



AccountAbility

Setting the Standard for Sustainability

7 Sustainability Trends 2023



A MESSAGE FROM OUR CEO



Consumers and society, as a whole, are expecting more (and different) from business – in an atmosphere of low trust and high expectations ... Yet, there is immense potential to advance the Sustainability / ESG agenda with a careful consideration of focus, balance, and engaged action.

U pheaval in global markets, geopolitical discord, higher inflation, and erratic monetary policy have had a profound impact in the past year, creating appreciable stresses on global economies. Many of these forces are not new. We've withstood them before. But, even with the prospect of slowing inflation, the path forward is uncertain.

Amidst this uncertainty, we are facing a world of constant and often intersecting disruptions. Resilience remains our key challenge and we need to strengthen our resilience capabilities (in terms of our geopolitical, climate, food and water, supply chain, and technology risks) beyond a survival capacity to enable long-term, sustainable, and inclusive growth.

Against this backdrop, the concerns that are central to the sustainability agenda: corporate purpose, social impact, stakeholder engagement, environmental practices, geopolitics, and governance, are all intrinsically tied to a company's financial health, long-term survival, and the potential for value creation.

Yet, we are entering a transformative phase in our sustainability journey.

With three decades of experience in helping organizations meet their sustainability goals, we see that today the sustainability agenda is central to business competitiveness. For global leaders across industries and geographies, sustainability is integral to their organizational DNA. They recognize the crucial connection between the well-being of both people and the planet, and the prospects this creates for businesses.

At AccountAbility, we guide our clients through the fast-changing sustainability landscape, bringing into focus the issues and priorities to which leaders must pay close attention. Smart ideas, clear thinking, and practical solutions to sustainability matters are central to driving value and managing risk for organizations.

The Environmental, Social, and Governance (ESG) landscape is evolving, underscoring the importance of taking a holistic approach to the management of ESG-related risks and opportunities.

Leveraging our global research and consulting experience, AccountAbility has identified 7 Sustainability Trends that are shaping the business landscape. To help organizations stay at the forefront of these important developments, the report explores each trend in depth, offers our leadership insights on their implications for business, and delivers valuable takeaways to help turn trends into sustainability action.

In a perfect world, corporate purpose, strategy, and ESG would be approached sequentially. However, large, established companies and those growing at pace operate under a range of priorities, urgencies, and constraints, and, as a result, they don't have this luxury. Their business reality is one of constant change, where everything must happen – at once, and right now.

Consumers and society, as a whole, are expecting more (and different) from business – in an atmosphere of low trust and high expectations. This is compounded by a pace of sustainability change that can be dizzying, and sometimes confusing.

Yet, there is immense potential to advance the Sustainability / ESG agenda with a careful consideration of focus, balance, and engaged action.










Enough said.

A handwritten signature in blue ink, which appears to read "Sunil Misser". The signature is fluid and cursive, written over a light blue background.

SUNIL (SUNNY) A. MISSER
Chief Executive Officer
AccountAbility

7 SUSTAINABILITY TRENDS THAT WILL SHAPE BUSINESS IN 2023

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NAVIGATING THE NET ZERO LANDSCAPE

Climate change is one of the most significant and complex challenges facing society: it presents material risks for businesses that fail to act, and remarkable opportunities for companies that can establish themselves as transparent decarbonization leaders.



An unprecedented volume of climate pledges, commitments, and net zero targets have been set, and over the next decade, net zero opportunities may represent over \$1.2 trillion in market value.¹ But in the excitement to set net zero targets, many companies have not successfully set credible, supporting business strategies or milestones to reach their climate goals. Stakeholders have grown skeptical of long-term targets—they expect relevance, clarity, and accountability.

The pressure on organizations to demonstrate progress towards net zero targets has increased, globally:

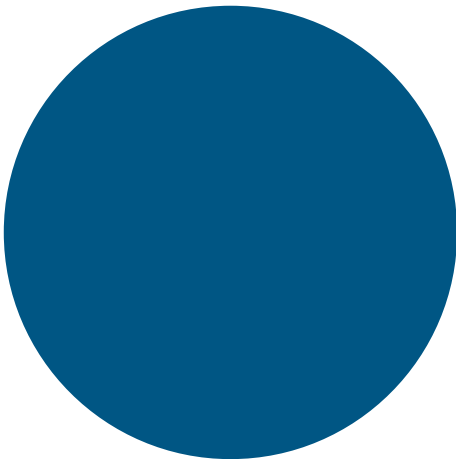
- The UK government announced the findings of a 2022 net zero review that consisted of 52 roundtables across industries, governments, and civil society, and reaffirmed its transition commitment and ambitions to the “growth opportunity of the 21st century.”²
- In Europe, proposals have been launched to kick start the “green industrial revolution,”³ a movement that aims to transform the continent through a more sustainable and low-carbon economy that is propelled by the development of renewable energy sources, green technologies, and other sustainable practices.

- The 2022 U.S. announcement of the *Inflation Reduction Act*, which aims to pour billions of investment dollars and corporate subsidies into renewable energy development, green infrastructure, and other initiatives, is currently the main driver of the U.S. goal to reach net zero emissions by 2050.

“Net zero” – a balance between the amount of greenhouse gases (GHG) emitted into the atmosphere and the amount avoided or removed from the atmosphere – is achieved by reducing current GHG emissions levels in alignment with the pathways defined in the *Paris Agreement* to limit global temperature rise to 1.5°C by 2050.

Companies hoping to reach true net zero are setting targets and mapping out clear and actionable roadmaps to reduce their GHG emissions across all 3 scopes:

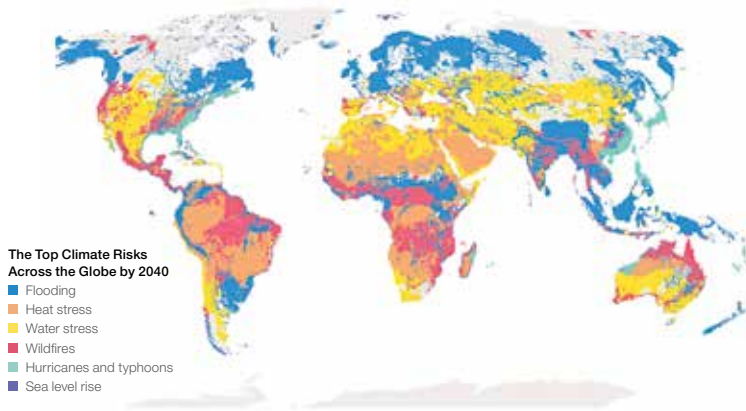
- **Scope 1** emissions from directly owned or operated facilities or fleet vehicles;
- **Scope 2** emissions from all purchased forms of energy (e.g., electricity generated by a municipality or regional source but used by the company); and,
- **Scope 3** emissions from the extended value chain (from upstream suppliers to downstream reaching markets)



2020 → 2023
OVER 40% (827)
 of the world's largest publicly traded companies have set net zero targets, up from 20% in December 2020⁴
 (The Net Zero Tracker)

 **ONLY 50%**
 of companies with net zero targets have a plan in place to reach net zero that includes interim GHG emission reduction targets⁵
 (Oxford Net Zero Tracker)

 **ABOUT 2/3**
 of companies with net zero targets annually report their progress towards emission reduction goals through corporate sustainability reports⁶
 (Oxford Net Zero Tracker)



(New York Times)

The *Science-Based Targets Initiative (SBTi)*, the most widely accepted and “de facto” standard for net zero target-setting, defines the methodology, criteria, and thresholds companies need to apply to credibly align decarbonization targets with Paris-compliant 1.5°C pathways.

Achieving net zero by 2050 will not be easy. It requires careful consideration, thoughtful planning, continuous monitoring and adaptive management, and sufficient allocation of resources. The journey will be more difficult for some industries, with different sets of tradeoffs evident in the strategic roadmaps they establish, but the global imperative to achieve emissions reductions and eventually reach net zero goals relies entirely on the authenticity and accountability of our collective efforts.

CLIMATE EMERGENCIES CONTINUE TO RISE

While peer-reviewed data has shown the Earth gradually warming over decades, the effects have been acutely felt with the recent coverage of certain high profile and shocking climate emergency events worldwide, such as the heavy flooding that killed 1,800 people and displaced at least 8 million in Pakistan in 2022.⁷ In reality, a recent report from the *United Nations Office for Disaster Risk Reduction* revealed that 350-500 medium- to large-scale climate-related disasters have taken place every year for the past two decades. This number is projected to rise to 560 per year – averaging 1.5 medium- to large-scale disasters per day – by 2030.⁸

BUSINESS IS TAKING ACTION

- **Moody’s Corporation:** Moody’s, a global integrated risk assessment firm, accelerated its net zero target year from 2050 to 2040, a process that was validated by SBTi. Key to the company’s path to net zero are intermediate targets for Scope 1, 2, and 3 emissions and a plan to have 60% of its supplier network setting science-based targets by 2025.⁹ Moody’s is also in the process of developing a *Net Zero Assessment Framework* that will score organizations on the strength of their carbon transition plans through reviews of the appropriateness of their ambition and implementation metrics.¹⁰
- **AstraZeneca:** Cambridge-based global pharmaceuticals powerhouse AstraZeneca was one of the first seven companies to receive validated net zero targets from SBTi. AstraZeneca’s *Ambition Zero Carbon* program includes near-, intermediate-, and long-term targets for emissions reduction with a clear pathway for reaching net zero by 2045.¹¹

THE WORLD IS MOVING CLOSER TO NET ZERO.

Companies that want to remain competitive and attractive to investors must establish an externally validated path to reaching net zero that is accompanied by an immediately actionable strategic plan.



START YOUR NET ZERO JOURNEY

ESTABLISH A BASELINE

The first step for any company is to accurately map its emissions footprint across the three scopes throughout its entire value chain, upstream and downstream. This is key to understanding opportunity areas, mapping high emitting assets, suppliers, or sites, and is a prerequisite to setting meaningful targets.

SET SCIENCE-BASED TARGETS AND BUILD A ROADMAP TO NET ZERO

Developing a net zero strategy with science-based targets means prioritizing emissions reductions over carbon offsets and ensuring targets are in line with climate science. A credible net zero strategy is assembled into a roadmap with defined interim targets as well as longer-term milestones and is transparently communicated both internally and to a company’s external stakeholder audiences.

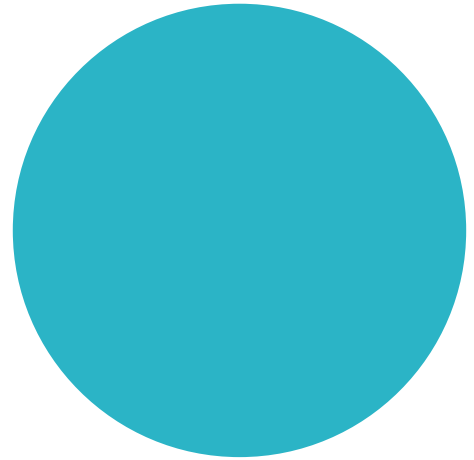
INTEGRATE NET ZERO GOALS INTO CORE BUSINESS STRATEGY

A company’s net zero roadmap should be regularly and comprehensively reviewed by a designated cross-functional leadership team to assess progress towards goals and understand where additional resources or recalibrations are needed. Climate-related impacts to a company’s core business strategy should be factored into risk management, finance and capital planning, operations, and other critical workflows.

TRANSPARENTLY DISCLOSE RESULTS REGULARLY

Companies should continuously demonstrate commitment and follow through by transparently disclosing the results of periodic reviews of progress towards their net zero goals. Many frameworks and methodologies exist for credible climate disclosures, and operationalizing a robust climate disclosure program will position companies for future regulatory developments that make reporting mandatory.





STAKEHOLDER ACTIVISM IS GETTING LOUDER

Businesses continue to face increasing pressure on all fronts to take a stance and demonstrate actionable progress on a range of ESG issues.

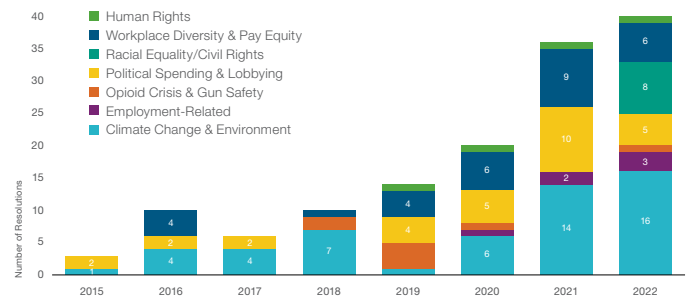
Consumers, employees, and investors, globally, demand corporate action on topics from climate change to workers' rights, to racial inequality. How can businesses balance the imperatives of maximizing shareholder value, addressing material ESG issues, and demonstrating empathy and responsiveness to diverse and emerging customer and investor viewpoints?

Young people increasingly prefer to work for, shop with, and support companies that consistently take positions on and work to address salient social and environmental issues like racism, gender inequality, mental health, deforestation, Indigenous land rights, and workers' rights.¹⁵ Companies that do so have an opportunity to strengthen their brand reputation and connect with the next generation of socially conscious customers.


Employees are taking action within their own companies. There has been a resurgence of unionization efforts in the United States at some of the world's biggest brands, like Starbucks, Walmart, and Amazon. Analysts attribute the rise in worker activism in the U.S., where unionization has historically been low, to the impact of COVID-19, income inequality, and the widespread shortage of workers.¹⁶ Employees that were classified as "essential" during the pandemic are pushing for wages, benefits, job protection, and work conditions that better reflect their value to employers and to the global economy.

Shareholder activism is on the rise too: a record number of shareholder votes on ESG issues like human rights; diversity, equity, and inclusion (DEI); and environmental action were held during the 2022 proxy season¹⁷ and this trend has continued into this year. Predictions are being made that this will continue to increase throughout 2023 as investors are increasingly leveraging their influence to demand that companies act on ESG matters.¹⁸

MAJORITY-SUPPORTED ESG PROXY VOTE RESOLUTIONS 2015-2022



(Sustainalytics, Morningstar)

 **57%**
OF GLOBAL GEN Z SURVEY RESPONDENTS feel that brands have more power to “solve social ills and societal problems” than governments¹² (Edelman)

 **A RECORD 282**
CORPORATE SHAREHOLDER VOTES were held on ESG issues in the 2022 proxy voting season in the U.S.¹³ (Politico)

 **UNION APPROVAL among American workers is at its HIGHEST LEVEL SINCE 1965¹⁴** (Vox)

Responding effectively to stakeholder activism requires organizations to develop regular, meaningful, balanced, and transparent stakeholder engagement strategies. Being prepared means being proactive, understanding the trends that shape activist campaigns, as well as the positions held by critical stakeholders, and having protocols in place for effective and strategic action. While this is an important first step to take, organizations must also demonstrate the development of meaningful programs in response to social issues.

ANSWERING THE CALL ON SOCIAL ISSUES

The **U.S. Supreme Court's** decision in *Dobbs v. Jackson*—which overturned federal protection of the right to access an abortion—prompted outcry from many across the United States and has had ongoing ramifications. Though some companies publicly opposed the decision, others were more measured in their response. Companies from a diverse set of industries, like JP Morgan, Tesla, Amazon, Netflix, and Walt Disney, modified their health insurance policies to provide support to their U.S. employees who may need to access out-of-state abortion services.¹⁹

Broadening Horizons: Research conducted by the **Royal Society of Chemistry** in 2022 found that zero percent of chemistry professors in the UK are Black. To combat this racial inequality, a group of leading biotechnology firms in the United Kingdom joined together to support diverse students in the chemistry industry.²⁰ Industry leaders including GSK, Oxford Nanopore, Unilever, AstraZeneca, and RSSL established their Broadening Horizons mentoring scheme. The program supports Black and ethnic minority students by providing mentoring, internship, and work placement opportunities to level the playing field in the biotechnology industry.²¹

THE PRESSURE HAS NEVER BEEN GREATER FOR COMPANIES

to display genuine leadership on a range of social issues—while balancing the demands of people and profit. From shareholders to employees to customers, stakeholders are pushing the organizations they engage with to take a stand. Engage early and often with the stakeholders relevant to the business to maximize alignment with employees, customers, and investors.



ENGAGEMENT BEGINS WITH A PLAN

AccountAbility's AA1000 Stakeholder Engagement Standard (AA1000SES) is the world's most widely used and trusted stakeholder engagement standard.²² The four stages suggested by AA1000SES allow organizations to understand, evaluate, and respond to the demands of organizational stakeholders.

THE STAKEHOLDER ENGAGEMENT PROCESS



(AccountAbility)

PLAN

Companies must develop a plan that addresses the full cycle of stakeholder engagement in order to maximize effectiveness. To begin, profile all potential stakeholders and map them based on business importance. Next, decide on the level and approach of the engagement. Choose wisely based on the goal of the engagement: every method will require a different level of time, energy, and resources.

PREPARE

To prepare for the engagement, assemble the financial, human, and technological resources required for implementation. Build capacity across all participating team members to ensure every stakeholder feels empowered to participate. This can be achieved through comprehensive training, and learning and development opportunities for staff across all key aspects of stakeholder engagement and empowerment. Finally, be attentive to the possible risks of conducting an engagement—both for stakeholders and the organization.

IMPLEMENT

Once the groundwork has been set, it's time to engage with stakeholders. Invite all relevant parties to participate and communicate the intended outcomes. During the engagement, set clear ground rules for participation and document the proceedings. Decide how the organization will act on the results of the engagement and share this action plan with stakeholders.

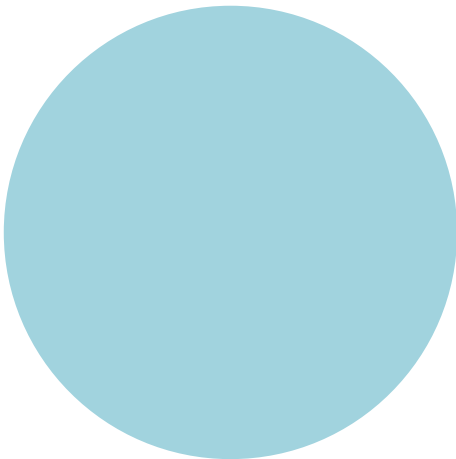
ACT, REVIEW, AND IMPROVE

Upon completion, continually monitor, evaluate, and learn from each engagement, with the intention of building strong relationships and improving the effectiveness of engagement practices. Act on learnings from stakeholders to demonstrate a genuine commitment to their demands. To build greater credibility and trust, publicly report on stakeholder engagement activities on a regular basis.



GEOPOLITICS: THE NEW “G” IN ESG

In a post-globalization environment, geopolitics is a crucial component within ESG frameworks, necessitating the consideration of risk and uncertainty factors in assessments and decision-making processes.



Over a year after the current European conflict began, global businesses and economies are still navigating the disruption to critical energy supplies and supply chains. With increasingly globalized business operations, companies are just as exposed to geopolitical risk as nation states themselves. How can businesses address the new “G” (Geopolitics) in ESG while maximizing resilience to macro shocks and prioritizing uninterrupted service delivery?

Geopolitics is already playing an outsized role in the 2023 business landscape. The World Economic Forum, in its annual *Global Risks Report*, states that we are standing “on the edge of a low-growth and low-cooperation era,” with more exacting trade-offs on climate action, biodiversity loss and ecosystem collapse, human rights development, emerging technology expansion, and future economic growth impacting even shorter-term business decision-making.²³ Economic policy will increasingly be used defensively to build self-sufficiency over critical resources – what *Harvard Business Review* refers to as the “new national

security economy”²⁴ – which will have profound impacts on the deglobalization trajectory and may ultimately contribute to a prolonged, low-investment and protectionist trade-policy era.

Business leaders should start with updating and instilling a new, post-globalization paradigm: geopolitical competition for access to markets is now a set of highly interrelated challenges – tightened supply chains, restrictive trade policies, changing labor force dynamics, and more – and obstacles cannot be viewed independently or in isolation. Companies need to ensure they have adopted the necessary level of complexity in the geopolitical analytical lens they apply to decision-making on everything from Board composition to the adoption of new technologies. Business risk must be managed holistically as opposed to in functionary silos. This will better position leaders to connect evolving geopolitical dynamics to their company’s comprehensive assessment of operational, technology, reputational, legal, credit, and other business risks at regular and defined intervals.



94%

OF GLOBAL BUSINESS EXECUTIVES SAID

their company had been impacted by unexpected geopolitical risks in the past 12 months²⁵

(EY)



25%

OF BOARDS ACROSS THE WORLD regularly

consider geopolitical risk according to a survey of global executives²⁶

(EY)



Even a

1%

RISE IN LEVELS OF GEOPOLITICAL RISK

(as measured by the monthly U.S. Federal Reserve Index) substantially stifles private sector technological innovation in favor of incrementalist development projects, with correlated, measurable reductions in financial returns to companies and levels of scientific advancement.²⁷

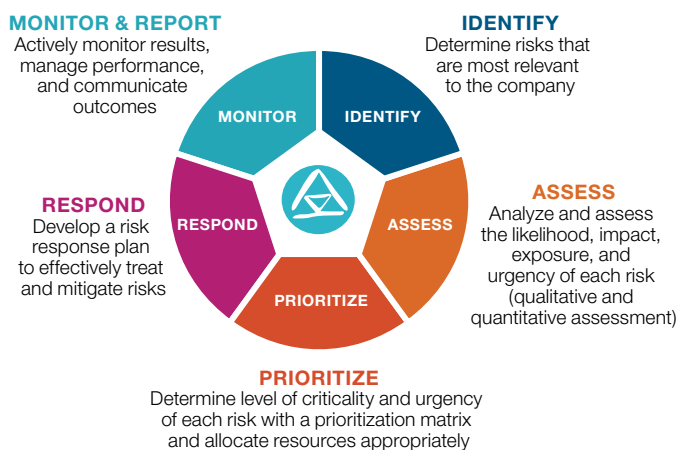
With this analytical muscle in place, companies can look to building geopolitical resilience in other key areas of their operations. Adding interdisciplinary expertise in both Board and key leadership positions can help companies navigate political complexity and add important nuance to urgent questions facing the business, such as where to locate new manufacturing facilities. Companies should review their due diligence and scenario planning workflows to understand if geopolitical analyses are properly integrated at levels reflective of their importance. Surfacing potential concerns at earlier stages of a capital allocation decision may allow for a more well-rounded consideration of its risks and opportunities, provide a longer runway to seek external guiding expertise or counsel, and avoid group overcommitment to a project that can result from the sunk cost fallacy.

Global business is now being shaped by the “new national security economy” and is transforming companies into unwitting geopolitical actors. Recognition of the interrelatedness of these challenges is a first step towards instituting a more holistic decision-making approach, hiring the necessary expertise, and deploying effective analysis of business opportunities that centers a geopolitical lens.

GLOBAL RESPONSES

- **BlackRock:** The global wealth manager BlackRock maintains a Geopolitical Risk Indicator which captures the market’s attention to constantly evolving geopolitical developments. A useful tool for investors and business leaders alike, the Geopolitical Risk Indicator details the top ten geopolitical risks monthly and keeps track of significant events—like national elections and central bank meetings.²⁸
- **Apple:** In response to growing concerns about political risk in the Asia-Pacific region, Apple announced plans to move a significant volume of iPhone production from China to India, and MacBook production from China to Vietnam. This process of “friendshoring”, or redirecting portions of your value chains to sites deemed “friendlier”, or less likely to experience geopolitical risk, has been undertaken by several larger firms with significant global footprints.²⁹

RISK MANAGEMENT FRAMEWORK



(AccountAbility)

PREPARE FOR GEOPOLITICAL RISK

MAKE GEOPOLITICAL RISK ANALYSIS ROUTINE

Real-time geopolitical developments can have a major impact on an organization. Companies need to establish regular, holistic risk tracking that identifies potential future threats and integrates evolving geopolitical dynamics into the organization’s comprehensive risk assessment and strategy.

ASSESS GEOPOLITICAL RISK THROUGH A TRIFOCAL LENS

Short, Medium and Long term – to ensure both adaptability to fast-changing circumstances, and the appropriate investments to become more resilient for longer term shifts in global dynamics.

INCORPORATE GEOPOLITICAL RISK INTO THE STRATEGIC PLANNING PROCESS

Geopolitics are everchanging, and companies should have procedures in place to apply these dynamics to its due diligence strategic and scenario planning processes. Companies need to apply risk lenses to everyday decision-making to position themselves to commit to opportunities confidently.

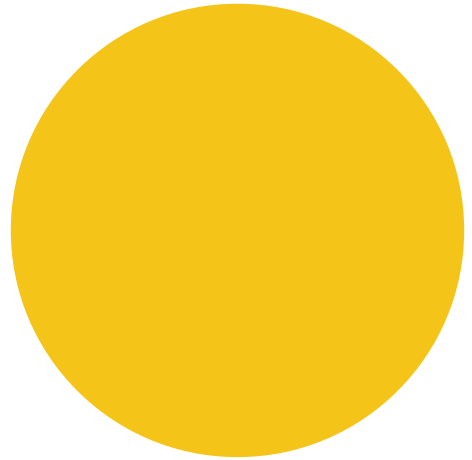
MULTIDISCIPLINARY BOARDS AND EXECUTIVES SHOULD BE ENGAGED IN THE GEOPOLITICAL RISK REVIEW

Geopolitical changes can rapidly impact many operational units and geographies in a business. To build the readiness necessary to rapidly respond to detected geopolitical challenges, companies need to evaluate the expertise of its Board and its management to better navigate political geopolitical complexity.

INCORPORATE GEOPOLITICAL RISK INTO ENTERPRISE RISK MANAGEMENT FRAMEWORKS

Have in place a clear allocation of responsibilities for management of this risk in accordance with the three lines of defense model and the principles of avoidance, mitigation, and management.





BUILDING AN EFFECTIVE, FUTURE-FOCUSED BOARD

Corporate boards have long been expected to set a “tone at the top” for organizational culture, modelling company values and sound business practices. Each director serves as a “link” in the chain between the company’s core values and ultimate business performance.

As the mandate of boards shifts, directors must be equipped to be leaders on a growing list of environmental, social, and governance topics. As the workforce itself grows more diverse, board diversity has been slowly catching up. Mandatory measures to increase board diversity, globally, are helping to accelerate this change—but do they go far enough to ensure boards are fit to confront the challenges they face in the 21st century?

An analysis of S&P 500 companies reveals the number of female and non-white directors is increasing steadily year over year. A growing body of research shows the link between diversity and financial performance³⁰. New requirements to disclose board composition and elect “diverse” directors are gaining traction in the world’s largest markets: from the

recently approved Nasdaq requirements in the U.S. to the proposed rule in Brazil’s B3, an increasing number of stock exchanges are demanding that listed companies diversify their boards.³¹

These requirements, however, typically define “diversity” too narrowly, only considering gender, race, and sexuality. While these criteria are essential, ensuring diversity across a wider range of material characteristics—like age, professional background, disability, socioeconomic background, and lived experience—will be necessary to equip boards to meet the demands of the evolving business landscape.

Boards will need to ensure that they demonstrate competencies fit not just for the present but also future needs. As organizations operate in a rapidly changing world, new challenges will be faced.

There are already requirements for expertise in areas such as geopolitics, cyber security, and AI. ESG alone has become a growing competency requirement, as seen in the live debate around the Board’s accountability for sustainability performance, and thus, which skills and experience should be recruited.

The Chief Sustainability Officer is increasingly interacting with the Board of Fortune 500 companies (e.g., Unilever³²). Equally, organizations are seeing success by following the more traditional route of placing responsibility under the Chief Financial Officer (CFO) role.³³ There is no “one size fits all” response, however, the impending development and launching of new standards for reporting, assurance, and disclosure will amplify this debate further and require Boards to take a decision on their future governance arrangements.



AS OF MAY 2022,
27%
of board seats globally
are held by women³⁴
(Diligent)



46% OF NEWLY ELECTED
DIRECTORS IN 2022
had a professional background other
than former CEO, CFO, or COO³⁵
(Diligent)



OVER
70% OF BOARD
MEMBERS
come from a professional
background versus 15% from
blue collar backgrounds³⁶
(KPMG)

Organizations can effectively utilize three key governance levers – the disciplined enforcement of term limits, regular capacity and capability reviews, and relevant training and development.

GLOBAL BOARD DIVERSITY ON THE RISE

Goldman Sachs: Goldman Sachs is setting a new standard for diversity leadership in financial institutions. In 2020, the bank announced it would require the companies it takes public in the United States and Western Europe to have at least two diverse board members. The bank has helped place over 75 diverse board members since launching this initiative. As part of their overall internal approach to developing effective leaders throughout their organization Goldman Sachs uses an expansive definition of diversity to evaluate potential directors including work experience, military service, personal identity, culture, and nationality.³⁷

Lloyd's of London: Lloyd's established an ESG committee, which aims to embed social mobility across the organization and the sector that it operates in. This is facilitated by initiatives, such as opening opportunities for internships for young people from lower socioeconomic backgrounds to provide valuable work experience as well as encouraging the participation in events such as the Dive in Festival, a global diversity and inclusion festival for the insurance market.

UK Social Mobility Index: The UK's Social Mobility Index, developed by the Social Mobility Foundation, has been published each year since 2017. Employer entrants have grown from 98 in the first year to 149 in 2022. The index utilizes seven key criteria to assess the level of social mobility representation by sector and by organization. Boards use this data to ensure that equal opportunities are available for those from lower socioeconomic backgrounds, particularly in more senior positions.³⁸

UAE Securities & Commodities Authority (SCA): In 2021, the United Arab Emirates Securities and Commodities Authority (SCA) announced that publicly listed companies in the UAE must have at least one female board member. According to the SCA, this move aims to “empower Emirati women and encourage them to play a greater role in the boards of directors of listed companies.”³⁹ Since the rule was announced in March 2021, the number of board seats held by women in the UAE has more than doubled, increasing from 3.5% to 8.9%.⁴⁰

A COMPANY IS ONLY AS STRONG AS THE BOARD MEMBERS ELECTED TO LEAD IT.

Each director serves as a “link” in the chain between the company's core values and ultimate business performance. Focus on building a board that is diverse, committed to the company, and experienced in a wide array of industries and business functions—in short, strong enough to weather whatever storms may come in 2023 and beyond.



<1% OF BOARD DIRECTORS AND OFFICERS have a disability.⁴¹

(Statscan)



MAKE BOARDS A D.I.R.E. PRIORITY

Building a robust, skilled, and savvy board of directors is essential for business success. At AccountAbility we encourage leaders to apply the D.I.R.E. Framework to attract a truly diverse and effective board that will be able to navigate the rapidly changing business landscape.⁴²

DIVERSITY

Boards should have a range of thought, experience, and characteristics to mirror the diverse stakeholders, environments, and markets they serve. With mandatory diversity and reporting rules on the horizon, ensure your board is fit for the future.

INDEPENDENCE

Independence can be enhanced and underpinned by regulation and legislation, but this can often differ between jurisdictions. However, the role of Non-Executive Directors in providing independence is universal. It is essential for the Board to put appropriate measures in place to ensure that independence is maintained and maximized for all Non-Executive Directors. This could be achieved through:

- Appropriate term limits for Non-Executive Directors
- A rigorous declaration/conflict of interest process to alleviate any issues with prior or existing relationships, and;
- Recruitment of Non-Executive Directors with different perspectives and diverse sector experience

REFRESHMENT

Continuous refreshment of board members and committee appointments enables boards to have fair, balanced, and differing perspectives. Undertake frequent reviews of board effectiveness to ensure each director is able to meet the demands of the company's evolving business landscape. Undertake succession planning to guarantee that when refreshment does occur, critical functions of the board can continue uninterrupted.

EXPERTISE

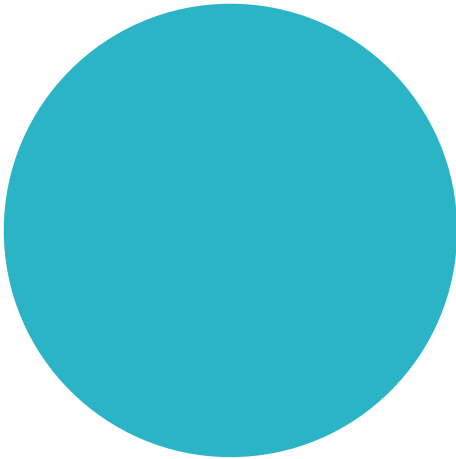
A multitude of skillsets, professional backgrounds, and functional areas makes for a strong board. Every director's unique experience can be an asset to the organization. Regularly map the current capacity and capabilities of the board, identify potential gaps and ensure appropriate development programs are in place to assemble a board is fit for the present and the future.

(AccountAbility)



NEXT GENERATION ESG DISCLOSURE AND REPORTING

Reporting and disclosure of ESG matters have become a business imperative as mandatory requirements increase in some of the world's largest markets.



Regulators in the European Union, the United Kingdom, and the United States are in various stages of implementing rules and legislation that will require companies to disclose data related to ESG performance and future planning. Although the *EU's Corporate Sustainability Due Diligence Directive (CSDDD)*, *Corporate Sustainability Reporting Directive (CSRD)*, and *Green Claims Directive*, and the proposed Securities and Exchange Commission (SEC) rule in the U.S. have significant differences, each is designed to create new ESG information requirements and enable stakeholders to better understand the material impacts of related risks on companies across the world.⁴³

These regulations, among many others globally, will pose new, stringent disclosure challenges for companies that are not prepared. Those with a formalized sustainability strategy, clear governance framework, and established ESG data management mechanisms will be best equipped to comply.

The seismic shift from voluntary to mandatory ESG disclosure will heighten scrutiny on corporate sustainability practices and the quality of ESG data. Organizations will need to produce more meaningful reporting in order to meet new regulatory requirements and demonstrate greater transparency and accountability to stakeholders. As ESG reporting becomes increasingly standardized, mandated, and scrutinized, the days of unsubstantiated, marketing-driven sustainability reports will shift to clearer and more consistent accountability for commitments, performance, and impact.

Similarly, credibility of the disclosed data will become a key focus as stakeholders, such as investors, need to trust performance data being reported. In a 2022 Global Investor Survey, 87% of respondents said they suspect that corporate sustainability disclosures contain unsupported sustainability claims.⁴⁴

THE COSO INTERNAL CONTROL-INTEGRATED FRAMEWORK (ICIF)

As the importance of accurate and reliable sustainability reporting escalates, effective internal control over sustainability reporting will be a necessity. The *Committee of Sponsoring Organizations of the Treadway Commission (COSO)* is recognized as a leading authority on internal control, and its *Internal Control-Integrated Framework (ICIF)* has been widely adopted by organizations around the world. Through new guidance on internal controls over sustainability reporting, COSO will be guiding organizations in their journey towards establishing and maintaining an effective system of internal control over financial and sustainable business information.



96%

OF THE WORLD'S LARGEST (G250) COMPANIES report on sustainability or ESG matters⁴⁵ (KPMG)



64%

OF COMPANIES obtained some level of assurance over at least some ESG information in 2021, up from 51% in 2019⁴⁶ (IFAC)



49,900

COMPANIES are expected to report under the CSRD, an increase of 422% from current levels of sustainability disclosure⁴⁷ (EY)

External third-party assurance is seen as a solution to stakeholder mistrust, as the value of assuring non-financial data is increasingly realized as comparable to that of a financial audit.

For a long time, the amount of sustainability standards and frameworks has been abundant, and companies have found it challenging to understand this confusing landscape. Companies and investors have called for simplification, comparability, consistency, and usefulness of ESG disclosures. As a result, ESG standards and frameworks have undergone consolidation, and several new and specific standards are being introduced in response to these stakeholder needs.

The *International Sustainability Standards Board (ISSB)* was formed, with the intention of reducing the multitude of standards and frameworks by merging several existing international frameworks such as *SASB Standards*, *TCFD*, *CDSB Framework*, *Integrated Reporting Framework*, and *WEF Stakeholder Capitalism Metrics*. The implication is sustainability reporting that is more harmonized, and reduction in the burden and complexity for companies.

THE ESG REPORTING CYCLE



EMBRACE NEXT GENERATION SUSTAINABILITY REPORTING

REPORT SELECTIVELY AND STRATEGICALLY

More disclosure does not mean better disclosure. While you may feel pressure to report against every standard and disclose to every ESG service, it's better by far to report and disclose selectively based on your organization's unique ESG profile, goals, and maturity.

LET DATA LEAD SUSTAINABILITY STRATEGY

Mandatory reporting and disclosure will increase scrutiny on businesses' sustainability performance and strategy. Make sure your company is collecting essential data and information on sustainability topics to establish baselines for goals, metrics, and future action. Your ESG strategy is only as strong as the data and information that informs it.

MANDATORY REPORTING HAS COMMENCED

Though the SEC, CSRD, and CSDDD rules won't all be in force in 2023, being proactive will make the transition to high-stakes mandatory reporting smoother the time comes. Review which requirements will apply to your business to get ahead of the curve on the next generation of reporting.

CONSIDER THE APPLICATION OF ESG SOFTWARE AS APPROPRIATE

As ESG data/information becomes more complex, organizations must take steps to efficiently capture, analyze, and share their sustainability progress among stakeholders. Increasing scrutiny and disclosure requirements add to the urgency of achieving this in ways that have the flexibility to respond to market and regulatory demands.

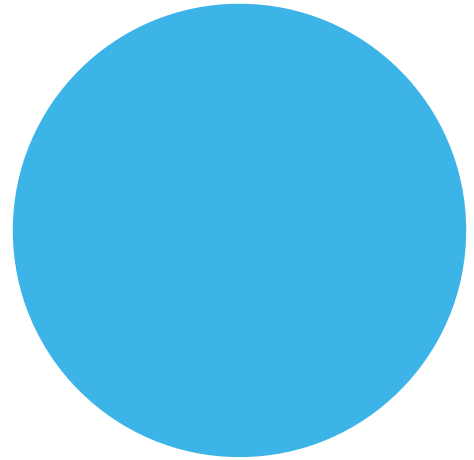
Technology, including the rapid rise of AI, has the potential to significantly impact ESG reporting by improving data collection and analysis, sustainability performance, and stakeholder engagement. However, such technology is not a substitute for human expertise and judgement, and companies must continue to exercise due diligence in integrating technology into their ESG reporting practices.

The right software for your company depends on the size and complexity of your ESG program, the industry you are operating in, as well as your budget. Prioritize your needs, goals, preferred features, and look for a provider that satisfies your needs.

PARTNER WITH ASSURANCE PROVIDERS


The SEC, CSRD, and CSDDD rules all require reports to be independently verified to ensure accuracy and full compliance. While companies are familiar with the auditing process for their financial statements, assurance over ESG information may be a relatively new undertaking.

Start navigating the assurance provider selection process early so that you can rapidly find a provider who meets the needs of your organization. You can also request an assurance readiness assessment that helps you to understand the required preparations needed to ensure readiness for future assurance engagement.




THE ROAD TO A SUSTAINABLE VALUE CHAIN

Organizations must take a holistic approach to achieving a more sustainable supply chain, incorporating ESG principles that build resilience and economic viability.

 **74%**
OF COMPANIES SURVEYED globally had a supplier code of conduct in 2021, up from 64% in 2019⁴⁸
(Stanford Graduate School of Business)

 **51%**
OF COMPANIES SURVEYED globally had a sustainable procurement policy in 2021, up from 38% in 2019⁴⁹
(Stanford Graduate School of Business)

 **63%**
OF THOSE SURVEYED globally believe risk mitigation is a benefit from their company's sustainable procurement plans⁵⁰
(Stanford Graduate School of Business)

Supply chains are inclusive of all the required steps to get a product to a customer. For supply chains to enhance business competitiveness and unlock additional unrealized value – becoming a value chain – they will need to incorporate ESG principles to achieve greater resilience and long-term viability. How can the integration of sustainability criteria into purchasing decisions, contracts, and relationships drive organizational shifts towards a more context-aware and competitive value chain?

Sustainable procurement, as the primary operational intersection with the upstream supply chain, drives progress on organizational ESG goals by reducing systemic risk and enabling greater visibility over wholistic operational inputs, such as Scope 3 GHG emissions, materials sourcing origins, and supplier human rights practices.

Supplier audits, codes of conduct, and value chain mapping are integral in enabling a business to increase its level of enterprise-wide sustainability.⁵¹ Higher-capacity organizations with broad supply networks should

consider adopting more forward-looking engagement practices with suppliers. Studies have shown that proactive feedback loops, including training, regular check-ins, and guidance for suppliers on improving the sustainability of their sourcing and production, can successfully enhance supply chain sustainability as a whole, and help to manage and mitigate organizational risk.⁵²

As the complexity of regional geopolitics also continues to grow, various spillover effects into areas of material sourcing, labor conditions, and movement of goods will loom large over company decision-making around its procurement channels. Companies should set up proactive internal monitoring systems to try to anticipate political or legal responses to geopolitical shifts and to consider near- or friendshoring supply networks as needed.

Continuous effort to integrate sustainable procurement practices into an organization's corporate strategy and monitoring the implications of geopolitical events can reveal vulnerabilities to be mitigated, potentially tighten or near-shore a company's supply network, and unlock value-add

opportunities across the ESG spectrum. Research indicates that companies that prioritize sustainable and responsible procurement practices enjoy higher valuations than sector peers by as much as 10%-20%.⁵³

SUSTAINABLE PROCUREMENT LEADERS

Philips: Health technology company Philips has actively engaged with its suppliers to help reduce emissions across its end-to-end healthcare value chain and obtained approval from the *Science Based Targets initiative (SBTi)* for CO₂ emissions reduction targets across Scopes 1-3. Through its active supplier engagement efforts, 41% (based on spend) of Philips' suppliers have also committed to managing emissions against science-based targets, meaning the company is well on its way to its sustainability strategy goal of 50% of its total supplier spend by 2025.⁵⁴

Deutsche Post DHL: Deutsche Post DHL, a German multinational package delivery and logistics company, was recently awarded an EcoVadis 2023 sustainable procurement leadership award for "Best Value Chain Engagement." The award recognized the company's excellence in engaging partner networks in sustainability initiatives and driving internal engagement to strengthen global sustainable procurement programs.⁵⁵ The company has a clear strategy across multiple pillars that drives its value chain decision-making and has tied Board and Executive compensation to the achievement of sustainability goals.⁵⁶

The Estée Lauder Companies:

Estée Lauder has been recognized by EcoVadis for excellence in sustainable procurement performance. The company collaborates with its suppliers to advance sustainability across the whole value chain and supports partners on their continuous improvement.⁵⁷ Estée Lauder has also advocated finding collaborative approaches to co-create solutions for reducing Scope 3 emissions in supply chains.⁵⁸ Its work on reducing climate risk within its own supply chain has been recognized by CDP that has placed the company on its Supplier Engagement Leaderboard.⁵⁹



FORMALIZE YOUR SUSTAINABLE PROCUREMENT PROCESSES & SYSTEMS

DESIGN A SUSTAINABLE PROCUREMENT STRATEGY

With lots of suppliers to manage, KPIs to track, and supply network locations to prioritize, designing a supply chain sustainability program can be a daunting task. Start by prioritizing the highest risk inputs and site locations in your supply chain and create a matrix of sustainability criteria to evaluate performance of your existing supplier base. This will allow you to understand the scope of adjustments needed and will provide a basis for engaging with your supplier network to work towards improvements.

PILOT YOUR PROCUREMENT STRATEGY

With larger goals in mind, test your sustainable procurement criteria on a small group of suppliers, and try to include at least two organizations with different profiles (e.g., higher vs. lower capacity) to better anticipate the challenges of operationalizing this system among a diverse supplier base. Running a pilot program will allow you to understand the feasibility of implementing your sustainable procurement criteria, and to make the necessary changes to the approach with your corporate sustainability commitments in mind.

ACTIVELY ENGAGE AND COLLABORATE WITH SUPPLIERS

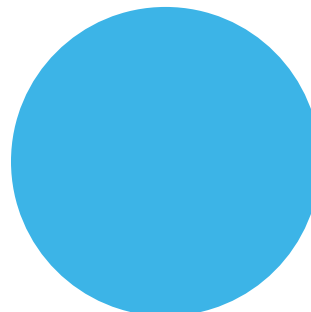
Healthy supplier relationships are the bedrock of any sustainable procurement program. Proactively and regularly engage with your suppliers to make sure they are aware of your organization's ESG expectations and are equipped to respond. Start by implementing a targeted engagement program with regularly planned feedback opportunities between suppliers and your procurement personnel. Target key or high impact suppliers for more intensive development as needed, and institute supply chain improvement programs by setting agreed upon KPIs with suppliers. Remember to reward progress.

MONITOR GEOPOLITICAL HEADWINDS

It is difficult to predict shifting political relationships and regional conflicts, but companies must actively monitor developments to stay ahead of risks such as asset deprivation or devaluation or soaring input costs. Companies should examine their priority locations, weigh redistribution of their asset concentration to hedge against deterioration risks, and conduct scenario planning to understand the economic trade-offs of near- or friendshoring highly impacted portions of its supplier network.

GET SERIOUS ABOUT "SCOPE 3" EMISSIONS

Value chain emissions can make up 65-95% of most businesses' total emissions—and will only grow in importance as ESG-related non-financial disclosures broaden and become more mandatory for larger companies with expansive operations in Europe and the United States.⁶⁰ Take action with your suppliers now to ensure you have the systems and processes to gather the necessary data, assess the company's Scope 3 impact, and to be better positioned to report on and ultimately reduce your "Scope 3" emissions.





NATURE BASED ASSETS WILL DRIVE VALUATIONS

There is a hidden \$145 trillion per year economy linked to the air we breathe, the water we drink, the land we inhabit, and the natural capital we depend on—but our mismanagement of invaluable ecosystem services is driving billions in annual declines.⁶¹



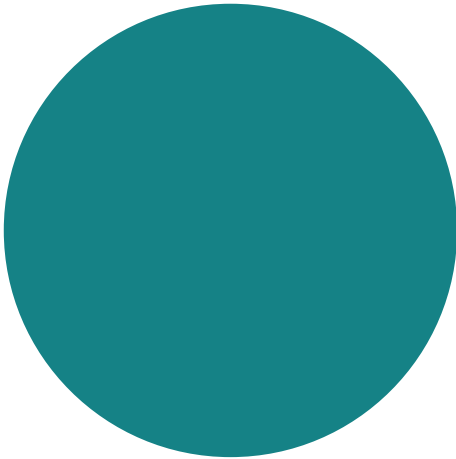
Over half of global GDP is estimated to be linked to ecosystem services⁶², or the benefits humanity derives from the natural world, with efforts to centralize the measurement of impacts on nature taking on added importance. In December 2022, following COP15, the *Kunming-Montreal Global Biodiversity Framework* was released, providing an explicit imperative for businesses to act on nature and contribute to progress on respective national-level nature targets.

Nature-based assets, in the form of raw material inputs vital to company products and ecosystem services that impact business operations will drive company valuations and estimations of longer-term business viability. These dependencies on nature take center stage as research shows the effects of business activity challenging several existential tipping points, such as permafrost, ice sheet collapse, and tropical deforestation.⁶³ While strides have been made in historically prominent sectors to account for issues of scarcity and nature impact, such as oil and gas and minerals, the business impacts on other natural capitals, such as soil and water, have

received far less attention. Also absent from balance sheets so far are company impacts on biodiversity, which plays a key role in the health and regenerative capacity of ecosystems.⁶⁴

Nature-focused stocktaking and materiality analyses are essential first steps for companies to understand which impacts, dependencies, and geographies are crucial to address. Companies can then access methodologies, such as the *Capitals Coalition's Natural Capital Protocol*⁶⁵, to assign values to natural inputs and services to understand the true cost of its operations. Supplementary guidance to the Protocol is available for financial institutions for portfolio analysis⁶⁶, and the *Natural Capital Finance Alliance* has also created specific step-by-step risk assessment guidance on natural capital for banks.⁶⁷

There is a growing emphasis being placed by investors and other stakeholders on non-financial disclosures and external target setting around nature. *The Science Based Targets Network (SBTN)*⁶⁸, the *Taskforce on Nature-related Financial Disclosure (TNFD)*⁶⁹, and the *Global Reporting Initiative (GRI)*⁷⁰



 **\$44 TRILLION**
OF ECONOMIC VALUE—
MORE THAN HALF OF
GLOBAL GDP—is moderately
or highly dependent on
ecosystem services⁷¹
(World Economic Forum)

In a UN review, approximately
 **25%**
OF PLANT AND ANIMAL SPECIES
STUDIED WERE THREATENED
WITH EXTINCTION⁷²
(Intergovernmental Science-Policy
Platform on Biodiversity and Ecosystem Services)

 **EXPOSURE TO RISK
DUE TO NATURE LOSS**
is highest in India and Indonesia,
where highly dependent sectors
respectively comprise
33% and 32%
of national GDP⁷³
(World Economic Forum)

have developed target-setting frameworks, nature impact measurement methodologies, and reporting standards for businesses to manage their nature footprint. A commitment to transparent disclosure and nature management will position companies in advance of future mandatory reporting on nature, which has already arrived for some companies operating in Europe.

Market perceptions of nature and biodiversity are shifting dramatically as new valuation methodologies and frameworks enable organizations to realize the true size and value of the ecosystems that underpin the global economy. Companies will need to define the impacts and dependencies they have on nature across their value chains with the aim of minimizing negative impacts and disclosing nature management steps. As the Earth's systems continue to experience painful transition effects that directly touch humanity's quality of life, companies will be expected to take on a proportionate role in addressing these joint challenges.

TARGETED NATURE-BASED REPORTING

Science Based Targets for Nature (SBTN)	Taskforce on Nature-related Financial Disclosure (TNFD)	GRI Biodiversity Standard (GRI)
Equips companies and cities to set science-based targets for water, land, biodiversity, and ocean	Enables organizations to report and act on evolving nature-related risks	Enables organizations to disclose their most significant biodiversity impacts and how they are managed

A TARGET SETTING PROCESS



ACCOUNTABILITY IS PARTNERING WITH THE ACCOUNTABILITY ACCELERATOR OF THE GLOBAL COMMONS ALLIANCE

to develop a navigation tool that synthesizes leading nature-positive guidance resources and nature disclosure instruments for companies to simplify the journey to taking action on nature. Available in Summer 2023, this guide aims to drive corporate accountability for nature action by driving awareness of the landscape of nature management tools and disclosure instruments.



TAKE ACTION TO ACHIEVE NATURE BASED PERFORMANCE GOALS

REVIEW AND CALIBRATE AGAINST LEADING GLOBAL BIODIVERSITY FRAMEWORKS

The *Kunming-Montreal GBF* is a landmark international pact coming out of COP15 in 2022 that aims to serve as the unifying driving effort to halt and reverse biodiversity loss by 2030.⁷⁴ Dubbed “the Paris Agreement for biodiversity,” the GBF calls on businesses to monitor, assess, and disclose their impacts on biodiversity, and notes their crucial roles in helping nations meet nature targets.

MAP MATERIAL IMPACTS AND DEPENDENCIES ON NATURE

While measurement of nature impacts and dependencies can feel like a daunting task, there are many “no regrets”⁷⁵ actions that businesses can take as they prepare for broader and more formalized voluntary and regulatory-driven disclosure needs. Companies should undergo a nature-focused materiality assessment process that maps material impacts and dependencies on nature and helps prioritize key value chain sites where effects are greatest. This will arm your company with a holistic understanding of its material engagement areas as it prepares to take further steps towards nature-positive management.

COMMIT TO ONGOING MEASUREMENT AND TRANSPARENT DISCLOSURE

Commitment to establishing continuous measurement processes to assess your company's nature impacts and dependencies and transparently disclosing the results of your company's nature footprint signals marketplace leadership in a rapidly emerging area of investor interest. Understanding your company's nature-focused materiality concerns and high-priority geographic contexts also positions you well for understanding data collection and analysis needs, and will allow you to lay the groundwork for disclosures that may become mandatory through future regulatory action.

NATURE BASED PERFORMANCE IS NOW INTRINSICALLY A PART OF CORPORATE SUSTAINABILITY REPORTING AND ASSET VALUATION.

Assigning value to biodiversity, land, and water can help companies understand hidden nature dependency costs associated with their services and recognize risks to longer-term business viability.

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