Building Business Resilience for the Decade of Action

October 2020
# Table of Contents

<table>
<thead>
<tr>
<th>Page</th>
<th>Section</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.0</td>
<td>Foreword</td>
</tr>
<tr>
<td>2.0</td>
<td>What is Resilience and Why Does it Matter for Business?</td>
</tr>
<tr>
<td>3.0</td>
<td>ESG Integration</td>
</tr>
<tr>
<td>4.0</td>
<td>Low Carbon Economy Transition</td>
</tr>
<tr>
<td>5.0</td>
<td>Human &amp; Social Capital Management</td>
</tr>
<tr>
<td>6.0</td>
<td>Conclusion &amp; Recommendations</td>
</tr>
</tbody>
</table>
In his influential 1970 essay “The Social Responsibility of Business is to Increase Its Profits,” US economist Milton Friedman argued that it is not business’s place to strive for any form of social responsibility beyond making money. The following year, our company, ERM, was born.

During the half-century that has passed since, Friedman’s views, once widely accepted by the business community and other powerful constituencies, including many policymakers, have been challenged with more and more intensity. Over this period, ERM has witnessed shifting expectations around companies’ responsibility to society – a huge factor, we believe, driving the debate.

As we enter the final stretch of 2020, we near the close of a pivotal 12 months. Nearly a full year of what the UN has declared a critical “decade of action” for humankind to address the greatest planetary challenges has passed.

During these months, we have been faced with the health and economic consequences of the COVID-19 crisis, growing evidence of the devastation resulting from climate change and accelerating mass extinction, and widespread protests and violence in reaction to inequality, systemic racism and the abuse of power by police.

To better prepare for future shocks and meet external demands, companies must shift their view of long-term resilience. With all that’s been laid bare by 2020’s extreme pressures, it is clear that resilience is not just about internal company actions, but that it is also connected to societal norms and expectations, the policy environment, and natural ecosystems.

As I wrote in a September 2020 article for The Telegraph arguing that businesses that integrate sustainability are stronger organizations, ERM has always focused on helping our clients increase resilience, from operations and management, right through corporate strategy and governance.

Resilience is embedded in ERM’s own strategy as well, shaping our view of how the business environment is evolving and the adjustments we need to make in response.

We see understanding and embedding resilience as crucial to helping our clients grapple with all the pressures they face.

It is also integral to delivering our purpose, shaping a sustainable future with the world’s leading organizations.

While our own thinking on resilience is evolving as it is in the wider world, we see it as an umbrella concept affecting everything that companies do. Resilience is not limited to one topic, one part of operations or one service.

Instead, it is both a mindset and a way of behaving that needs to touch every part of an organization. It is a complex and constantly evolving notion, demanding continuous learning, improvement and openness to change.

It is this adaptable approach to understanding resilience that we see in the businesses responding most effectively to 2020’s challenges and the sustainable development issues needing to be addressed during the entire decade of action.

Keryn James, Chief Executive, ERM Group

“To better prepare for future shocks and meet external demands, companies must shift their view of long-term resilience.”
ERM and our new SustainAbility Institute are determined to help meet the tests of this momentous decade.

Resilience can be viewed through many different lenses, and it is a dynamic rather than a static concept. We recently collaborated with the World Business Council for Sustainable Development (WBCSD) to develop an issue brief on business resilience drawing on early learnings from companies’ responses to the COVID-19 pandemic and other recent systemic shocks.

In that project, we defined long-term business resilience and explored ways companies can increase their stores of it. In particular, the issue brief covered ways Environmental, Social and Governance (ESG) issues, Human & Social Capital (H&SC), and Risk Management are relevant to understanding this topic.

We intentionally pick up on our work with WBCSD in this new document, building on those findings, and exploring further three areas that we are certain will be of critical future importance to this subject.

We examine ESG and H&SC again (exploring their relationship to resilience over longer time frames, and seeking examples and evidence of their influence on resilience beyond what we learned studying COVID-19 response), and this time we also consider how the Low Carbon Economy Transition (LCET) influences long-term business resilience.

This document’s tri-part focus stems from the recognition that resilience is multifaceted, and from the belief that no company will prove resilient long-term without embracing the role they must play in helping society decarbonize, ensuring outstanding ESG performance, and excelling at managing H&SC.

Friedman’s limited view of the social responsibility of business assumed the private sector could operate without consideration of its non-financial impacts, and as if society and nature would not influence it in turn.

Today, with a much clearer view of the deeply interconnected nature of our economy, society and the environment – illustrated so starkly by the financial and human impacts of COVID-19, itself a result of human encroachment on the wild – we understand that making a profit is dependent on participating in wider efforts essential to the functioning of society and the economy.

Sustainability issues – including ESG, LCET and H&SC – are high on the list of considerations that stakeholders expect businesses to address and that businesses need to address in order to lead.

While profit remains essential – without it, there is no opportunity for business to sustain delivery of other positive impacts – companies today earn it by connecting their purpose to societal needs and demonstrating that their contribution warrants the opportunity they are given to succeed in market terms.

We are committed to helping business understand that meeting stakeholder expectations for sustainability performance is what will let them thrive while helping deliver the just and sustainable society and economy sought during this decade of action.

ERM and our new SustainAbility Institute are determined to help meet the tests of this momentous decade.

Through this paper and other efforts, we aim to expand our understanding of resilience and sustainability by testing our thinking with other leaders working to overcome the planetary challenges we all face.

We look forward to undertaking the next years of this journey with you.

Keryn James, Chief Executive, ERM Group
At its heart, resilience is about surviving and thriving in the face of challenges in the short, medium and especially the long-term.

Resilience has perhaps never been in the spotlight the way it has in 2020, simultaneously the first year of the UN-declared decade of action to accelerate progress on the global sustainability agenda, and the moment society is dealing with a pandemic, huge economic disruption, and massive social unrest related to inequity and discrimination.

The circumstances make clear that progress this decade will be hard won, but also underscore the imperative of succeeding.

For all it has wrought, this year has offered only a taste of other systemic shocks and challenges to come.

Be they wholly unpredictable Black Swans, or Gray Rhinos that we can see but fail to prepare for, what is certain is that more tests await, from the difficulty of COVID-19 recovery, to the multiplying impacts of climate change and other environmental disruptions, to further battles to increase equity.

This changing world creates an increasingly complex operating environment for business, a situation compounded by increasing stakeholder expectations for the private sector coming from investors, regulators, employees, consumers and others.

Recognizing and accepting this is critical for business leaders to be able to support the scale of systems transformation needed to increase both institutional and societal resilience.

---

1 Black swans were defined in 2007 by Nassim Nicholas Taleb as “unpredictable [outliers], with an extreme impact and which are, after the fact, revised as explainable and predictable.”
2 Gray rhinos, as termed by Michele Wucker, are challenges that are obvious yet neglected despite—and all too often because of—their size, see https://thegrayrhino.com/about/michelewucker/
Defining resilience and its attributes

The research behind our joint September 2020 publication with WBCSD, *Building Long-Term Business Resilience*, showed many past studies on resilience and its attributes were undertaken in the context of natural systems. It also found the concept of resilience is unfamiliar to much of the business community.

The WBCSD brief highlighted some early alignment on aspects of business resilience, most notably in the shift from a view of resilience as robustness or the ability to maintain or return to an existing state, to a tendency to redefine resilience as something more complex, dynamic and consciously transformational.

While both are valid, we aligned with the latter notion, perceiving the ability to react and transform as better suited to the interconnected and rapidly evolving environment in which business operates.

Based on our exploration of the concept and its history, we defined long-term business resilience as “a business’s ability to anticipate and prepare for change, then adapt to circumstances in the manner that provides the greatest chance of thriving over the long-term.”

Critically, “thriving” here encompasses the development and delivery of ever-more sustainable business models and meeting stakeholder and societal expectations in addition to profitability, meaning a resilient business is more than a simple “going concern” in accounting terms.

The WBCSD brief also identified and explored the many and varied attributes of resilience, pointing to Diversity, Modularity, Cohesion, and Adaptability as foundational.

One of these, Adaptability, was assigned particular importance based on the finding that: “… resilient systems adapt and change in response to system conditions, learning from past experiences and even transforming when required,” characteristics we think essential to organizations enduring over the long-term.

Long-term business resilience is a business’s ability to anticipate and prepare for change, then adapt to circumstances in the manner that provides the greatest chance of thriving over the long-term.

---

Recommendations by sustainability experts

In the most recent GlobeScan / SustainAbility Survey, we posed a question to leading sustainability experts from companies, NGOs, governments, academia and other organizations on what actions companies should take in order to improve their long-term resilience and be better equipped to face events like COVID-19.

Survey responses showed a diversity of views, with experts suggesting a range of actions that companies should take (see Chart 1). Among the key priorities, experts recommended four focus areas: the need for new business models informed by long-term or systems thinking, strong environmental and ESG performance, evolving and improving risk and business continuity planning, and supply chain transformation.

Additionally, respondents pointed to the importance of tackling climate change and transitioning to low carbon models, focusing on employee wellbeing and improving collaboration with governments and other stakeholders.

Chart 1

Sustainability Expert Recommendations on Priority Areas for Business to Increase Long-Term Resilience

More than 700 global sustainability experts were asked to respond to the following question between May to June 2020: What are the most urgent actions the private sector should take to increase resilience and ability to withstand future systemic shocks? Source: The GlobeScan / SustainAbility Survey: 2020 Sustainability Leaders.
Internal and external drivers of resilience

Long-term resilience will be shaped by actions that companies choose to undertake, but it will also be influenced by a range of external trends and developments.

The regulatory environment, the stability of the financial system, investor preferences, consumer behaviors and the pace of digital transformation are only a few examples of external forces that will determine how adaptive and resilient businesses are in the future.

We illustrate the breadth of these internal and external influences in Table 1, which we left purposely incomplete to reflect the evolution underway as the business world continues to learn about what comprises resilience.

ERM has worked with companies in virtually every sector as they seek to address these internal and external factors and increase resilience, both in the context of COVID-19 and before the pandemic.

For example, supply chain management has long been recognized by companies as an important factor affecting business continuity.

Disruptions during the COVID-19 crisis have demonstrated even more powerfully that supply chains are critical to long-term resilience. For many companies, supply chains can pose higher risks than their own operations.

Table 1

<table>
<thead>
<tr>
<th>INTERNAL</th>
<th>EXTERNAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human &amp; Social Capital management</td>
<td>Digitization</td>
</tr>
<tr>
<td>Supply Chain management</td>
<td>Political stability and regulatory trends</td>
</tr>
<tr>
<td>Sustainable business models</td>
<td>Climate change &amp; the Low Carbon Economy Transition</td>
</tr>
<tr>
<td>ESG integration</td>
<td>Global financial system stability and transparency</td>
</tr>
<tr>
<td>Digitization</td>
<td>Ecosystem Health</td>
</tr>
<tr>
<td>The future of work</td>
<td>Strong &amp; healthy public institutions</td>
</tr>
<tr>
<td>Corporate risk management</td>
<td>Inequality &amp; poverty</td>
</tr>
<tr>
<td>Financial management &amp; liquidity</td>
<td>Global health</td>
</tr>
<tr>
<td>Low Carbon Economy Transition</td>
<td>ESG requirements</td>
</tr>
<tr>
<td>Cybersecurity management</td>
<td>Stakeholder expectations</td>
</tr>
<tr>
<td>Purpose, vision and strategy</td>
<td>Models of capitalism</td>
</tr>
<tr>
<td>Employee communications</td>
<td>...</td>
</tr>
<tr>
<td>Company leadership approaches</td>
<td></td>
</tr>
<tr>
<td>Stakeholder engagement practices</td>
<td></td>
</tr>
</tbody>
</table>

ERM has helped companies address these risks by helping them better understand their supplier base, conduct safety audits, identify climate-related and other ESG risk areas, develop training and IT systems, and implement mitigation measures.

Overall, we have observed that companies who apply a range of strategies and solutions to convert these risks into opportunities tend to establish greater supply chain maturity, protecting and maximizing business value.

Recognizing the many and shifting drivers shaping business resilience and the core areas of ERM’s expertise, the rest of this paper focuses on three additional areas certain to be of paramount importance to companies in the decade to 2030:

- **ESG integration**
- **Low Carbon Economy Transition (LCET)**
- **Human & Social Capital (H&SC)**

We explore why they will be critical for building resilience, what evidence exists to support this, and what companies can do to start taking action now.
Recent years have brought growing evidence that robust ESG management strengthens overall business performance while also benefiting society at large. Policymakers, NGOs, investors and consumers increasingly value sustainability, a trend reflected by changing policies, shifting capital flows and evolving consumer preferences worldwide.

The European Union has been a leader in terms of aligning policy and ESG. The Sustainability-Related Disclosure Regulation will require more visibility regarding how ESG factors are used in investment decisions, and the European Green Deal will introduce a whole package of policies aimed at making Europe carbon neutral and less resource-intensive by 2050.

While policy and investor expectations in other parts of the world have been changing more slowly, they are also gradually elevating ESG priorities. In response to regulatory shifts, changing stakeholder expectations and greater business case alignment, more and more companies are factoring ESG considerations into their business strategy and operational approach because they now view sustainability as essential to long-term resilience.

This is reflected in disclosure trends, with more than ninety percent of S&P 500 Index companies publishing a sustainability report in 2019, up from twenty percent in 2011.

A growing number of companies also submit data to ESG ratings agencies including CDP, DJSI, MSCI, Sustainalytics and others. Below we explore why and how greater ESG integration and more robust performance on ESG topics leads to stronger long-term resilience. We also present established and emerging evidence to support this.

More and more companies are factoring ESG considerations into their business strategy and operational approach because they now view sustainability as essential to long-term resilience.
Fund manager DIF Capital Partners identified the need to define an ESG policy, assess its current investments and develop an ESG framework to govern the company’s approach moving forward. As part of this project, ERM helped DIF develop an ESG screening tool for new investments, align its ESG objectives with the UN SDGs and engage with stakeholders.

According to Morningstar, over ninety percent of the ESG funds that it analyzed yielded higher returns than non-ESG peers during the first quarter of 2020.

Similarly, another report by HSBC concluded that the stocks of companies with stronger ESG credentials and more robust climate strategies have outperformed so far this year.

ESG funds have seen record inflows during the pandemic, including in regions outside of Europe and North America, signally growing investor trust and interest in such products globally.

1. Linking ESG integration with equity markets investment performance

The coronavirus pandemic has provided a unique opportunity to examine the relationship between ESG integration and investment returns. While many ESG funds have outperformed non-ESG peers for several years now\(^5\), the pandemic presented an opportunity to gauge investor confidence in such funds in a time of crisis, a test that they have passed with flying colors.

Data from the first months of the pandemic shows ESG funds outperformed peers, suggesting better ESG integration strengthens financial results.

```
While many ESG funds have outperformed non-ESG peers for several years now, the pandemic presented an opportunity to gauge investor confidence in such funds in a time of crisis, a test that they have passed with flying colors.
```

\(^5\) C-Space: Essential Market Insights for the C-Suite, Deutsche Bank, July 2020
2. Aligning key ESG issues with business strategy

Along with ESG investment trends data, a growing number of studies are producing comprehensive evidence about the importance of ESG integration to the long-term performance of companies. One study by Harvard Business School concluded that companies with good ratings on material ESG issues outperform other firms. The focus on material issues matters, as the study also found that companies with good ratings on immaterial issues did not outperform in the same way.

Other studies reinforce correlations between sustainability performance and profitability. Deutsche Bank reviewed more than 2,000 academic studies on ESG performance, finding that companies that score highly on ESG metrics tend to do better than their peers in areas including cost of capital and investment performance, and are more focused on the long-term.

While there is no one single explanation as to why more sustainable companies tend to perform better, it is undoubtedly connected to the fact that companies focused on sustainability often excel at stakeholder engagement, which helps position them to anticipate and react appropriately to regulatory and ESG-related influences.

Companies that integrate ESG in their business operations are likely to have a more robust overall strategy too. In the WEF 2020 Global Risk Report, the majority of the top 10 global risks identified for companies were directly connected to ESG topics. This suggests that, by addressing ESG risks, companies simultaneously prepare themselves for the most important long-term global challenges facing the private sector.

Canadian Pacific, the transcontinental railway in Canada and the US, engaged ERM to help build the company’s sustainability strategy and related disclosures. ERM helped CP to define its corporate wide sustainability commitments, develop a brand approach for the company’s new sustainability program, and enhance its sustainability disclosure.

Starbucks is on an ambitious journey to be a resource-positive company. ERM worked with Starbucks to develop its multi-decade commitment, which will enable Starbucks to “give more than it takes to the planet” and includes setting a science-based preliminary target to reduce GHG emissions and five ESG-focused strategies.
3. Achieving a balanced approach to E, S and G

While governance is the most established and accepted element of ESG, there is mounting evidence suggesting that a balanced approach to environmental, social and governance issues will be essential to developing greater long-term resilience.

Governance has generally been the strongest pillar for companies in terms of ESG performance and disclosure, and governance has been found to have the highest level of impact on company performance over the short term.

High governance scores generally reflect robust management practices and high levels of transparency, both key to good decision-making and maintaining trust.

While the importance of governance is clear and accepted, effectively managing material environmental and social issues matters more and more also, with evidence suggesting that a balanced approach to E, S and G is particularly important in the context of long-term performance.

Accelerating climate change, ecosystems degradation and plastics pollution are among the issues forcing companies to take environmental risks more seriously, and recent years have seen growing focus on social issues as well.

Historically overlooked, social issues have risen to prominence in the C-suite and the boardroom as a result of growing inequalities, racial tensions and, in 2020, due to the pandemic.

According to a recent survey by BNP Paribas Asset Management, over seventy percent of investors said that social considerations will become “extremely or very important as we move forward”, a rise of twenty percentage points since the onset of COVID-19.

While balanced disclosure is important, it is ensuring that policies and standards related to all three pillars of E, S and G are implemented on the ground that will make the biggest difference for the long-term success and resilience of companies.
4. Attracting the best talent

Strong sustainability performance helps attract and retain employees, boosting resilience and results.

One study found that fifty-eight percent of US employees surveyed are likely to consider a company’s sustainability actions in employment decisions, while fifty-one percent said they would not work for a company where sustainability was not prioritized.

The proportion of employees valuing sustainability is even larger among millennials, with more than seventy-nine percent of this generation saying they considered a company’s sustainability actions when choosing where to work, and sixty-six percent saying they would not work for a company where sustainability was not prioritized.

These trends were also prominent in a January 2020 report on similar survey of British workers.

As companies know, between 2020 and 2030 millennials will form the largest share of the workforce, comprising fully forty percent of the global labor pool in 2030.

Given younger workers are driving these trends, when trying to attract the best talent, companies will find enhancing sustainability performance key.

Danish power company Ørsted wanted to understand how it can improve its ESG reporting and be more proactive about it. As a result of the analysis conducted by ERM, Ørsted was able to more strategically approach its ESG disclosures and, by doing so, optimize the value the disclosures bring to the company from investor perspectives.
Low Carbon Economy Transition

Business and societal resilience depends on adopting low-carbon business models and addressing climate change

It’s more and more clear. Climate change impacts are no longer a future threat; they’re here.

From wildfires, droughts and other extreme weather events to sea level rise and ecosystem degradation, there is growing proof and understanding of the extensive impacts the changing climate will have on the human population and the world economy as well as the environment.

Climate change is increasingly recognized by national governments, companies and experts as the number one threat facing the global community, consistently ranking among the top risks in the World Economic Forum Global Risks Report over recent years.

Along with increasing awareness of climate impacts, consensus is building among policymakers, business leaders and the public that, without addressing climate change and decarbonizing the global economy, long-term resilience for business and society will prove unattainable.

A growing number of financial institutions and investors recognize that acting on climate helps to reduce risk and spurs innovation, letting leaders capitalize on new opportunities and supporting continued growth.

The survey behind the SustainAbility and GlobeScan’s February 2020 report Ten Years to Deliver the Paris Agreement, polled sustainability experts on the negative impacts companies may face if they do not address climate change and transition to low carbon business models (see Chart 2).

Worsening reputation was mentioned as the most important negative consequence, followed by increased physical and financial vulnerability to climate impacts, reduced access to capital, higher operational costs, and difficulties attracting talent and keeping up with innovation.

Climate change is increasingly recognized by national governments, companies and experts as the number one threat facing the global community.
Sustainability Experts Assess Consequences for Companies of Not Addressing Climate Change

Chart 2

Sustainability Experts Assess Consequences for Companies of Not Addressing Climate Change

All of these factors will impact business, ultimately determining how resilient companies are in the long-term. Below we explore more deeply the connection between LCET and long-term resilience, reflecting on how and why transitioning to low carbon models and addressing climate risks will help companies increase their long-term resilience.
1. Improving operational efficiency, innovation and overall financial health

There is growing evidence to suggest that companies that accelerate decarbonization of their business models show better financial results and demonstrate greater resilience.

During the first months of the COVID-19 pandemic, stocks of companies with a strong record on climate largely outperformed others. While the financial benefits of decarbonization historically were hard to determine, and some low carbon technology solutions were associated with higher costs, this is rapidly changing.

For instance, by late 2019, energy generation from new solar and onshore wind sources was reaching parity with average wholesale prices in parts of the US and most of Europe, strengthening the business case for transitioning to renewable energy use.

Implementing energy efficiency solutions is becoming an essential part of good financial management, as it can lead to significant cost and resources savings.

Further, by decarbonizing their business models, companies create new opportunities for innovation, growth and expansion to new markets for products (e.g. electric vehicles, batteries, etc.) and services.

According to some estimates, transitioning to a low carbon economy will deliver more than $26tn in global economic benefits by 2030, improving companies’ long-term prospects and boosting their resilience.

While the financial benefits of decarbonization historically were hard to determine, and some low carbon technology solutions were associated with higher costs, this is rapidly changing.
2. Preparing for physical climate risks

Climate change is already having a major impact on the global economy and individual businesses.

In 2019, global damages related to extreme weather events were estimated at more than $100bn, and between 2016-2018 they totaled more than $630bn.  

With the pace of climate change accelerating, weather and other climate-related impacts on companies are likely to become more severe up and down their entire value chains.

According to some estimates, more than $43tn of manageable assets’ value might be at risk as a result of climate change by 2100.

Companies with extensive supply chains, especially those located in the most vulnerable parts of the planet (such as parts of Africa and Asia), are likely to be hit hardest, but no company can expect to remain unaffected.

Assessing and understanding physical climate risks and adapting to them will be key to avoiding the worst climate impacts, and in turn essential to building long-term resilience for all companies.

Companies with extensive supply chains, especially those located in the most vulnerable parts of the planet, are likely to be hit hardest, but no company can expect to remain unaffected.

---

While not all these events are directly attributable to climate change, such incidents align with scientific predictions that we will see more frequent and more powerful weather events as the climate warms.
Several years ago ENGIE, the French-based multinational, announced the closure of its Hazelwood Power Station site in alignment with its strategy of gradual withdrawal from coal-fired power generation. Since then, ERM has been the primary environmental advisor to ENGIE Hazelwood on this significant project and has supported ENGIE in many aspects of its journey to low carbon, including the development of closure and rehabilitation plans for the site.

To facilitate China’s movement towards a low carbon, high growth economy, ERM is currently working with UK think tank Chatham House and a local government to create a roadmap for the city of Chongqing’s transition to a low carbon economy.

3. Getting ahead of future regulatory changes

Transitional low carbon models help companies prepare for future climate-related regulations, increasing their odds of thriving in the coming low carbon economy.

Among companies reporting to CDP, sixty-six percent identify potential risks linked to policy and regulation. Carbon pricing is the most mentioned policy-related transition risk, followed by new regulations on products and services, limitations to emissions and pollution, and new taxes.

National governments are starting to introduce legislation designed to help meet Paris Agreement commitments, and a growing number of countries are taking steps towards the announcement of net zero goals.

Already, the European Union bloc has pledged to be carbon neutral by 2050, while the Chinese government aims to achieve net zero status by 2060. By transitioning to low carbon models sooner, business can prepare for changes in their operating environment that will be brought about by new legislation, potentially avoiding associated risks and/or the threat of litigation.

For the energy industry, addressing risks associated with stranded assets (i.e. fossil fuel reserves that may end up unexploited due to changes in regulations, pricing or physical accessibility) will be key to business continuity, and in turn, long-term resilience.

According to some estimates, global coal assets alone could lose $550bn in value by 2035, while overall losses to the global energy sector could reach $1.6tn or more.

Transitional to low carbon models help companies prepare for future climate-related regulations, increasing their odds of thriving in the coming low carbon economy.
4. Aligning with investor expectations to support future growth

Climate plans and performance will be significant factors for companies hoping to meet investor expectations, which is key to accessing capital and growth. Recent years have seen investor awareness and concern about climate-related physical and transition risks rise markedly. This has resulted in heightened expectations for companies, with many investors starting to make direct links between a company’s demonstrated ability to identify and address climate risk and their long-term growth prospects.

In just one of several major initiatives emerging in recent years, more than 450 global investors who collectively manage more than $40tn in assets have joined Climate Action 100+, the largest investor network focused on climate action.

A growing number of investors (and companies) are expressing support for the Taskforce on Climate-related Financial Disclosures’ (TCFD) recommendations on climate-related financial disclosures, with more than 1,027 organizations with market capitalization of over $12tn having articulated support for TCFD to date.

In his most recent annual letter, Larry Fink, CEO of BlackRock, said that his company will make climate change central to its investment decisions. According to Fink, investors are “on the edge of a fundamental reshaping of finance,” where “climate change has become a defining factor in companies’ long-term prospects.”

To meet stakeholder demand for decarbonizing, ArcelorMittal developed a Climate Action report, one of the first among major industrial companies and the first among steel companies.

ERM drafted the report and supported internal discussions that lead to the company’s commitment for carbon neutrality by 2050 for its European operations. The 2019 report comprehensively responded to the TCFD recommendations for climate disclosures and also to investor interests in the company’s carbon footprint reduction aspirations.

Many investors are starting to make direct links between a company’s demonstrated ability to identify and address climate risk and their long-term growth prospects.
5. Meeting stakeholder expectations

Businesses face growing expectations from all stakeholders to act on climate.

In the Ten Years to Deliver the Paris Agreement presenting findings from the 2020 GlobeScan / SustainAbility Climate Survey mentioned earlier, seventy-five percent of respondents said that the role of the private sector will be key to addressing climate change, second only to that of national governments (eighty-two percent).

Climate change is also a growing concern among consumers. According to a 2018 study of consumers in 14 countries, nearly two-thirds said that they are worried about climate change, while ninety percent said that they are willing to change their behavior to help fight it.

In another survey of technology sector employees released in early 2020, nearly half said that a company’s climate change efforts affect whether they want to work there, an indication of the rising importance of the issue to employees, and a sign of its potential impact in the competition for talent.

Companies that fail to meet rising stakeholder expectations are likely to suffer worsening reputation and deterioration of relations with critical constituencies.

In a recent survey of technology sector employees released in early 2020, nearly half said that a company’s climate change efforts affect whether they want to work there, an indication of the rising importance of the issue to employees, and a sign of its potential impact in the competition for talent.
Human & Social Capital Management

Taking care of employees’ wellbeing, health and safety is at the heart of what it means to be a sustainable, resilient business

Human capital, the value derived from the skills and wellbeing of people, and social capital, the networks of relationships that exist in broader society, are increasingly recognized as core business issues.

As conveyed in the Social & Human Capital Protocol: “People are at the core of business. They are your employees, customers, suppliers, distributors, retailers and neighbors. They determine whether you have a productive workforce, loyal customers, healthy value chains, vibrant local communities and supportive governments. Their growth, prosperity and well-being matter and they are crucial to the success of your business.”

The centrality of H&SC to business resilience – and the degree to which these capitals and business are interdependent – has been illustrated strikingly during the COVID-19 pandemic. As the crisis unfolded, business recognized just how much their survival depended on the health and safety of their workers and their ability to rapidly establish new methods of working. Business’s reaction to the pandemic also illuminated connections between business and wider society. An example of this overlap came as companies realized the need to consider how their people commuted and interacted outside work in order to minimize risks to their employees, workers’ families and local communities.

Like investor coalitions formed in past years around environmental and climate issues, a range of new investor coalitions focused on human capital management are forming today. Investors want to know that the companies whose shares they own treat their people well.

In response, groups like the Human Capital Management Coalition, the ShareAction’s Workforce Disclosure Initiative and JUST Capital are seeking to elevate the consideration of human capital by both companies and investors.

Recent ESG trends affirm that more and more companies recognize the value of addressing H&SC issues. The increased use of H&SC related metrics is becoming more evident as well. For example, this 2020 study highlights a sharp recent rise in mentions of the ESG topics ‘social inclusion’ and ‘employee wellness’ in US ESG reporting.

H&SC management considerations are constantly evolving due to the efforts of organizations like the Center for Safety and Health Sustainability, the Social and Human Capital Coalition, the GRI, the Sustainability Accounting Standards Board (SASB) and the International Integrated Reporting Council (IIRC).

This relatively young field will continue to evolve as society’s demands and expectations around the topic shift, and the topic is likely to be even more important to business performance and resilience in the future.

Now we explore why and how better H&SC management leads to greater long-term resilience and present evidence to support this connection.

Investors want to know that the companies whose shares they own treat their people well.
The Human Capital / Occupational Safety and Health (OSH) field has been evolving for over a decade. Within this space, H&SC issues have been growing in priority for diverse stakeholders. ERM has been at the heart of this evolution. We produced a series of workshops that continue to influence the human capital field as it evolves, and we continue to play an advisory role to the Center for Safety & Health Sustainability (CSHS).

1. Gaining competitive advantage through Human & Social Capital management

There is growing evidence linking robust H&SC management practices with overall strong business performance.

This connection is supported by the interest investors are showing in H&SC – who now perceive human capital management for businesses as “central to their everyday duties.”

Positive correlations between human capital management and business performance have been illustrated across a range of standard financial performance metrics, and evidence shows that engaged workforces contribute to business stability by reducing turnover.

Good human capital management has also been linked to fewer Health & Safety incidents.

Focusing on Diversity & Inclusion (D&I) in the workplace has been associated with more innovative, agile and adaptable workforces as well as stronger, more resilient businesses.

We learned in our resilience work with WBCSD that prior investment in digital skills was one of the factors that let businesses adapt quickly to COVID-19.

In the same vein, evidence abounds that good social capital management builds competitive advantage through trust building and improved reputation, the creation of market opportunities, access to innovation, resources, knowledge and information, and through strengthening supply chains and consumer bases.

There is growing evidence linking robust H&SC management practices with overall strong business performance.
2. Delivering on an ever-growing range of people issues in an inclusive manner

Companies face growing expectations to deliver on an increasing and evolving range of people issues. To respond to these and remain resilient long-term, they will need to demonstrate ability and willingness to manage everything from operational Health & Safety through to Diversity & Inclusion.

The COVID-19 pandemic has seen both employees and external stakeholders call business leadership out on a range of people issues, from the exposure risks faced by frontline workers, to the mental health and ergonomics challenges associated with office workers shifting to working from home.

Bodies including JUST Capital and the Test of Corporate Purpose Initiative have undertaken reviews focused on corporate responses to COVID-19, which illustrates the high expectation that business will quickly respond to emerging challenges in ways that satisfy employees and other stakeholders, particularly issues related to workers’ rights.

For businesses to be resilient in the long-term, they will need to listen and respond rigorously to this range of growing and shifting demands as well as deliver them inclusively in order to reduce, not amplify, societal inequalities.

Data from JUST Capital (see Chart 3) illustrates the range and types of actions the largest 301 US companies have taken in response to COVID-19, with JUST Capital observing that many companies have stepped up to the need to support their workforce as well as other stakeholders in the face of the crisis.

Chart 3
Company Responses to the Coronavirus Crisis

Remote work and Modified Schedules: 70%
Health and Safety: 63%
Production, Distribution, or Logistical Support: 54%
Community Services: 52%
Customer Accommodations: 51%
Community Relief Fund: 51%
Closed Stores or Suspended Services: 37%
Paid Sick Leave: 31%
Financial Assistance: 29%
Supply Chain Impacts: 28%
Corporate Leadership: 28%
Furloughs or Unpaid Leave: 25%
Back-Up Dependent Care: 14%
Adjusted Hours of Operation: 14%
Layoffs: 11%
Non-Executive Employee Pay Cuts: 9%
Relaxed Attendance Policies: 8%
Hiring Workers: 7%
Government Support: 5%
Voluntary Leave: 2%

Many companies have developed COVID-19 response teams to manage the Health & Safety and people-related issues at the heart of the crisis.

At ERM we have supported companies responding to the emerging challenges in a range of ways, through exploring the use of digital tools to track the spread of the virus and gather data on employee health and exposure, through to the development of business continuity plans and training videos to enable a safe return to work.

In a recent article Preventing Fatal Accidents during the Return to Work, we also considered how companies can use approaches based on human factors and psychological safety to optimize chances of an incident-free return to work.

3. Maintaining and improving Health & Safety practices


The report reinforced three key observations being made by safety leaders: that stakeholder expectations on safety will continue to rise, that there will be a trend in increasing commercial and legal penalties for poor safety performance, and that there will be growing interest among senior corporate leaders in safety.

ERM’s second Global Safety Report will be published later this year, providing insight into the evolution of the Health & Safety agenda two years on.

During the pandemic, Health & Safety considerations were central to immediate crisis management responses, and when companies embarked on return to work strategies and confronted the changing future of work.

Based on trends seen in our 2018 survey businesses can be expected to continue to increase investment in Health & Safety. However, leaders will need to ensure that this increased effort translates into measurable benefits.

The pandemic has underlined how central Health & Safety is to maintaining long-term business resilience in the face of environmental and societal shifts.
4. Driving resilience through values-based leadership and strong ‘social radar’

There is no doubt that the importance of the S in ESG has been elevated for business, investors and other stakeholders. The centrality of social issues has been raised further as result of COVID-19, and, as explained in this article by Critical Resource, their import is evident when reviewing lessons learned from common failures of internal systems around social issues.

Companies cannot operate in a way that neglects social issues within their own walls or externally and maintain resilience. Long-term success requires leadership in how companies define and link their values in the context of sustainability challenges.

How they follow through on this and demonstrate that what they offer as a business is relevant to internal and external stakeholders is equally important.

One way companies can deliver in these areas is to consider how they can build social capital.

Businesses also need to pay due attention to social issues and ensure that this commitment is embedded throughout the organization.

Failure to effectively manage social performance and engagement issues can compromise business resilience through delays, or due to reputational and financial impacts.
ERM is a partner in the Capitals Coalition, a global collaboration aiming to transform the way decisions are made by recognizing the value provided by nature, people and society. Companies can better manage their risks and capitalize on opportunities when they do so.

For example, ERM developed a net present value calculation methodology and decision support tool which we used to identify over $1bn in environmental, social and health benefits for a leading energy and chemical producer seeking to prioritize capital expenditures.

5. Valuing Human & Social Capital management as a significant contributor to long-term business resilience

Despite H&SC management being acknowledged as critical, the terms are still used differently by different stakeholders in different contexts.

The term human capital for instance is applied to everything from the development of staff knowledge, skills and competencies, to considerations and commitments around diversity and equal employment, through Health & Safety and labor and supply chain standards.

A 2017 Harvard Law School study highlights the gap between stakeholders’ understanding of human capital and what corporations are ready, willing and able to measure, manage and report.

As noted in the Social & Human Capital Protocol, despite growing awareness of these concepts, tools to measure and assess the value of H&SC – social capital in particular – are still lacking.

Limited practical uptake means that these crucial types of capital play lessor roles in strategic decision-making and communication, which can continue to result in their underinvestment.

The Protocol is an example of an effort to help business better measure and value H&SC, a practice more businesses seeking to build resilience are likely to embrace in future.

As noted in the Social & Human Capital Protocol, despite growing awareness of these concepts, tools to measure and assess the value of H&SC – social capital in particular – are still lacking.
Conclusion & Recommendations

While still a relatively new concept, resilience will be core to building successful and sustainable future enterprises.

Our joint work with WBCSD defined long-term business resilience as “a business’s ability to anticipate and prepare for change, then adapt to circumstances in the manner that provides the greatest chance of thriving over the long-term.”

While a complex, still relatively new, concept for many business leaders, resilience will be core to building and leading successful and sustainable future enterprises.

That’s why we are emphasizing resilience attributes in ERM’s own strategy and helping our clients build this into their management systems.

This paper did not seek to address all of the (many!) aspects of resilience, but focused on three key elements: ESG, LCET, and H&SC.

While not completely controllable by business, these three issues all sit within the private sector’s sphere of influence, and it is vital for companies to gain as much competence in these areas as possible.

Simply put, they are among most significant market drivers facing business today – no company will prove resilient long-term without helping society decarbonize, ensuring outstanding ESG performance, and excelling at managing H&SC.

The companies today committing to a net zero future (or even negative carbon goals) like Microsoft and Facebook, leaders in ESG ratings and rankings like GlaxoSmithKline and ENGIE, and the companies most attuned to H&SC best practices like L’Oréal and Unilever are not just making proclamations – they are positioning themselves as tomorrow’s market leaders.
Understanding and operationalizing resilience is a long-term challenge

Business is just starting discussion on what building long-term resilience, and maintaining it, entails. Much remains to be done before this will be widely understood and mastered, but evidence that resilience is becoming embedded in standard business parlance and practice suggest efforts to do this are becoming more and more widespread.

To cite a few examples:

- While resilience remains a relatively new and evolving concept in the business world, we can see in the transparency and disclosure work ERM does with clients that mentions of ‘resilience’ in corporate financial and sustainability reporting and disclosure have rapidly increased in recent years.

- Though not every organization has a clearly defined approach or roadmap of the changes that will be required, the number of businesses now debating the import of resilience itself indicates recognition of the changes that building this new competency will require from the shop floor to the boardroom.

- Resilience goes beyond financial performance, encompassing sustainable performance in every part of business operations and up and down value chains.

There is growing recognition that long-term corporate success requires alignment with societal needs in addition to business objectives.

As demonstrated by their positions at the top of the leaderboard in the 2020 GlobeScan / SustainAbility Leaders Survey, Unilever, Patagonia and IKEA are among the companies that have done most to align corporate and societal purpose, helping secure year-over-year recognition as leaders on sustainability integration and impact.

- In this paper, we focused on just three aspects of resilience. No one should let this blind them to the reality that resilience is an inordinately complex construct with far more than just three strands, all interrelated.

In the first section of the report, we listed a broad range of internal and external drivers that impact resilience.

Companies should consider all elements of this interconnecting network in order to arrive at a comprehensive and holistic approach to their own plans for long-term resilience.
Recommendations for increasing long-term resilience through ESG integration, LCET and H&SC management

The actions listed below present options for business investment in ESG, LCET and H&SC aimed at increasing long-term resilience. While not exhaustive, they offer a starting point for companies looking for ways to prepare for the challenges and disruptions of this decade and beyond.

1. **Translate ESG analysis and disclosure into performance and integrate it within the company**

   With so many ESG ratings and rankings competing for headlines, it’s not surprising companies sometimes chase higher scores simply to move up the league tables.

   While natural, scrambling to present good ESG performance on paper for the sake of an improved score does not in itself improve performance and help shift companies to more sustainable business models.

   Regardless of scores and headlines, companies must focus on material ESG issues, which is what evidence suggests is most closely linked to better long-term performance and what delivers greatest impact in sustainability terms. Happily, commitments based on meaning are proliferating.

   The Science Based Targets Initiative reached an important milestone in the fall of 2020 with **1,000 companies** committing to set emissions reductions goals in line with the Paris Agreement, including more than one-fifth of the Global Fortune 500, which represent the kind of concrete goals investors can assess ESG performance against in future.

2. **Set a net zero target and follow-up with detailed roadmaps and action plans**

   The need to accelerate climate action aimed at keeping global average temperature rise below 1.5 degrees Celsius is becoming ever more evident and more stark.

   Companies at every point in the value chain will all have to do their part to reduce scope one, two and three emissions remarkably rapidly. Setting clear targets is essential to defining ambition and then mobilizing resources to deliver.

   Tools to support this are increasing, from the Science Based Targets initiative mentioned above, which verifies goal quality, to TCFD, which prescribes how companies can estimate and communicate climate risk.

   The difficulty of moving from net zero goals through implementation is not to be underestimated, which is why ERM and The SustainAbility Institute by ERM are undertaking a yearlong study from now through the start of COP26 in November 2021 on how our clients and other leading businesses are going about operationalizing their net zero ambitions.

   Look for the first interviews in that series with executives from companies including Equinor, Google, Nestlé and Unilever later in 2020.

3. **Diversify and deepen approaches to Human & Social Capital management**

   Tools such as the Social & Human Capital Protocol help organizations identify, measure and value social and human capital.

   Companies can adapt their existing human resources (HR) functions to better meet expanding stakeholder demands by covering a broader range of issues including equality, D&I, mental health and more.

   Companies should expect investors to ask for more disclosures about H&SC management and performance and must anticipate that employee expectations for greater transparency will similarly increase.

   Employee H&SC views are not limited to purely HR matters either – when BlackRock and Amazon find their own employees organizing protests in solidarity with external community members denouncing their own employer’s climate leadership, company response is solidly in the realm of human capital management too.
In the Foreword to this report, we reflected on 2020’s extreme pressures and how they have helped make clear the degree to which business resilience is connected to societal norms and expectations, the policy environment, and natural ecosystems.

While we hope the COVID-19 pandemic will soon be behind us, most of the challenges of the decade of action will remain, many of them enormous systemic issues in their own right.

To meet what’s ahead, it is essential that understanding of resilience and its multiple facets continues to evolve, and that a growing number of companies put that deepening understanding into practice.

Individual institutions and individual business leaders will be essential to making progress. So will collaboration among leaders willing to share their lessons – both successes and failures – on the road to building a more resilient company.

ERM and our SustainAbility Institute will join companies on this journey, providing analysis and actionable insight that goes deeper on the topics explored here, and on the others sure to emerge along the way as we learn and implement what it really means for business and society to thrive over the long-term.
The SustainAbility Institute is ERM’s primary platform for thought leadership on sustainability

The purpose of the Institute is to define, accelerate and scale sustainability performance by developing actionable insight for business. We provide an independent and authoritative voice to decode complexities. The Institute identifies innovative solutions to global sustainability challenges built on ERM’s experience, expertise and commitment to transformational change.

### Authors
- Aiste Brackley
- Mark Lee
- Laura Street

### Contributors
- Andrew Angle
- Jaideep Das
- Linden Edgell
- Emily Farnworth
- Matt Haddon
- Liora Hostyk
- Aislinn Logan
- Mike Wallace

### Design
- Miquel Parera

### Contact

Twitter: twitter.com/SustInsti
LinkedIn: linkedin.com/company/sustainabilityinstituteerm
Email: Institute@erm.com
Website: sustainability.com