt the need to make statements and take action on everything from LGBTQ rights to racial equity to democracy. With a fundamental gap in government's ability to solve our biggest problems, we will see companies facing even higher expectations from their customers, communities, investors, and employees. Issues that have long been avoided such as taxes, CEO pay, and corruption — some of the "elephants in the room" that my co-author, Paul Polman, and I talk about in our book *Net Positive* — will hit boardrooms and C-suites.

This year, for example, the G-7 nations signed a pact to set a minimum tax for corporations. There's more like this to come.

Revisiting issues that got lost.

While the broader sustainability agenda did not slow down during the pandemic, some issues took a back seat. Concern about plastics and packaging, for example, was a huge issue in 2019. But then we needed disposable medical equipment and we increased shipping to homes, so it was hard to make progress. But stakeholders didn't forget. At DuPont, a shareholder resolution asking the company to track plastic pollution better got 81% support. Plastics, human rights, and other issues remain, and companies will need to focus on them again.

More partnerships to solve big challenges.

In 2021, the number of partnerships created to tackle the biggest environmental and social issues seemed to accelerate. For example, six big banks came together to work on decarbonizing the steel industry, and a range of companies with big fleets partnered to call for federal standards on EV charging and payments. It's early days for most of these collaborations, but we should have achievements to point to by next December.

I'm sure I missed many stories that were interesting or exciting to you. I've posted a longer list of dozens of news items or announcements that I saved during the year, including the ones above. Check it out here, and happy New Year!