Harvard Business Review

Business And Society

# 2022: A Tumultuous Year in ESG and Sustainability

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December 21, 2022

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**Summary.** The past year has been a challenging one for companies on the ESG front. Overlapping environmental, social, and political crises — from flooding and wildfires to the first war in Europe in 80 years — have made the jobs of leaders that much harder. This... **more**

It was another tumultuous year for humanity and business. Inflation, supply chain problems, the first war in Europe in 80 years, and much more came together to challenge us all.

The existential challenges we face — which the business community is increasingly being asked to help solve — got worse this year. We experienced climate-change-driven extreme weather: with record heat waves in Europe, India, and the earth's poles; sprawling fires in the U.S.; and the shocking summer floods in Pakistan that covered one-third of the country. In the largest context of all — how many people live on this planet — took a symbolic step forward as we hit 8 billion people. (And no, the fusion energy breakthrough will not save us all).

In the realm of what is mainly called sustainability or ESG now, the pressures on business to do more and better expanded rapidly this year. Companies are now asked to take positions on nearly everything from climate and inequality; to racial, gender, and LGBTQ+ equality; to democracy and misinformation. No major environmental, social, or geopolitical issues are off the table. That shift in the expected role of business in society is my biggest story of the year.

Let's break down this shift with 10 big themes that emerged or evolved in 2022.

### 1. Elections matter (a lot), and so does policy.

Arguably the biggest climate story — and thus one of the biggest for humanity — was the election in Brazil of Luiz Inácio Lula da Silva for president. Under current president Jair Bolsonaro, the country has pursued aggressive deforestation, bringing the "world's lungs" closer to a tipping point where it generates more

$CO_2$ than it captures. This would make slowing climate change immensely harder. Lula, however, has committed to protecting the Amazon.

The biggest policy win on climate was the passage of the Inflation Reduction Act (IRA) in the U.S. The legislation includes hundreds of billions of spending on climate priorities, with tax credits for clean energy, incentives for EVs, and funding for clean tech manufacturing. It puts the U.S. on a path to cut emissions 40% by 2030 (from 2005 levels). The incredible level of investment will shake up industries, accelerate decarbonization, and, as *the New York Times* declared, "affect every aspect of U.S. energy production."

That bill was only possible because of previous U.S. elections that gave Democrats the 50 Senators needed to act on climate (all 50 GOP Senators voted against the IRA, and *The Wall Street Journal* reported that congressional Republicans lobbied the oil and gas industry to speak out against the bill). In the U.S. 2022 midterms, climate finally emerged as a real voting issue, with 73% of Americans supporting the IRA.

For its part, the EU just passed a cross-border tax on carbon, which could have enormous ramifications for industries all over the world and help establish a global carbon price. And the EU parliament set a zero-emissions target for new cars and vans for 2035. On the global policy level, after an uninspiring climate meeting (COP27), the global convention on biodiversity produced an impressive target to protect 30% of the planet for nature.

The pressure on business to align its lobbying and policies with its big sustainability goals and its values is growing. Some companies in the U.S. came out to condemn election fraud claims and defend

democracy. Others, like shipping giant Maersk, pulled out of trade groups over disagreements on climate or other policies. But unfortunately, the more common is the story of the trucking industry, which has big EV goals…while their trade group fights regulations to boost zero-emission vehicles. In a more transparent world (see #7), this can't continue.

## 2. Russia invades Ukraine…and McDonalds pulls out of Russia.

The invasion of Ukraine sent immense shock waves through energy, food, and other markets. It accelerated the short-term investment in some replacement fossil fuels (like LNG) but seems to be spurring on a faster transition to clean energy in the EU.

The war also connected directly to corporate sustainability as companies felt immediate pressure to stop doing business in Russia. Within days, dozens of big companies reduced their presence in the country. It took a few weeks, but eventually a highly symbolic move happened…McDonald's pulled out of a famously successful market for the company (and 7% of its revenue). In a great example of how transparency shapes business now (again, see #7), the Chief Executive Leadership Institute at Yale School of Management (led by Professor Jeffrey Sonnenfeld) created a running list of how companies were handling the issue, grading them from A ("clean break") to F ("digging in"). The world has been watching how companies reacted.

## 3. Clean tech, especially EVs, hits big tipping points.

Using data on technology adoption curves, a BloombergNEF report declared that "Clean Energy Has a Tipping Point, and 87 Countries Have Reached It." And car companies know it — almost

every major producer intends to stop making internal combustion engines within 10 to 20 years. For example, VW said it will only make EVs in Europe from 2033.

The International Energy Agency (IEA), which has vastly and repeatedly underestimated growth of renewable energy, greatly accelerated its clean tech predictions. Now, they say, fossil fuel use in the power sector has likely peaked, wind and solar are adding more capacity to the grid annually than natural gas has in *any* previous year, renewables as a source of energy will pass coal by 2025, and total fossil fuel use across the economy will peak in the 2030s.

The only trends here that could, um, tap the brakes on all this growth are two things: renewables and car battery prices rose for the first time due to the same supply chain and inflation issues plaguing every sector (but they still maintain a relative advantage); and the mining sector has been warning that it may not keep up with expected skyrocketing growth in demand for metals like copper and lithium needed in the clean tech sector.

### 4. Business stands up for the rights of women and the LGBTQ+ community.

If I had to pick a single story from 2022 that captures the challenges of being a business in a complicated society, it would be what happened to the Walt Disney Company. It started when the state of Florida passed a disturbing bill known as the “Don’t Say Gay” law, which restricts the teaching of gender and sexual orientation in elementary schools. The LGBTQ community spoke out about the bill making the lives of gay and trans kids, teachers, and parents harder than they already are.

At first, the CEO of Disney, one of Florida's big employers and a company that happily employs and markets to the LGBTQ community, remained silent. But employees spoke out and pushed the CEO to come out against the bill. What happened next is chilling. The Florida governor and legislature targeted Disney and its financial health, stripping the company of a special tax status. This was a key example of the politically motivated backlash against ESG and companies taking social positions coming from the political right (see #5 below).

A much larger story was the U.S. Supreme Court *Dobbs* case, which overturned *Roe v. Wade*, denying women's the right to control their reproductive health. Many companies came off the sidelines and offered their employees support and funding for travel to states where abortions are legal. Like with the Russia situation, a public list of corporate actions to support abortion rights was published. But many more companies, including some of my clients, offered these benefits to employees more privately.

### 5. ESG Investing is dead. Long live ESG Investing.

A so-called ESG backlash (part of the "anti-woke" movement) from the right-wing in the U.S. is certainly making waves. Florida pulled $2 billion in assets from mega-asset manager BlackRock to protest its support for ESG, climate action, and stakeholder capitalism. The state of Texas moved to bar state contracts with banks that are reducing investments in fossil fuel companies or gun manufacturers. The backlash is based on the fiction that, as Ceres' Mindy Lubber put it, "climate-smart business practices are somehow a secondary, ideologically driven sideshow to real financial concerns." In truth, climate change and clean tech

create enormous risks and opportunities for companies and deeply affect their profitability and prospects. Investors *need* to understand and incorporate those risks into their assessments.

But unfortunately for the BlackRocks of the world, in parallel, there has been a backlash against ESG from a different angle — one intending to make this fast-growing class of investment assets more consistent and transparent. Regulators and NGOs have been calling out banks for claiming they offer ESG-screened investments with little data or proof that there's anything to the screen. The CEO of a Deutsche Bank subsidiary even had to resign after EU authorities raided the company over "greenwashing" related to its ESG offerings. With an increase in the rigor of ESG definitions, one study found, U.S. assets in ESG-related products would be $8 trillion, not $17 trillion. Ultimately, by improving legitimacy somewhat, this adjustment is a good thing.

In a sign of the push and pull within a single company, the head of sustainable investing for HSBC came out strongly…against sustainable investing, saying, "climate change is not a risk that we need to worry about." He was suspended and then left. Meanwhile, HSBC announced it would stop some key sources of financing to the fossil fuel industry.

Like HSBC, many investors did flex their ESG muscle in 2022. The Norwegian sovereign fund (the world's largest) said it would vote against companies that don't set net zero carbon targets, overpay top execs, or lack diversity on their boards. French giant AXA made similar commitments. Another group of investors pushed retailer Sainsbury to pay living wages.

### 6. A sea of acronyms for sustainability standards and regulations wash over companies.

A large and growing machinery is providing structure around ESG ratings. There's a burgeoning global standard for sustainability — i.e., what companies must (or should) report about how societal issues impact their business. Companies face a giant wave of questions that can overwhelm: as one sustainability executive said speaking at the Sustainable Brands conference this year, "the earth will burn down while we are filling out ESG surveys." But we do need data, metrics, and standards — they can seem wonky, but standards are critical to making the world go around (how much do you want to buy products with no safety or fire standards?).

As described in #5 above, the investor ESG world, which is mainly focused on screening companies for risk — and *not* really looking at whether companies are more sustainable, regenerative, or net positive — is anarchy right now. Clear definitions are hard to come by, and those questions investors ask companies to rate them are all over the map. This is somewhat expected. After all, the three main financial documents we all work from today — balance sheet, income statement, and cash flow statement — took centuries to evolve.

Working on the problem, most notably, is the International Sustainability Standards Board (ISSB), created in 2021 by the IFRS which helps set global accounting standards. Some say the ISSB standards are not effective enough, but critics and other stakeholders are providing input to the organization; standards are likely to evolve and improve. In the meantime, the ISSB standards are already proliferating, and this year, many countries (including China, Nigeria, and the UK) officially adopted them; that means they become mandatory for large companies. Standards for midsize or smaller companies are sure to come (in 2021, some private equity firms created their own standards).

### 7. A glass-bottomed boat sails those seas — transparency is still rising.

Transparency is a giga-trend with enormous power. It's coming from technology, regulations, changing norms, and more. For a sample of what technology is doing, look no further than the very cool and slightly creepy public database, Climate TRACE. Developed by a few non-profits focused on carbon emissions, with some funding from Google.org, it was launched at the COP27 global climate meeting in November. The website uses satellite data and AI to map nearly 80,000 sources of climate pollution. Zoom in and pull up, say, all the power plants in China. Or the bauxite mines and aluminum factories in Brazil and Peru. Each site is shown with estimated emissions. It's pretty hard to hide from communities or regulators when someone is measuring your emissions…from space.

Regulatory transparency is also accelerating. Switzerland announced it will mandate climate disclosures for large companies starting in 2024 (thus the need for those standards). And the U.S. Securities and Exchange Commission proposed new reporting requirements as well. Companies will need to measure and publish their carbon emissions, both Scope 1 (onsite emissions) and Scope 2 (emissions from electricity bought from the grid). Soon to come, the SEC says, is Scope 3 (the supply chain and customer emissions). Scope 3 was all I heard about at numerous sustainability events this year. Companies worry about the lack of data available, but the gaps are filling.

### 8. Service businesses feel pressure from employees to drop unsustainable clients.

This year, employees at PR giant Edelman had "sharp questions" at a companywide meeting about why the firm works for Exxon Mobil and Shell. Some smart NGOs are accelerating this internal

pressure: Clean Creatives pushes PR and ad agencies to stop working with fossil fuel companies, ClimateVoice [disclosure: I sit on the board] helps employees press their companies to support pro-climate policies; and Glimpse, helps young "creatives" working in big agencies speak up.

For years, companies without big, direct carbon footprints — service business like agencies, consulting firms, and banks — considered themselves low emitters. But it's become clear that banks have giant footprints through their funding, and consulting firms and ad agencies make choices about who they help grow and succeed. As younger generations take over the workforce, they seek more meaning at work and more responsibility from their employers. Some partners at a major consulting firm told me this year that they had to develop a policy for which kinds of projects and companies they'd work for, or they wouldn't be able to hire the best people.

### 9. More companies are aiming for net zero — and beyond.

A growing list of companies (and countries, like Finland) put forward "net zero" targets for carbon by 2050 or sooner, and some include their supply chains (see Apple). By midyear, 700 large public companies had set net zero goals, a 68% increase from two years earlier. Definitions of what "zero" means vary depending on whether a company will use carbon offsets or not. But companies kept setting goals and taking action. Importantly, the heaviest industries made progress. CEMEX announced a new cement plant that will operate entirely on alternative fuels. And Tata Steel is selling Ford "green steel" made with hydrogen-based power.

In an odd exception to this streamroller of higher goals, Vanguard quit the Net Zero Asset Managers (NZAM) initiative, whose members represent $65 trillion of assets under management. But

a parallel group, the Net-Zero Asset Owner Alliance, representing $10 trillion, committed to cut emissions in half by 2030. Some may follow Vanguard, but I doubt it will be many (famous last words). For now, companies are still setting these goals, but it is true, one survey showed, that quarter of them are not going to publicize the goal, partly to avoid the backlash (see #5). Some are calling this phenomenon "green-hushing."

### 10. Innovative and/or fun ideas abound.

I could list hundreds of stories for the year, but here a just a few that grabbed me (many are around packaging)…

- CVS dropped prices on tampons to reduce the "pink tax" (women pay more for the same items as men)
- A fleet of electric school buses in Massachusetts provided energy back to the grid over summer peak days
- In Barcelona, student protesters pushed the university system to make climate education mandatory
- Walmart reduced toxic chemicals in products by 37 million pounds
- Marks & Spencer trialed refillable cleaning and laundry products
- Target launched Target Zero, a collection of products to reduce single-use packaging
- IHG Hotels and Unilever took out single-use miniatures in hotel rooms
- Timberland asked for your boots back for upcycling

### Looking to 2023

Crystal balls are cloudy, but a few predictions:

- The politicized and fabricated “anti-woke” movement isn’t going away
- Attention getting, youth-led climate protests, like those throwing soup at a Van Gogh painting, will accelerate
- The question, “where are all the workers?” will continue to plague developed markets (Covid deaths, long Covid, Covid “distancers,” and lack of immigration have all been posited as answers)
- Questions about inequality and how the obscenely wealthy use their power will rise (see Elon Musk and Twitter)
- Energy markets will stay highly volatile
- The clean tech economy discussion will move more to the infrastructure needed to support growth
- The Supreme Court or state legislatures in the U.S. will restrict rights again (especially women’s), and companies will have to respond
- Elections will continue to be critically important

And so, off we go into another tumultuous year, where sustainability lurches forward two steps here, half a step back there, and a few sideways as well.

**Andrew Winston** is one of the world’s leading thinkers on sustainable business strategy. He is an adviser and speaker on how to build companies that profit by serving the world. His books include *Green to Gold, The Big Pivot,* and *Net Positive*.

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