Four top sustainability trends for your business in 2022

Executives & Entrepreneurs

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- Entrepreneurs can expect an acceleration of the multiyear trend toward greener, more socially responsible, and better governed small and medium-sized enterprises in 2022
- We outline four top sustainability trends for your business in the coming year, including practical tips on how to implement them across your wealth.
- Environmental, social, corporate governance, and family governance may all be important themes for your consideration and action.

2021 was a year of two contrasting halves for business owners and investors. The unprecedented speed and scale of vaccinations enabled a dramatic bounce back in the first half, but the effects of COVID-19 lingered as new variants emerged and persistent supply chain disruptions wreaked havoc in the second. Despite these uncertainties, the deepening commitments to sustainability among policymakers, investors, and consumers alike became clear. Looking ahead, entrepreneurs can expect an acceleration of the multiyear trend toward greener, more socially responsible, and better governed small and medium-sized enterprises in 2022.

Last year business owners witnessed a further expansion of efforts to fight climate change at COP26, the rise of social factors driving the "Great Resignation," and tightening regulations across environmental, social, and governance (ESG) standards.

All of these factors suggest 2022 may be the year of execution.

With so many developments underway, we've identified four top sustainability trends for business owners. We've also outlined potential steps for your business—and for your portfolio—to start off your 2022 sustainability initiatives on the right foot.

1. Environmental pledges may begin hitting the bottom line

Fifty-nine countries accounting for 55% of global emissions have pledged to reach net-zero carbon by 2050. In the nearer term, the US aims to reach 80% clean electricity and 50% electric vehicle sales by 2030. The resulting policy and market shifts, such as carbon pricing, could increasingly align environmental issues with companies' bottom lines.

For business owners, the biggest short-term opportunities to begin a net-zero journey will likely include increased focus on energy efficiency and digitalization in existing operations; an ongoing switch from fossil fuels to renewable energies; and renewed efforts to rebuild net-zero supply chains. For more on this topic, please see "Six ways business owners can start their net-zero supply chain transition."

Naturally entrepreneurs may not be able—or find it economically viable—to completely move away from fossil fuels. However, increased regulation and the ongoing build-out of carbon markets will require business owners to familiarize themselves with the costs of carbon and the most financially and environmentally impactful ways to reduce their footprint. For more on this topic, please see "Five things business owners need to know about carbon pricing."

Business owners could also consider unconventional ways to generate lower-carbon (or zero-carbon) energy. One means could be an increased focus on business waste—its reduction, reuse (as part of a circular economy business model), or repurposing as biofuel. And the most forward-thinking businesses could also explore active carbon capture strategies, like nascent carbon capture, utilization, and storage. For more on the commercial opportunities of waste, please see our *Future of waste* report.

For ideas on how to position for the net-zero carbon transition outside your business and in your portfolio, please see *Year Ahead 2022: A Year of Discovery.*

2. Your company's social policies—especially on diversity, equity, and inclusion—could become a bigger differentiator

Over the last few years, the "S" of ESG (environmental, social, and corporate governance) factors has taken on a greater importance for entrepreneurs. The catalysts for this invigorated interest are numerous and include the growing social protest movements around gender, racial, and ethnic equality and the rise of social inequalities laid bare by the pandemic.

That said, 2022 could be a year in which diversity, equity, and inclusion (DE&I) become more important focus points for business owners beyond the pandemic.

First, the risks of not building a diverse, equitable, and inclusive firm are only likely to grow thanks to more comprehensive regulation mandating board and management diversity (though this is primarily focused on listed companies for now).

Second, inflexible work practices (like a mandated return to the office, rigid daily work schedules, or a lack of asynchronous personal development opportunities) have likely contributed to the so-called "Great Resignation" and the consequent pressures brought to bear by unfilled roles, higher wage bargaining, and the pass-through of costs.

Third, increased technological adoption and the need to have the right worker in the right place at the right time are raising the opportunity costs of not promoting diverse hiring policies and building inclusive environments for all genders, sexualities, races, ethnicities, and neurological types.

In our report "The commercial case for diversity and inclusion," we illustrated how DE&I can give firms a competitive edge in the war for talent, enabling them to drive innovation and gain market access. The pandemic has potentially accelerated an understanding that DE&I not only depends on legal mechanisms and a founder's personal beliefs, but also is increasingly a voluntary decision to become more accepting of difference to maximize commercial opportunities across the entire firm.

Business owners should be prepared to approach DE&I through multiple channels and encourage the whole company to embody its principles whether with customers and communities by way of products and services, with supply chains via responsible labor practices, or with stakeholders through increased investor and buyer scrutiny of a growing body of DE&I indicators.

3. Governance will remain the bedrock of your company's sustainability, and its scope could expand

For sustainable investors, corporate governance is regarded as financially material across companies and sectors. Put differently, how your firm is run makes a difference to performance, whether through reducing risks and fines, mitigating conflicts of interest, or even improving your business's appeal to external buyers.

The cost of poor governance is substantial. In a recent CIO publication "Sustainable Investing Perspectives: Supply chain, divestment, and governance," we noted that for listed companies in the US S&P 500 equity index, ESG-related scandals led to around USD 0.5tr in market capitalization losses in the five years running up to the pandemic. By contrast, the headline index grew by 7% on average according to Bank of America Merrill Lynch Research.

We expect governance *of* sustainability to increasingly matter as much as governance *in* sustainability. Corporate policies, practices, and behaviors will continue to underpin stakeholders' perception of your company's sustainability. But we also expect the market to shine a brighter light on your firm's approach to identifying sustainability challenges and opportunities; the building of impactful and measurable strategies to tackle these issues; and the production of transparent sustainability reporting that is fit for different stakeholders' purposes.

Clearly consistent sustainability measures, cross-border clarity on reporting regulations, and a deeper understanding of stakeholders' information requirements will all be pivotal to success. Yet we believe forward-thinking business owners can retain and advance their competitive edge by working now on adopting common standards where available (or even setting them) and engaging more closely with their supply chains, peers, customers, and regulators to pick up best practices and adopt them early. You can discover more on the need for common standards and tips for your firm's sustainability governance in "Three steps to becoming more sustainable…and profitable."

4. The pandemic and its aftermath may prompt you to revisit your business succession plan

The ongoing uncertainties caused by the pandemic and policymakers' responses may prompt you to reconsider governance around your business and any succession or exit plans already in place. Perhaps family, operating, or personal circumstances have changed, but you have postponed updating your family governance until you have greater clarity on the pandemic's path.

Business owners that decide to build or tweak their family strategy in 2022 can consider how they define their family, its values, purpose, vision, and mission; how to establish a flexible but robust family governance system that engages all parties; and how to evolve to meet changing business, family, and financial objectives. Entrepreneurs may also consider using practical tool kits alongside their trusted advisors to talk, plan, and execute their family governance model.

In "Talk, plan, do: A guide to business succession and exit," we explore four potential paths for your business and highlight three key ingredients: intergenerational communication, a common family focus, and a shared meaning of equality, equity, and fairness.

Making whole-year predictions can be a facile undertaking, especially in today's world of economic, health, and policy uncertainties. Nevertheless, we believe business owners can potentially benefit both from considering what these top four sustainability trends mean for their firm and from starting early to execute ahead of the competition.

To all business owners and entrepreneurs, we wish you a healthy, prosperous, and sustainable year ahead!

Appendix

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