HELPING COMPANIES NAVIGATE AND LEAD ON THE YEAR'S MOST NOTABLE SOCIAL AND ENVIRONMENTAL ADVOCACY TRENDS

FUTURE 500'S

FORCE FOR GOOD FORECAST

— 2021 EDITION —

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FUTURE 500 IS A NON-PROFIT CONSULTANCY THAT BUILDS TRUST BETWEEN COMPANIES, ADVOCATES, INVESTORS AND PHILANTHROPISTS TO ADVANCE BUSINESS AS A FORCE FOR GOOD.

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"The multiple upheavals of 2020 have redefined business leadership."

INTRODUCTION

Welcome to the 10th edition of our **Force for Good Forecast**. We produce this report annually to highlight what we anticipate will be the most important emerging trends in sustainability and stakeholder engagement to affect companies in the year ahead. As always, we hope our insights will help you engage your stakeholders to minimize risk, head off potential conflict with your employees, investors, and critics, and find opportunities to lead your sector and differentiate from your competitors.

The multiple upheavals of 2020 have redefined business leadership. Stakeholders are demanding corporate action that many CEOs couldn't have imagined even a year ago. Over the past several years, we've witnessed ESG issues become increasingly overlapping. But when our team huddled this year to analyze shifting tactics and emerging priorities among advocates and funders in our network, we noted just how interconnected historically disparate issues and movements are becoming. You'll see this reflected in the cross-cutting advice we offer in this year's report.

This new paradigm will continue to create unprecedented challenges for corporate sustainability, stakeholder engagement, investor relations, and government affairs departments.

We see the Forecast as an extension of our core mission to build trust between unusual allies—think executives, activists, investors, and philanthropists—to advance business as a force for good. In a year when that mission has never been more crucial, I'm consistently impressed by our team's work, and proud to mark the 10th edition of the Force for Good Forecast in Future 500's 25th year of existence!

Stay safe, healthy, and sanitized out there! Thank you to you—our stakeholders—for your ongoing feedback and support of our mission.

Erik Wohlgemuth
Chief Operating Officer
Future 500

RESOURCES SHIFT TO RACIAL JUSTICE

A rising group of activists are gaining influence, attracting funding, and changing the environmental movement's expectations.

Few organizations were exempt from 2020's reckoning around systemic racism prompted by the murders of George Floyd, Breonna Taylor, and too many others. As companies scrambled to express their commitment to racial justice, predominantly white-led NGOs and foundations also took a hard look in the mirror and asked how they could be better allies.

The result? Foundations and NGOs alike are shifting resources—think funding, attention, time, and power—to BIPOC (Black, Indigenous, and people of color)-led initiatives. This shakeup will lead to new voices leading the charge on corporate campaigns. BIPOC-led initiatives will have markedly different asks than many environmental groups that have often received the bulk of foundation money.

Fenceline communities, for example, will likely receive a boost in funds and influence. They'll look well beyond corporate Diversity, Equity, and Inclusion (DEI) measures and instead emphasize a range of issues, such as industry impacts on human health and local ecosystems, and corporate support for voting rights and criminal justice, to name a few.

Expect more grassroots organizing tactics—and better-resourced campaigns—asking companies to address equity in the communities where they operate.

But pressure is also coming from Wall Street. Investors are demanding more transparency on corporate DEI metrics, as well as on how companies are proactively engaging their stakeholders on racial justice. On both fronts, the wider advocacy community will scrutinize whether companies are walking the talk.

INDICATORS

- Guided by a brain trust of eight women of color, the newly formed Democracy Frontlines Fund will direct $36 million over three years to 10 Black-led movements.
- Through their ambitious Blueprint plan, the Groundswell Fund plans to funnel $100 million from large and small donors to organizations run by women and trans people of color.
- Shareholder advocate As You Sow benchmarked S&P 500 companies on their statements and public disclosures related to racial justice and workplace DEI following last summers' protests.

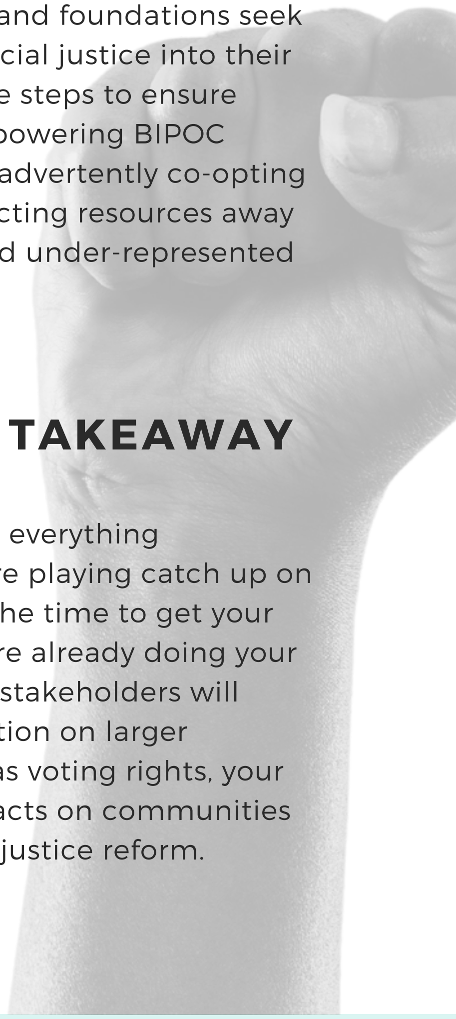
- In a bid to create a more equitable funding landscape, peer-to-peer initiatives such as the Trust-Based Philanthropy Project are equipping grantmakers to give their grantees more power and control. More foundations are exploring the model and re-examining their approach to giving.
- The spotlight on equity has already had ripple effects at a national scale, exemplified by Biden's creation of an interagency council on environmental justice and his directive to earmark 40% of federal sustainability investments for disadvantaged communities. [1]
- Campaigners in our network have told us they intend to prioritize BIPOC-led initiatives and partnerships in the coming year.
- From asset managers such as BlackRock and State Street to institutional investors like the newly formed Diversity Disclosure Initiative coalition, investors are pushing for more board diversity. [2]
- In December, NASDAQ filed a proposal with the Securities and Exchange Commission that would require companies to "have, or explain why they do not have, at least two diverse directors." [3]

NGO TAKEAWAY

Be cautious of "movement capture." As environmental NGOs and foundations seek to further integrate racial justice into their work, they should take steps to ensure they're genuinely empowering BIPOC leaders rather than inadvertently co-opting their concerns or directing resources away from marginalized and under-represented communities.

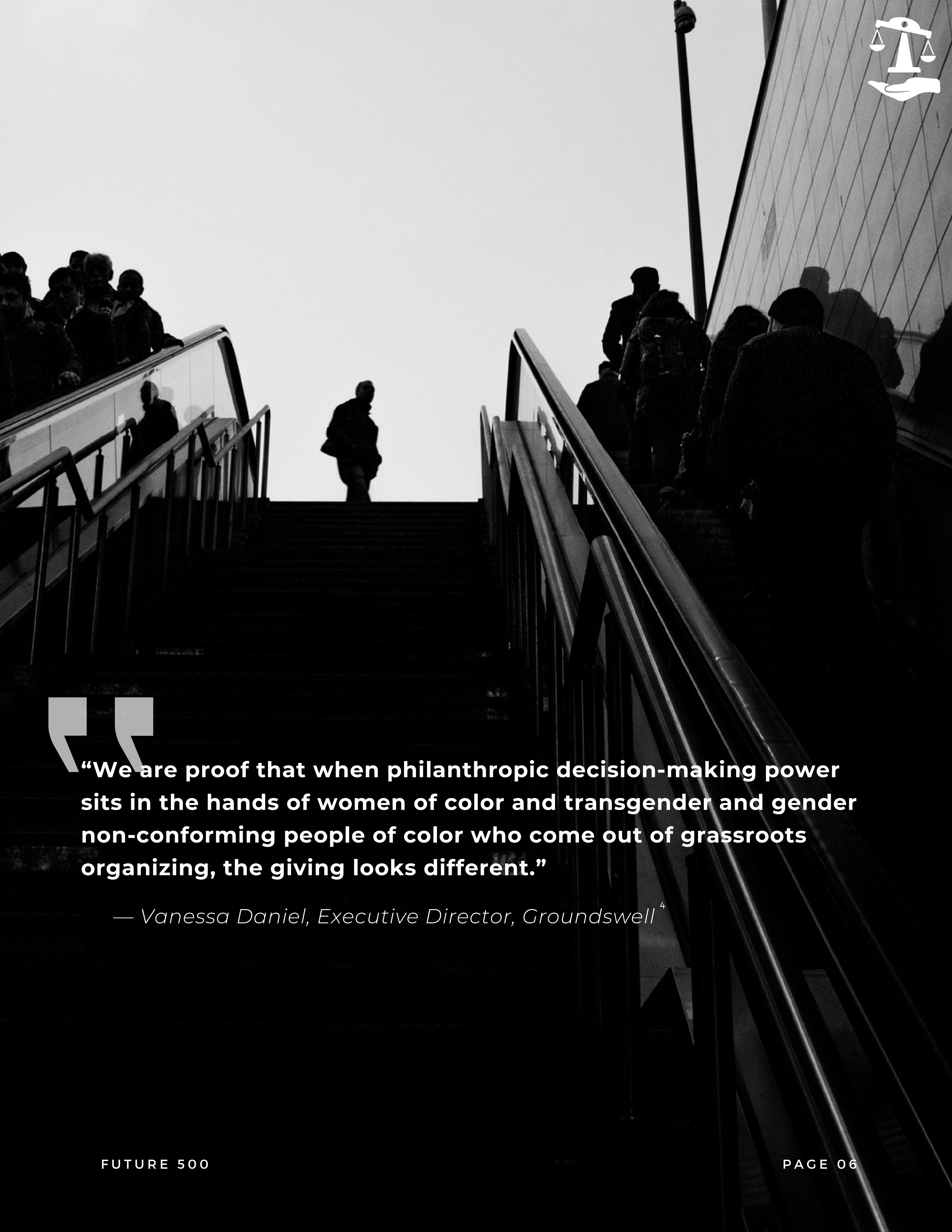
CORPORATE TAKEAWAY

This trend will impact everything companies do. If you're playing catch up on the DEI front, now is the time to get your house in order. If you're already doing your homework internally, stakeholders will expect you to take action on larger systemic issues such as voting rights, your industry's health impacts on communities of color, and criminal justice reform.



THE BOTTOM LINE

As communities of color benefit from more resources, expect increasing emphasis on the "S" in ESG. Does that mean environmental initiatives will be overlooked? Not at all. Instead, advocates, activists, and progressive companies will integrate social issues such as voting rights, access to education and healthcare, and income inequality into a new paradigm of intersectional climate and environmental strategies.



“We are proof that when philanthropic decision-making power sits in the hands of women of color and transgender and gender non-conforming people of color who come out of grassroots organizing, the giving looks different.”

— Vanessa Daniel, Executive Director, Groundswell[4]

SHOULD YOU PUBLISH YOUR EEO-1 REPORT?

Releasing this data is one of the clearest and most actionable asks from stakeholders.

If you're a U.S.-based company with 100+ employees, you already collect Equal Employment Opportunity (EEO-1) data on your employees' race, ethnicity, and gender. We expect that publishing EEO-1 forms will quickly become table stakes. No matter what story your report tells, here's why you should consider taking the leap.

FIRMS ARE RELEASING IT

2x

The percentage of Russell 1000 companies that disclosed their EEO-1 data more than doubled since 2019.[5]

18

The number of additional Russell 1000 companies that released EEO-1 data between September 2020 and January 2021[6] alone.[7]

60

The number of S&P 100 companies that have released, or committed to release, their EEO-1 report in 2021.[7]

ADVOCATES PRIORITIZE IT

Transparency goes a long way with advocates, who value EEO-1 data in particular because it's intersectional and standardized. Other disclosures include race, ethnicity, and gender, but rarely simultaneously. EEO-1 data allows advocates to analyze a company's performance on a more granular level, such as the number of Black women in management positions. Meanwhile, data standardization creates a level playing field for advocates assessing information across companies and industries.

SHAREHOLDER ADVOCATES WANT TO SEE IT

At 20%, "release of EEO-1 form" is the highest weighted indicator in As You Sow's Workplace Equity Disclosure Scorecard.

"We're asking companies that issued statements in support of racial justice to walk the walk and publicly disclose the demographics of their employees by race, gender, and ethnicity – including in their leadership and senior management."

— *Scott Stringer, New York City Comptroller*[8]

THE RENEWED URGENCY FOR BIODIVERSITY

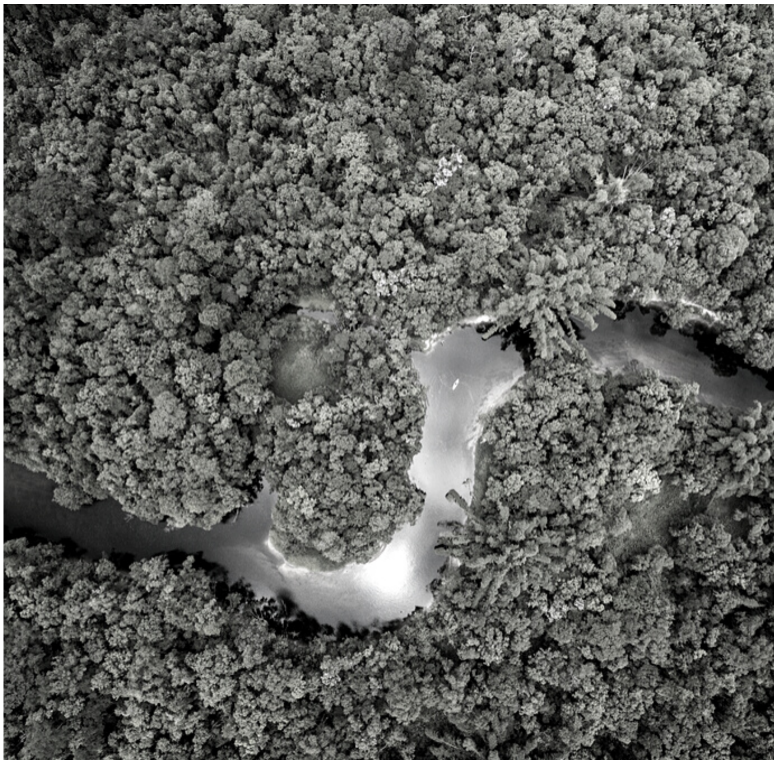
Companies and governments have repeatedly fallen short on protecting flora and fauna. Will this time be different?

For decades, biodiversity has played second fiddle to climate concerns. That may be about to change. Advocates and corporate sustainability initiatives alike are elevating landscape-level nature-based climate solutions—and pointing out the interdependence between stable ecosystems and a stable climate.

But the push to prioritize biodiversity isn't just about restoring carbon cycles. The COVID-19 pandemic has underscored the human health and economic risk of biodiversity loss. Advocates and academics have pointed out that ecosystem disruption related to land use, agricultural expansion, deforestation, thawing permafrost, and wildlife trade increases contact between humans, livestock, and wildlife—and the pathogens they might carry—potentially leading to more frequent and more severe pandemics.[1]

A 2020 report from the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services warned that escaping the "era of pandemics" will require a transformative shift towards preventing biodiversity loss. The same report suggested that the cost of preventing future pandemics is 100 times less than the cost of responding to them, providing an economic case for risk reduction.[2] But last year also marked the second consecutive decade that the international community flunked on its conservation goals, going zero for 20 on their Aichi Biodiversity Targets.[3]

The pandemic, the climate crisis, and the threat of human-driven mass extinction have created a renewed sense of urgency. Civil society has long been sounding the alarm. But governments, investors, and leading companies are beginning to see the financial, reputational, and existential risks more clearly—and many are poised to act. In the next year, anticipate more corporate action and intensifying stakeholder scrutiny of how companies protect—or harm—the natural world.



INDICATORS

- The UN Convention on Biological Diversity (CBD) will reconvene this year with the aim to "do for biodiversity what Paris did for climate change in 2015," according to UN General Assembly President Volkan Bozkir.[4] Fifty countries have already agreed to their proposal to protect 30% of the world's oceans and lands by 2030.[5] The plan, known as 30x30, formed the basis of an executive order made by president Biden earlier this year.

- With an estimated 80% of the world's biodiversity protected by Indigenous groups, efforts are growing to empower Indigenous communities to steward their traditional territories.[6] For example, Campaign for Nature, a global coalition of more than 100 conservation organizations, asserts that advancing Indigenous land rights is "an effective, moral, and affordable solution" for protecting both biodiversity and human rights.

- Backed by the World Wildlife Fund, CDP, and The Nature Conservancy, among others, the Science Based Targets Network aims to develop a science-based target for nature by 2022. In September, it released its Initial Guidance for Business for public consultation, which includes immediate steps companies can take.

- "The Economics of Biodiversity," a recent report from British-Indian economist Sir Partha Sarathi Dasgupta, found that rapid loss in natural capital exposes companies and financial Institutions to risks related to "bank loans, equities, sovereign and corporate bonds, commodities, and real estate."[7]

- Almost 50 financial institutions and multinational companies have teamed up with governments, NGOs, and the UN to form a Task Force on Nature-related Financial Disclosures (TNFD), which will begin to develop a reporting framework later this year.

- Through the Finance for Biodiversity Pledge, a collective of 37 financial institutions have committed to engage with companies and integrate biodiversity criteria into signatories' ESG policies.

THE BOTTOM LINE

If 2020 was billed as biodiversity's year in the spotlight, the pandemic only raised the stakes. Seeing the mounting risks, stakeholders are looking to companies to take measurable and meaningful action. Corporate leaders have the opportunity to create synergy between their climate strategies and biodiversity initiatives that could set them up to lead on the world's next "wicked problem." But beware: the push for electrification—and the resources that underpin it—will open up new biodiversity tensions that companies should begin anticipating now.

"The CBD represents one of our last, best opportunities to halt biodiversity loss and put nature on a path to recovery."

—Senior Leaders of NRDC[8]

WILL CHEMICAL RECYCLING GET CANCELLED?

Industry is banking on it to close the loop, but activists aren't buying the hype. Can a solution be reached before the technology is thrown to the curb?

The circular economy has captured sustainability leaders' imaginations. Brands from Nestlé to McDonald's—and upstream companies like Dow and Eastman—have ramped up bold ambitions on waste. Their success may increasingly rely on one technology in particular: chemical recycling, also called advanced recycling. Projects test driving and commercializing the technology have cropped up across the U.S., Asia, and Europe.

But that very technology is in the crosshairs of increasingly well-resourced activists. They see it as a "false solution" that is energy intensive, polluting, unproven, and incapable of making a dent in the projected growth of plastic waste.[1] Plus, environmental justice activists—both in the U.S. and globally—contend that the technology disproportionately impacts low-income communities of color that often live near industrial recycling facilities.

These activists and their funders see chemical recycling as a distraction from what's needed first: to stop creating so-called problematic plastics. For that reason, they may push brands to disavow repolymerization in their plastic waste strategies.

And while the European Commission has pledged to support projects "exploring the potential of chemical recycling," advocates here at home increasingly have the ear of lawmakers, as symbolized by the Break Free From Plastic Pollution Act.[2]

Meanwhile, some consumers are growing skeptical of the very concept of recycling, as activists and funders seek to emphasize source reduction.[3] Can proponents of chemical recycling innovate quickly enough and scale cleanly, while protecting human health? The coming year may be pivotal in determining the technology's fate. Regardless of whether or not companies can prove the technical, economic, and political viability of chemical recycling, it faces an uphill public relations battle.

"If you want to win us over, show the technology can work at scale, and cleanly. Don't put out all this PR before that. Don't ask us to give you credit prematurely. That's only going to make us trust you less. This isn't my first rodeo. I've seen the dog-and-pony show before."

— 30-year recycling policy veteran, quoted anonymously

INDICATORS

- The Global Alliance for Incinerator Alternatives (GAIA) made waves in mid-2020 when it released "All Talk and No Recycling." The report claimed that industry was using the umbrella of chemical recycling to conflate plastic-to-plastic and plastic-to-fuel processes.

- Picking up where GAIA left off, Greenpeace's "Deception by the Numbers" report suggested that none of the U.S. plastic-to-plastic projects it analyzed were likely to be viable. It called out several consumer goods companies for investing in the technology.

- Corporate-friendly circular economy initiatives such as the Ellen MacArthur Foundation explicitly exclude plastic-to-fuel and plastic-to-energy applications from their definition of recycling.[4]

- The Break Free From Plastic Pollution Act, which would put a moratorium on chemical recycling facilities, will "return with a vengeance" in 2021, promises Heidi Sanborn, executive director of the National Stewardship Action Council.[5]

- The proposed legislation is not expected to gain bipartisan support, but many anticipate state lawmakers will pick up the momentum—especially after the bill's original sponsors circulated blueprints for adapting similar legislation to local contexts.[6]

- At least two state-level bills to ban chemical recycling have already been proposed: Maryland's House Bill 21 and Oregon's House Bill 2811.

THE BOTTOM LINE

Even advocates supportive of chemical recycling solutions view it as low on their priority list. It comes in well behind "reduce" (source reduction) and "reuse" (circular repair and recommerce models). Brands walking a tightrope when it comes to their plastic waste commitments should consider those two Rs while engaging with technology developers to ensure that chemical recycling can innovate cleanly, equitably, and at scale.

STANDARDIZING ESG DISCLOSURES

Mandatory climate risk disclosures are on the horizon. This is the year to ensure they work for you.

The U.S. Securities and Exchange Commission (SEC)—soon to be dominated by Democratic nominees—will likely make big changes to ESG disclosure requirements. The Biden administration has indicated that it will ask for more disclosures from companies, especially on climate risk.[1] Expectations for an SEC rule on mandatory climate disclosures come amid a push for global reporting standards. In the fall, New Zealand and the U.K. became the first countries to require mandatory disclosures about the risks and impacts of climate change.[2] They'll require climate risk disclosure by 2025.

The big question is whether—and how—the SEC might standardize ESG disclosure requirements. Investors have long lamented the lack of standardization of ESG performance data. And the absence of uniform reporting rules is a costly headache for companies too. U.S. regulators could require companies to adopt existing frameworks such as those developed by the Sustainability Accounting Standards Board (SASB) or the Task Force on Climate-related Financial Disclosures (TCFD), which has been endorsed by the governments of New Zealand, the U.K., the E.U. and the world's largest asset manager, BlackRock.

Changes to disclosure requirements are likely a few years in the making, but companies will need to provide feedback and guidance now to shape proposals and ensure they align with their reporting strategy. A standardized ESG reporting framework is in companies' best interest; begin engaging with standard setters around voluntary frameworks now to shape the future of disclosure standardization.

INDICATORS

- Biden's pick for the SEC chair, Gary Gensler, is expected to advance climate-related disclosures. Current SEC Commissioners Allison Herren Lee and Caroline A. Crenshaw have also signaled their support for mandatory disclosures, including working with existing standard setters.[3]
- In February, the SEC named Satyam Khanna as senior policy advisor for climate and ESG—a new role created to advance the climate risk file.[4]
- California state Senator Scott Weiner recently introduced a bill that would require large publicly-traded corporations to disclose their GHGs, including Scope 3 emissions. If passed, the bill could inform the SEC's approach.[5]
- The World Economic Forum's International Business Council is leading an initiative to standardize ESG disclosures. In collaboration with GRI, CDP, SASB, the Climate Disclosure Standards Board (CDSB), and the International Integrated Reporting Council (IIRC) they created the Stakeholder Capitalism Metrics. The five leading standard-setters plan to work towards a comprehensive corporate reporting system and called for feedback and engagement in order to increase buy-in.

ACTION ITEMS

Mandatory ESG disclosures are likely two years from being finalized. Companies should do three things to prepare:

1. Engage now in one or more of the standard setting efforts noted above to better ensure that your firm's approach to reporting aligns with emerging frameworks.

2. Coordinate with your government affairs colleagues to ensure your conversations with standard setters align with their approach to engaging the SEC.

3. Be ready to disclose more metrics. You can prepare now by gathering climate risk data for next year, if you don't already do so.

"It's time for the SEC to lead a discussion—to bring all interested parties to the table and begin to work through how to get investors the standardized, consistent, reliable, and comparable ESG disclosures they need to protect their investments and allocate capital toward a sustainable economy."

— Allison Herren Lee, SEC Commissioner[6]

BUILDING ELECTRIFICATION

With the transportation rapidly decarbonizing, advocates are turning their attention to another major fossil fuel guzzler: homes and offices.

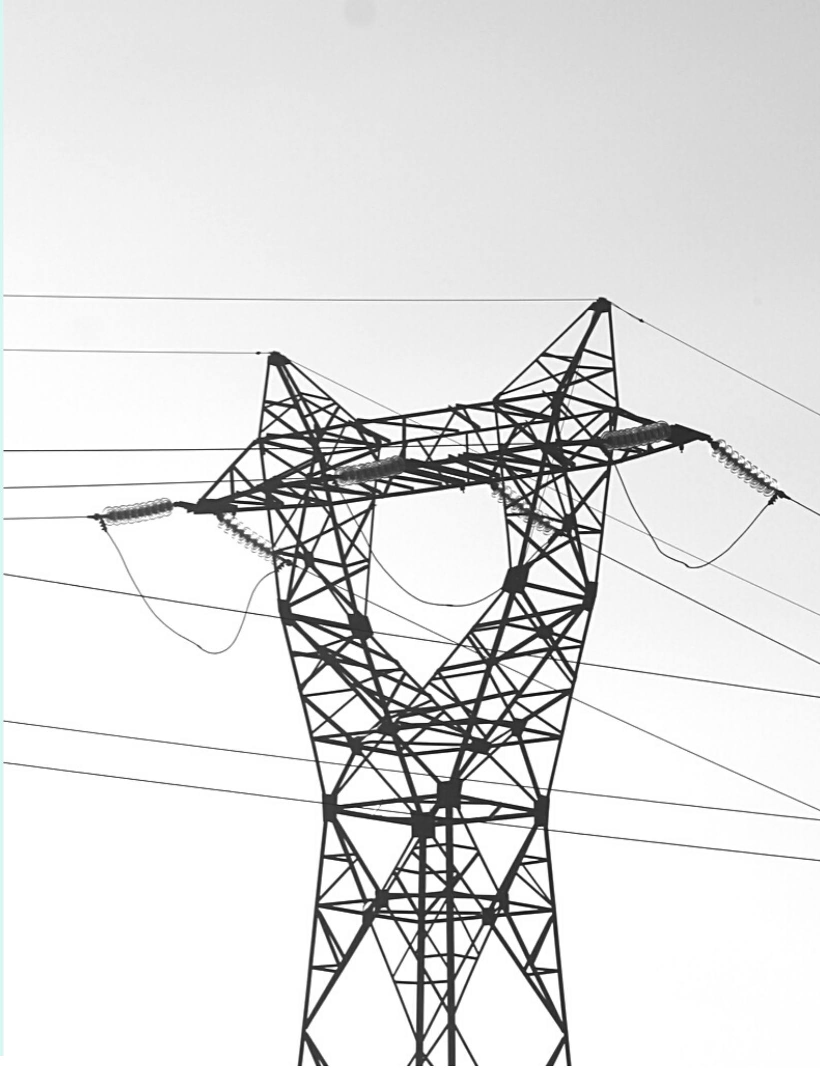
Local governments across California and elsewhere have identified buildings as one of their leading sources of climate pollution. The culprit? Natural gas, a fossil fuel many homes and offices burn for space heating, hot water, and cooking.

Backed up by broad advocacy groups such as the Building Decarbonization Coalition, and emboldened with recent research on the health impacts of indoor natural-gas cooktops, dozens of cities have passed ordinances that either mandate or incentivize all-electric new construction. And more are on the way.

For gas utilities, that's a worrisome trend. Though commercial and industrial customers are important, households constitute the industry's core business. In 2019, residential natural gas sales generated just over $45 billion, or 68%, of the industry's total revenue.[1] There are already indicators of the gas-ban movement taking hold in New York, Vermont, and elsewhere.

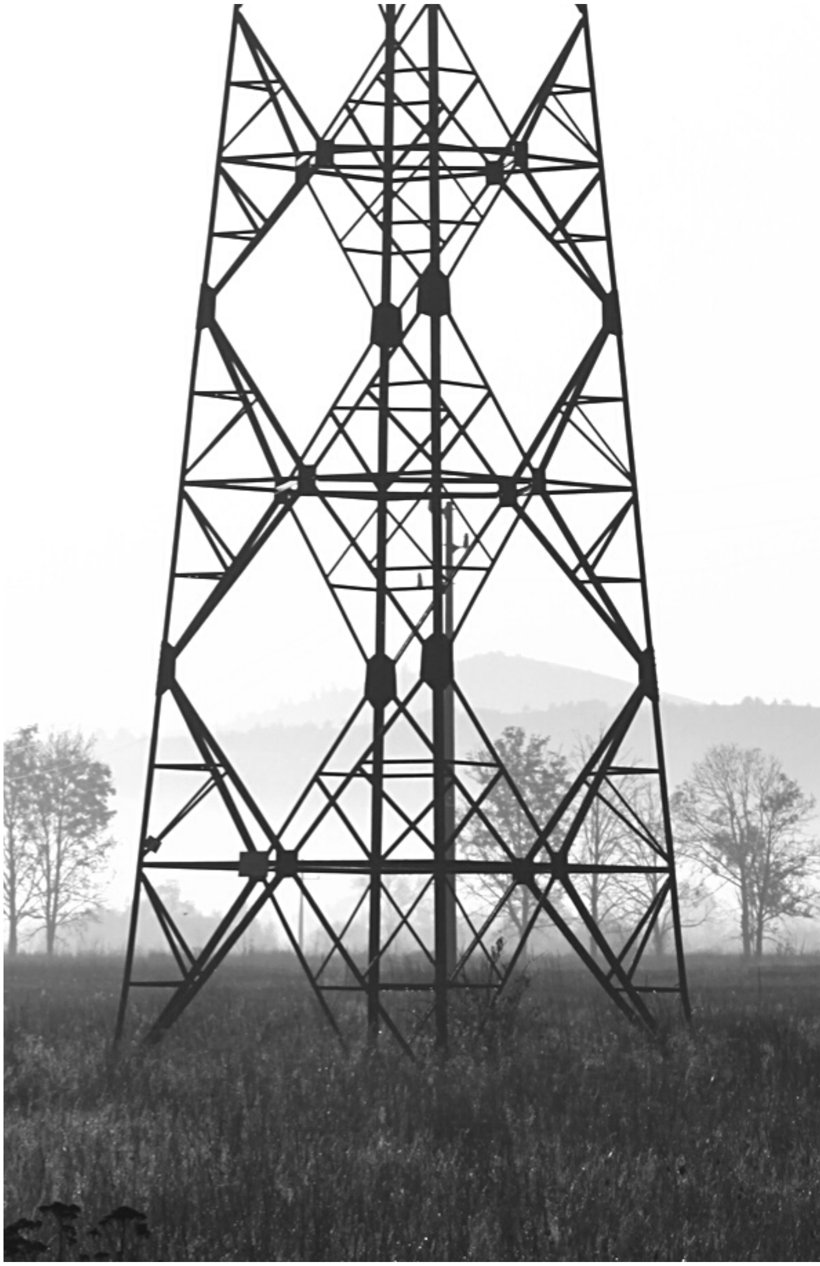
In 2021, the "electrify everything" movement will expand from vehicles to homes, and head to statehouses. Washington House Bill 1084, for example, will seek to rein in expansion of the state's gas grid. Industry, labour groups, and others are responding with a $1M+ campaign called Partners for Energy Progress.[2]

As the potential for conflict brews, building electrification raises important questions around both a just transition for workers and energy justice for low-income communities of color. Both industry and advocacy groups handling the electrification file will need to proactively address these impacts to ensure success.



INDICATORS

- More than 40 cities, most in California, have adopted "all electric" ordinances to bar natural gas hookups in new buildings.[3]
- Advocacy groups are expanding the scope of their efforts to equipment and appliances—seeking policies that would ban new or replacement gas furnace and hot water tank installations.
- The Midwest Building Decarbonization Coalition is actively targeting city and state governments in Minnesota, Iowa, Wisconsin, Missouri, Illinois, Indiana, Michigan, and Ohio.
- Across the pond, the "no lock-in to natural gas" approach of the E.U. Methane Strategy has been described as a "death knell" to the industry.[4]
- In October, French power utility Engie pulled the plug on a multi-billion dollar deal with NextDecade to import U.S. liquefied natural gas. The French government, a part owner of Engie, called the deal into question citing concerns around methane emissions in the West Texas Permian.[5]



THE BOTTOM LINE

The energy industry has long heralded natural gas as a climate-friendly transition fuel. But emissions from methane leaks and flaring are undermining its image as a bridge to cleaner energy sources. Advocates are tackling an upstream emissions challenge by targeting downstream demand. They're gaining significant ground, and widespread media interest will feed their momentum. To prevent their product from being shown the door, gas producers will need to prove they're driving down methane emissions—quickly.

RECKONING WITH A K-SHAPED RECOVERY

Income inequality was a simmering issue long before "social distancing" entered our vocabulary. Will the pandemic make it stakeholder capitalism's first proving ground?

Economists fear that the wealth and income gap laid bare by the pandemic will widen into a "K-shaped recovery," a phenomenon in which parts of the economy rebound at different rates.[1] A January report by Oxfam found that "the 1,000 richest people on the planet recouped their COVID-19 losses within just nine months, but it could take more than a decade for the world's poorest to recover." And researchers expect the pandemic's uneven impacts on communities of color will continue to widen existing racial wealth gaps.[2]

So what should corporate leaders do? Is it really their job to address a challenge that many argue is best addressed via public policy? It's no surprise that many activists see equity as a central feature of building back better. But investors and shareholder advocates—assessing the material risk of inequality—are increasingly scrutinizing the issue, too. A K-shaped recovery will likely elevate stakeholders' focus on corporate tax avoidance and subsidies, labor rights, and CEO-to-worker pay ratios.

In addition to the existential threats posed to companies—think stagnant GDP growth, social unrest, and a diminishing consumer base—widening economic disparity puts stakeholder capitalism under the microscope. For example, through the Test of Corporate Purpose (TCP) initiative, a collective of responsible investment leaders set out to evaluate the "seriousness and durability" of corporate commitments to stakeholder primacy and "alignment with recent statements of corporate purpose" amidst the pandemic and the growing movement to address racial and income inequality.

Advocates are making the case that in order for companies to prioritize employees, communities, and other stakeholders alongside their shareholders and executives, they must foster economic justice. Investors are watching this issue closely because, as Ray Dalio, founder of the world's largest hedge fund, put it, income inequality poses "existential threats" and capitalism must "evolve or die."

INDICATORS

- TCP's "COVID-19 and Inequality" report found that companies that signed on to the Business Roundtable's 2019 "Statement on the Purpose of a Corporation" did not outperform S&P 500 peers in more than a dozen social categories, including safety, labor practices, job security, and COVID-19 policies.

- As You Sow's "The 100 Most Overpaid CEOs" report flagged that "financial managers controlling more than $2 trillion increased their level of opposition to CEO pay by more than 10%"

- During the 2021 proxy season, The Shareholder Commons coordinated several shareholder proposals urging companies to reincorporate as public benefit corporations, which would pave the way for companies to make good on their stakeholder capitalism commitments.[3] Though unlikely to gain broad support, the resolutions signal an effort to move away from solely profit-based performance indicators.

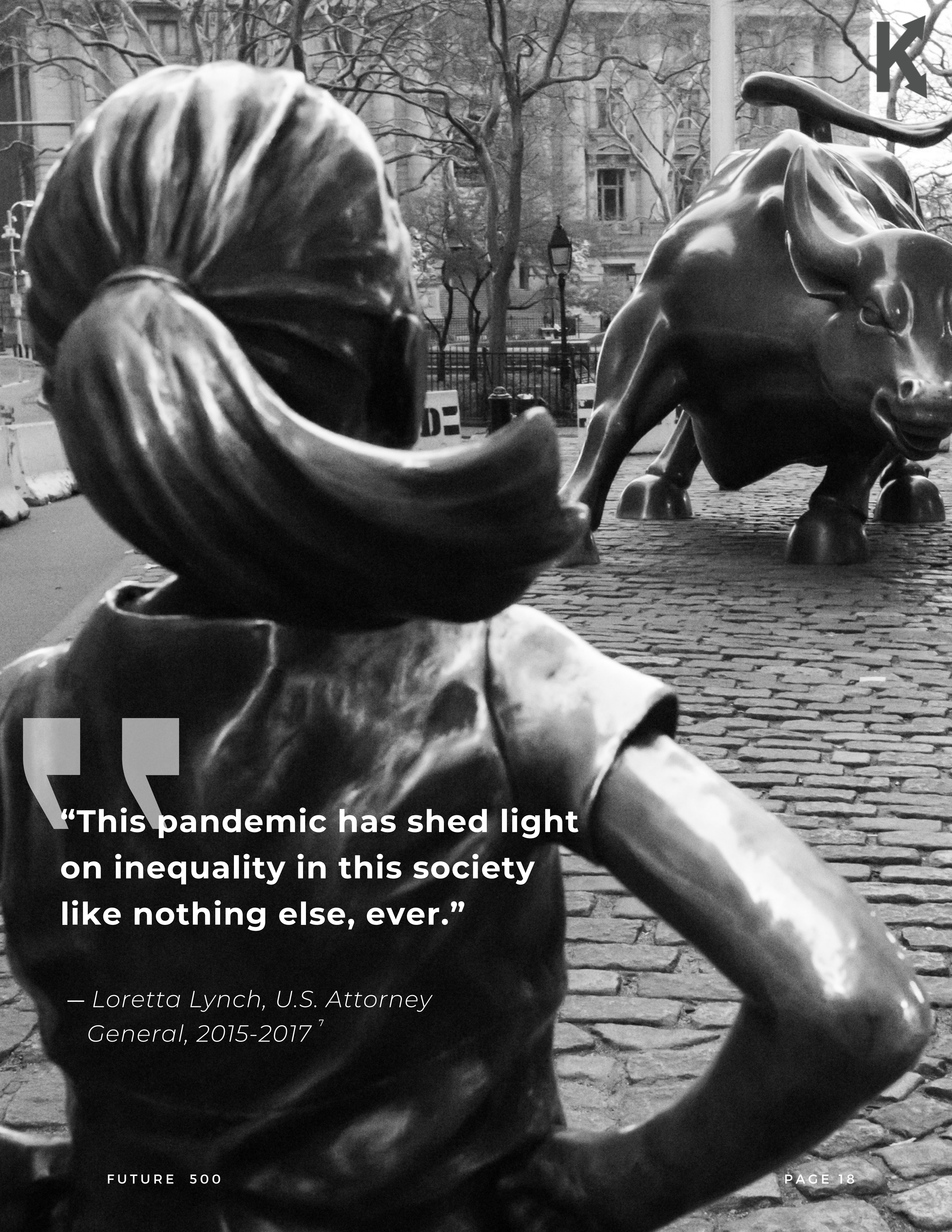
- In recent years, institutional investors have promoted human and labor rights. The Investor Alliance for Human Rights, the Human Capital Management Coalition, and the UN Principles for Responsible Investment are all increasing calls for investors to engage on labor issues.[4]

- Workers in Bessemer, Alabama are deciding whether they will be the first Amazon fulfillment center in the U.S. to unionize. Should their drive succeed, it would mark "one of the biggest union victories in the South in decades, potentially galvanizing the labor movement and inspiring workers far beyond Alabama."[5]

- The Amazon workers' effort to unionize sparked a Senate hearing on income inequality as well as support from Black Lives Matter, which saw workers' efforts as an avenue to address racial equity.[6]

THE BOTTOM LINE

Among stakeholders, inequality is likely to gain as much traction as climate change in the coming years. A truly resilient economic recovery hinges on getting both right. Investors and advocates are already testing commitments to fighting inequity by, for example, scrutinizing governance issues such as corporate tax avoidance, CEO-to-worker pay ratios, and stock buybacks. But expect them to also zero in on safety and labor practices, among other indicators of social performance. Economic inequality is quickly becoming the litmus test for stakeholder capitalism.



“This pandemic has shed light on inequality in this society like nothing else, ever.”

— Loretta Lynch, U.S. Attorney General, 2015-2017[7]

WHAT IS NET ZERO, REALLY?

Even heavy emitters are committing to balance their carbon budget. But stakeholders want to know how you'll decarbonize before they offer applause.

This past year, a slew of companies announced commitments to cut their emissions to zero, or pursue a similar approach in a bid to effectively "cancel out" their GHG emissions by 2050 or earlier. Then in January, BlackRock CEO Larry Fink asked companies to disclose their plans to reduce their carbon output all the way down to zilch.

But the lack of a consistent definition of "net zero"—and which GHG scopes are included—is challenging stakeholders to separate authentic commitments from bandwagonism. Many companies are vague on how they will actually reach their net zero goals, saying, in essence, they'll figure it out along the way. Some will cut carbon directly by switching to renewable energy and/or electrifying processes, but many more will turn to carbon dioxide removal (CDR) to balance the books.

The easiest form of CDR is reforestation, a longtime product of the global offsets industry. But many advocates and activists consider this problematic, citing uncertain additionality, insufficient biodiversity, the risk of increasing food prices, and murky efficacy over the long haul. Besides, there's only so much land area that can be cultivated for carbon uptake.[1]

Stripe, Microsoft, and others, including oil and gas majors, are betting on direct air capture, and investing in startups working to "pull" greenhouse gases out of the atmosphere. This is currently prohibitively expensive, but the hope is that market demand will eventually lower the price per tonne of carbon to around $100.

But will either approach win over your stakeholders? Many activists see C02 removal as a "loophole." Others see it as a last resort that should only be used where slashing emissions isn't possible. Ultimately, whether stakeholders accept your use of CDR will depend on your industry, how you limit and justify your use of the technology, and the quality of the offsets.

INDICATORS

- Ecosystem Marketplace, which tracks environmental finance, markets, and payments for ecosystem services, reported that reforestation offsets have been "growing substantially" since 2017.
- In a 2019 Technical Summary, the IPCC warned that reliance on CDR was a "major risk" in efforts to limit warming to 1.5°C.

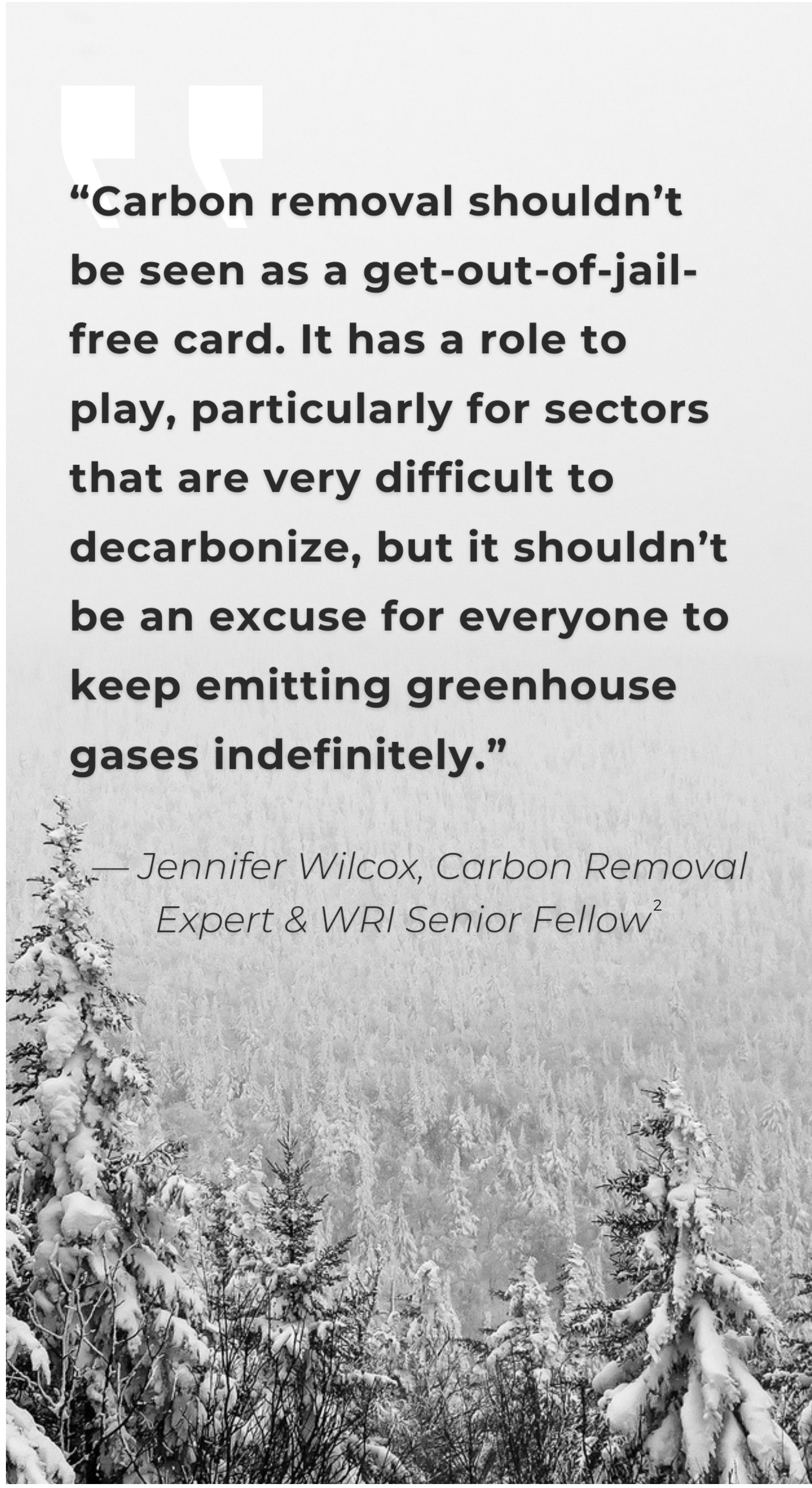
- Watchdogs such as Greenpeace are providing increasingly sophisticated advice to investors on how they should evaluate the role of carbon offsets and carbon markets in a firm's climate plan, including how much certain sectors should bank on CDR.

- Even more "corporate friendly" NGOs, like WWF, while acknowledging the need for carbon removal, warn against leaning too heavily on that technology.

- The Science Based Targets initiative (SBTi) is developing a Net Zero Standard, which it aims to finalize later this year. SBTi's draft criteria requires companies to prioritize cutting their own emissions before trying out for the neutralization team, and places a variety of conditions on the use of carbon removal.

THE BOTTOM LINE

Committing to net zero is a monumental step. But advocates won't pat you on the back until they see a credible strategy that details how you'll get there. This should include the degree to which your company plans to buckle down and change its processes, for example, via electrification, versus buying offsets or funding active carbon removal. A strategy should also include interim targets to show progress along the way.



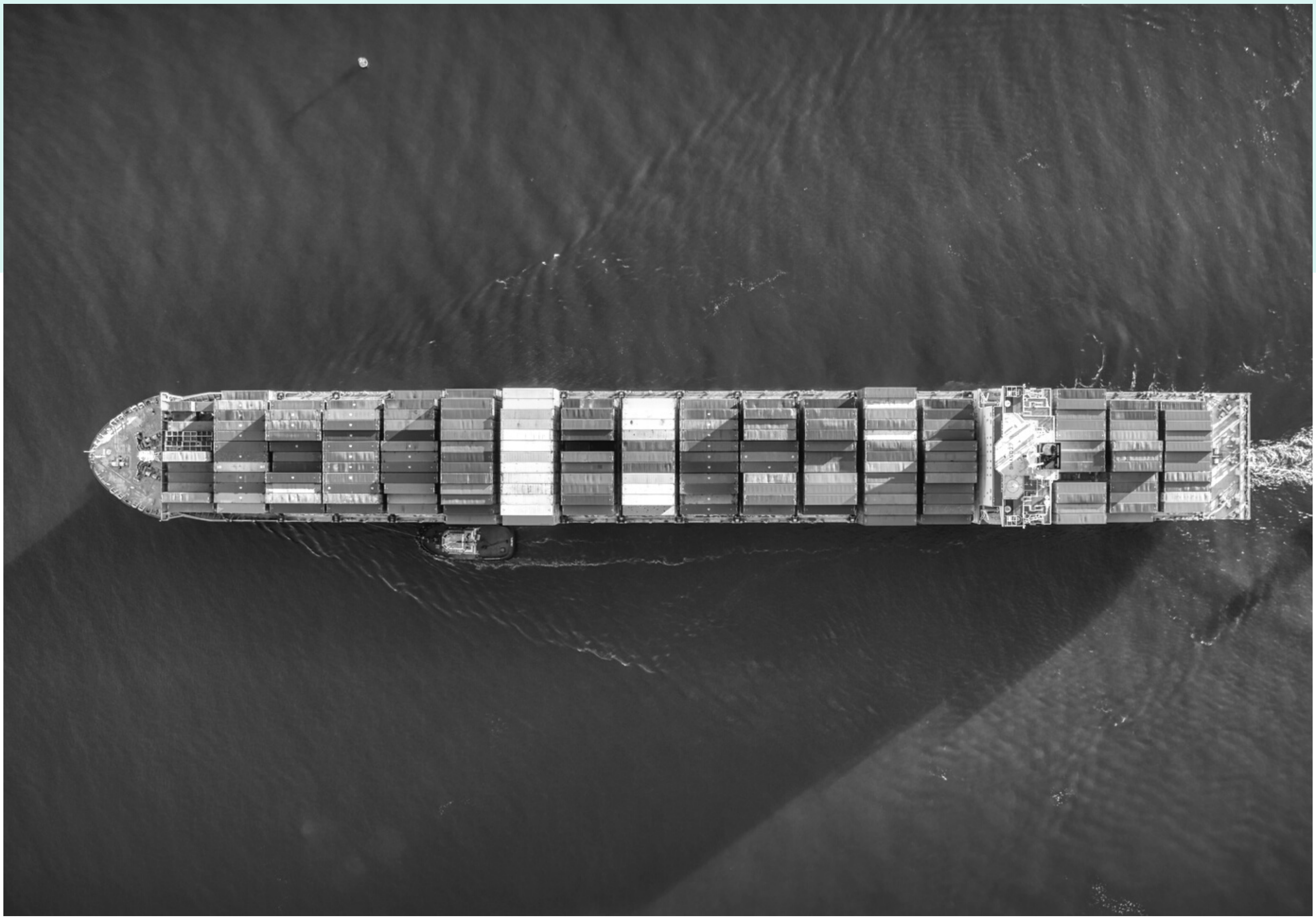
"Carbon removal shouldn't be seen as a get-out-of-jail-free card. It has a role to play, particularly for sectors that are very difficult to decarbonize, but it shouldn't be an excuse for everyone to keep emitting greenhouse gases indefinitely."

— Jennifer Wilcox, Carbon Removal Expert & WRI Senior Fellow[2]

WHAT ABOUT HARD-TO-ABATE SECTORS?

Some emissions-intensive companies simply don't know how they're going to achieve net zero by 2050. If that's you, your strategy should detail the big unknowns or technical challenges your firm needs to overcome, and how you'll get that ball rolling.

Many industries won't reach net zero without a fundamental overhaul of their core business, infrastructure, or products, and their success will hinge on collaboration. For example, under the banner of Getting to Zero, a whole host of strange bedfellows in the marine shipping sector are currently financing the development of carbon-neutral ocean cargo ships. The recently-launched Mission Possible Partnership is taking this collaboration to the next level. The 400-company-strong coalition aims to "accelerate the decarbonization of heavy industry and transport at speed and scale." More than ever, stakeholders expect cement, steel, energy, aviation, and other sectors to set aside their ferocious competition, put on their thinking caps, and solve their technical challenges together.



FROM COMMUNITY RELIEF TO RESILIENCE

As compounding crises begin to outstrip local capacity, advocates increasingly expect companies to help fill the void.

COVID-19, climate change, racial justice, political polarization, and other ESG issues might be national or global challenges, but they typically manifest at the community-level. This past year in particular—with its raging wildfires, rolling blackouts, riots, and pandemic-fueled gulfs in economic and health outcomes across racial, gender, and socio-economic lines—seemed to underscore the increased frequency and severity of crises confronting local communities.

Local resources—and increasingly state and federal aid—are often no match for this ceaseless maelstrom of disasters, leading citizens to scrutinize governments' role in providing responsive and equitable public services. Campaigners and advocates are also using these moments of unrest to shine a light on long-burning, systemic challenges, with many integrating greater scrutiny and criticism of the private sector into their issue narratives.

For companies based in under-resourced communities, the challenge is two-fold: First, businesses must aggressively prepare for and navigate the same rapidly growing list of local threats as the public sector. Secondly, as compounding crises reveal widening gaps in the social safety net, stakeholders will expect companies to use their financial, political, physical, and intellectual resources to help fill the void.

Advocates and savvy citizens are closely watching the timing, scale, and visibility of corporate action in times of crisis. They want to know: "Company X, where were you when $#!% hit the fan? Did you act quickly, or drag your feet? Did you act boldly, or do the bare minimum? And did your actions align with your broader purpose, public commitments, and rhetoric?"

Some companies will choose to remain reactive, relying on their philanthropy, risk management, and PR acumen to carry them through one crisis after another. But savvy corporate leaders are beginning to think bigger and more proactively: how can the private sector help build community resilience that helps minimize the impact of crises, or even prevent them entirely? Businesses can't thrive in a community that's crumbling; those that invest in sustainability far beyond company walls will more likely thrive and survive.

INDICATORS

- Organizations like the World Business Council for Sustainable Development and the U.S. Green Building Council have launched new partnerships and strategies to help businesses contribute to urban development strategies that are resilient to climate change.

- NGOs like The Nature Conservancy, World Resources Institute, and many others are calling on businesses and governments to prioritize greater investment in natural infrastructure (like mangroves, oyster reefs, and wetlands) to reduce the impact of future natural disasters.
- In January, Starbucks committed $100 million for a “community resilience fund” designed to advance racial equity and environmental resilience by investing in small businesses and community development projects in historically under-resourced, BIPOC neighbourhoods. The coffee giant’s fund is one example among several recent moves from corporations to develop resilience-focused philanthropy. [1]
- In 2019, PG&E became the first company to suffer “climate change bankruptcy.” As the World Economic Forum explained, the case illustrated “how resilience inaction can destroy a business, and cause immeasurable damage to the communities around it.”

THE BOTTOM LINE

Disaster relief and corporate philanthropy are no longer enough—companies will be judged on how they contribute their time, treasure, talent, and voice toward improving community resilience. “Building back better” is just a starting point; investing in efforts that prevent future crises altogether is the holy grail.

CAN COMPANIES HELP RESCUE DEMOCRACY?

Escalating political polarization is unraveling democracy. CEOs are speaking up like never before, and stakeholders are taking note.

The transfer of power in Washington, D.C. is over, but the political hyper-polarization and violence that boiled over in its final hours has not subsided. If anything, it's worse.

Both business leaders and stakeholders are seeing the retreat to political extremes in the U.S. and beyond for what it is: A threat not only to market stability, but democracy itself. Many stakeholders are increasingly scrutinizing companies' political activities. Investors, watchdogs, and employees are asking whether corporate political donations, marketing activities, and lobbying are in some respect contributing to increasing polarization, disinformation, and distrust.

Perhaps one way forward is for companies to find avenues to target the dysfunction at the heart of the divide, and lead conversations to reform the political system itself. Groups such as the National Business Network of American Promise are discussing how to tackle the conditions that gave rise to the current state of dysfunction: "Business has a compelling interest in helping to restore public trust in our society," the group states, "and faces significant reputational, regulatory, and systemic risks if this issue is not addressed."

INDICATORS

- In a 2019 survey, half of 5,000 Harvard Business School alumni, many of whom are now in leadership roles, said that corporate engagement in politics improved companies' results, but only 24% said it improved the political system.

- In the same survey, more than half of respondents agreed that business was degrading political systems by reinforcing partisanship and favoring corporate special interests.

- The National Association of Manufacturers, an industry association representing 14,000 U.S. companies, issued an unprecedented statement condemning the failed insurrection: “This is not law and order,” wrote Jay Timmons, the group’s president. “This is chaos. It is mob rule. It is dangerous. This is sedition and should be treated as such.”

- In a 2017 report, Katherine Gehl and Michael Porter concluded that polarization was a symptom of an out of control “duopolistic politics industry” designed to divide and demonize. The authors suggested that America’s political system was “the major barrier to solving nearly every important challenge our nation needs to address.”

THE BOTTOM LINE

Unchecked polarization has the ability to upend democratic norms and stall stable, collaborative policy solutions. Despite the growing consensus that it’s an existential threat to the business community, companies have for the most part taken a reactive posture.

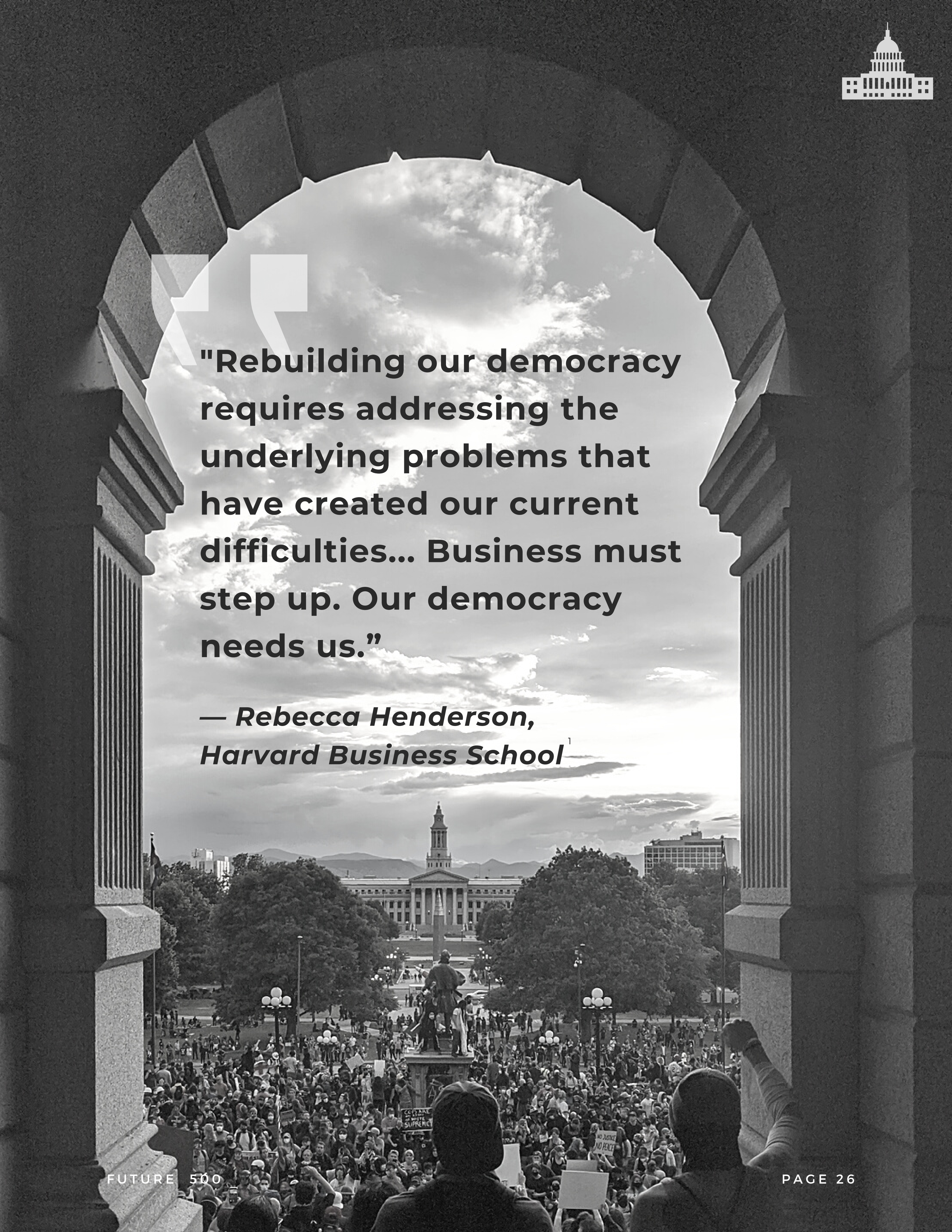
With faith in democratic institutions at an all time low, stakeholders on both sides of the aisle are looking to corporate leaders to shift from ad hoc responses to the crisis of the day, to more proactive measures that address the root causes of polarization and a fraying democracy.

BEYOND THE U.S.

Mounting threats to democracy aren’t isolated to the U.S.. Freedom House, a human rights and civil liberties advocate, noted a deterioration in freedom for 75% of the world’s population in their 2021 Freedom in the World report. And it’s not difficult to recall examples:

- China’s suppression of the pro-democracy movement in Hong Kong and forced labor of Uyghur muslims in Xinjiang.
- The rise of right wing extremism and terrorism in Canada and Europe.
- Myanmar’s military coup and subsequent crackdown on labor protests.
- India’s violent response to farmers protesting the government’s proposed overhaul of agricultural policies.
- Dictatorial regimes tightening their grips in Belarus and Venezuela.

Fraying democratic norms and assaults on civil liberties across the globe have important human rights implications for businesses, particularly multinational firms. For example, as companies increasingly work to protect democracy at home, be prepared for stakeholders to scrutinize your actions abroad in tandem. Freedom House recommends conducting periodic reviews and seeking local expertise in the regions where you have a presence to better understand how your actions and products affect human rights and liberties.



"Rebuilding our democracy requires addressing the underlying problems that have created our current difficulties... Business must step up. Our democracy needs us."

— Rebecca Henderson, Harvard Business School[1]

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