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The SustainAbility Institute Releases 2023 Trends Report: The Ongoing Evolution of Sustainable Business

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The SustainAbility Institute at global consultancy group Environmental Resources Management (ERM) recently **released** its 2023 Trends Report: The Ongoing Evolution of Sustainable Business. The report identifies ten key trends shaping sustainable business: (1) integrating ESG; (2) valuing human capital; (3) responding to climate change; (4) safeguarding natural systems; (5) building sustainable consumption and production; (6) enabling sustainable consumption and production; (7) applying technology to sustainability; (8) respecting fundamental rights; (9) shaping policy, regulations, and norms; and (10) moving toward stakeholder capitalism.

ERM predicts that the growing trend of companies integrating ESG considerations into their business decisions will continue through 2023, particularly in the Asia-Pacific region, as “more and more financial institutions in the region [are] becoming signatories to ESG-related frameworks and peer groups such as PRI and PRB, or developing their own ESG frameworks, establishing net zero goals, and overall taking a more comprehensive approach to ESG investing.” Like ERM, we have previously discussed certain 2023 anticipated trends, including the **developing consensus** around certain climate-related reporting and measurement standards (although overall global regulatory or industry consensus on a particular framework remains elusive), the increasing recognition of the importance of **biodiversity impacts** on companies’ operations and reputation, and related reporting obligations, and the **challenges** associated with divergence among scores from ESG ratings providers.

ERM also highlighted various studies suggesting a gap between issuers’ statements on climate change and their actual transition policies. According to one study, for instance, although 93%

of companies in the S&P 100 acknowledge the material risks posed by climate change, only 50% have lobbied for Paris-aligned policies and only 8% have completed a trade association climate policy alignment report. Likewise, according to a 2022 Oxford University study, 65 percent "of net zero targets among global publicly traded companies do not meet minimum procedural standards of robustness (e.g., include a plan to achieve the target, publish progress on target achievement, etc.)." Nonetheless, the Report expects "more climate action by governments, businesses, and NGOs," and we believe that part of the gap identified in the Report between goals and progress is attributable to challenges associated with accurate data collection and assessment and the nascent frameworks for reporting such information.

Taking The Temperature: ERM's 2023 Trends Report highlights several topics we have discussed in the past and will continue to monitor through 2023. Governance continues as an issue of paramount importance, as companies increasingly recognize. For instance, the Report cites, among other things, that "executive compensation at S&P 500 companies increasingly includes performance metrics tied to ESG considerations, rising from 66 percent in 2020 to 73 percent in 2022." Additionally, the divergence of ESG ratings continues to cause problems for companies looking to comply with disclosure requirements and for investors looking to make informed decisions. Climate-related shareholder activity is off to a strong start in 2023, with stakeholders like the NYC Comptroller and advocacy group As You Sow submitting proposals to some of the largest global banks. At the same time, pushback against climate-related private activity continues, especially in the U.S. with Republican federal and state lawmakers increasingly scrutinizing banks and asset managers for their ESG policies. Further, 2023 promises increased supervision and investigation into greenwashing. Companies and their stakeholders should be cognizant of these trends as they look to fulfill their net zero and other ESG-related commitments.