The COVID-19 recovery calls for bold corporate action on sustainability

The COVID-19 pandemic has exposed the vulnerabilities of short-termism and shareholder primacy. As countries begin to emerge from lockdowns, private sector action on sustainability is more important than ever.

Since the last global economic recession in 2008, we have seen global collective awareness of sustainability increase dramatically. This has been embodied by the landmark year of 2015, which welcomed the UN Sustainable Development Goals, the Task Force on Climate-Related Financial Disclosures, and the Paris Agreement. Civil society has made it clear: the private sector has a key role in solving the systemic social and environmental challenges of our time.

Following the COVID-19 outbreak, an abrupt disruption of our global status quo has exposed the vulnerabilities still present in our global economic, social, and environmental systems. These vulnerabilities impact not only people and the environment, but also supply chains and financial systems. As countries begin to emerge from lockdowns, this moment presents a key opportunity for bold corporate action on sustainability.

The COVID-19 crisis has laid bare our social and environmental vulnerabilities – The basis for change

Just before the COVID-19 tidal wave, CEOs of a number of leading companies in the world, through the Business Roundtable, redefined the purpose of the corporation. They called for a shift away from shareholder primacy, towards stakeholder capitalism, the idea that companies should strive towards creating long-term value for all stakeholders, in contrast to a sole focus on maximizing profits for shareholders. Similarly, the World Economic Forum earlier this year unveiled the Davos Manifesto 2020, embracing the concept of stakeholder capitalism as the central purpose of companies, in order to build long-term prosperity in this fourth industrial revolution.

The COVID-19 crisis has exposed the vulnerabilities that stakeholder capitalism set out to address. Now, more than ever, it is time to accelerate action on corporate sustainability, to truly integrate social, economic, and environmental impact into organizations' decision-making, and purpose.

The role of the private sector in recovery and sustainable growth

Corporate sustainability has evolved from a 'nice-to-have,' to core to material business risks and opportunities. As the corona-fuelled economic shock has demonstrated, financial performance is dependent on and deeply intertwined with human and social capital, ecosystems, and natural resources.

Beyond risk mitigation, there is compelling and increasing evidence that environmental and social performance are directly correlated with financial performance. Most recently, the World

Business Council for Sustainable Development (WBCSD) found that companies who take environmental, social and governance (ESG) factors into account, outperformed the major exchange benchmarks by between 4.3 and 9.4% in the period 1 January – 30 April 2020[1]. With a decade of supporting data, ESG and sustainability performance are relevant proxies for good corporate governance, and forward-thinking, resilient organizations.

The COVID-19 crisis serves as a keen reminder that the private sector must use the holistic lens of sustainability to make business- and operating models less vulnerable to systemic risks, and more resilient to market shocks in the future. This pandemic is just one of many scenarios that can trigger the social and environmental risks that we face as a global society. The only responsible course of action is to learn from this crisis, and work to make the supply chains, workers, communities, and our planet more resilient to future scenarios and realities.

Inequality compounded for the most vulnerable

The most vulnerable groups in society have been hit the hardest and most abruptly by the COVID-19 pandemic. They include, among others, essential workers, the younger generation, those in the 'gig economy,' and migrant workers. The International Labour Organization (ILO) reported that of the 2 billion people working informally around the world, 1.6 billion have suffered massive damage to their capacity to earn a living[2].

To address these vulnerabilities, corporate action can be guided by tried-and-tested frameworks such as the principles of the UN Guiding Principles and the OECD Guidelines. As a start, they prescribe human rights due diligence across the supply chain, which has since been adopted into law in several countries. France introduced mandatory human rights due diligence in 2017, and the Parliaments of a number of European countries, such as Denmark, Norway, the Netherlands, Germany, and Switzerland have already or are considering to follow suit.

"Climate risk is financial risk" – Reorientation of capital flows presents new opportunities

As we come out of lockdowns, it is encouraging to see policy-makers around the world seize the opportunity to tie economic recovery with climate action. For instance, the Canadian government has linked its COVID-19 recovery loans with an obligation to publish annual climate disclosures.

"Climate risk is financial risk" – The powerful declaration by BlackRock's Larry Fink, in his Letter to CEOs earlier this year, confirms that the tables have finally turned. Carbon emissions are no longer only an externality to be mitigated by the private sector. Climate change threatens the ecosystems that we as a global society rely on. Importantly, is now clear that our economic engine is built upon the health of our ecosystems and the people that depend on it. Climate change poses an existential risk to the economic system as we know it, and will disrupt companies and entire industries that do not act now.

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The European Commission issued guidance on climate-related disclosures under the non-financial reporting directive last year, and the ECB recently released draft guidance on climate-related and environmental risk,

[1]WBCSD: Increasing risk management & resilience through ESG investing. 12 May 2020. Available at https://www.wbcsd.org/Overview/News-Insights/WBCSD-insights/Increasing-risk-management-resilience-through-ESG-investing
[2]Financial Times: Global job losses rise sharply as coronavirus lockdowns are extended. 29 April 2020. Available at https://www.ft.com/content/89a015d4-84d9-4b6f-880b-2720779f5531

supervisory expectations relating to risk management and disclosure.

Relatedly, climate-related financial risk is being considered by the Joint Committee of the European Supervisory Authorities, representing authorities in securities, banking, insurance, and pensions, as part of draft regulatory standards on ESG disclosures.

These will only accelerate the already mobilized reallocation of public funds and private capital flows towards sustainable and inclusive growth.

There is still a window of opportunity for companies to proactively assess their climate and environmental risks, develop strategies to address the risks and opportunities, and disclose this material information to stakeholders and investors.

Sustainability as the way forward

As we emerge from the COVID crisis, which we will, we will be tempted to return to 'normal' as quickly as possible. Rather than forget the systemic social and environmental vulnerabilities that have been exacerbated, we in the private sector must seize this opportunity to accelerate action on human rights, labor rights, climate change, and environmental impact towards a sustainable and resilient recovery.

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