Why Disruption Shouldn’t Derail Your ESG Strategy

To meet long-term goals, companies need an approach that assumes a discontinuous, turbulent world.

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Sustainable change has lengthy time horizons—even as companies achieve interim environmental, social, and governance (ESG) milestones, their aims and aspirations often extend to targets in 2030, 2040, and 2050.

Unfortunately, disruption does not.

Russia’s invasion of Ukraine brings this tension into sharp relief. In short order, many leadership teams have pivoted their focus to keeping their employees safe and their businesses and supply chains running. In addition to responding to the human tragedy, companies are reckoning with sudden supply insecurities and deglobalization. Some firms and governments are scrambling to find secure sources of energy and base commodities, leading to decisions that could affect near-term progress on sustainability. Others must consider pausing the fight for more resilient, sustainable food systems to focus on serving imminent demands.

With good cause, many have braced for destabilizing shocks to the ESG agenda. But so far, at least, ESG initiatives remain intact and vital at the corporate and national level.

Why? With this crisis in particular, the urgent issues around energy security and food security are pulling social issues into the spotlight. They are making profound considerations outside profit—considerations with deeply human implications, such as questions around food equity—equally prominent in the boardroom. This is similar to what we’ve already seen with environmental issues and are even starting to see with governance issues—especially around whom firms choose to do business with. Today’s challenges highlight the close links between “E,” “S,” and “G.”

Over the past few years, shifting investor and customer expectations cemented the importance of ESG in the corporate world, allowing it to withstand these kinds of shocks. ESG has become an explicit decision-making consideration, rising to the level of finance concerns, risk, operational integrity, and customer impact. It is now reflected in firms’ missions, operations, and stakeholder expectations.

In this environment, corporations are no longer waiting for government mandates to act. Faced with complex networks of stakeholders, companies are proactive in their ESG journeys. Consider how more than 1,000 companies set targets to limit the global average temperature increase to 1.5°C ahead of COP26.

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The current crisis and its reverberating global shocks won’t be the last events to raise major challenges for ESG. From the ongoing pandemic, to escalating US-China trade tension, to wide-ranging climate events, it’s evident that we are living in a more turbulent world. And many business leaders recognize that achieving some ESG goals quickly enough will reduce future shocks.

So how can companies ensure their ESG agendas are resilient through this moment and beyond? Five steps can help fortify a firm’s ambitions.

#1 Create an adaptable strategy to navigate uncertainty with purpose

A “North Star”—what some call the mission, purpose, or soul of a company—can ensure that even as the path changes, the firm is still headed toward the same destination of a prosperous, sustainable, and equitable future. Without sharpening its guiding principles, a company risks reacting to crises with spur-of-the-moment decisions that are inconsistent with its actions in times of stability—potentially exposing itself to charges of hypocrisy or greenwashing.

With a clear mission, leading boards and C-suites build a flexible roadmap rather than a fixed plan that’s reviewed annually or biannually. They move forward with a set of scenarios and signposts that prompt them to change course or speed, enabling quick and decisive adjustments as disruptive events unfold.

A dynamic, adaptive strategy also helps leaders respond to stakeholders. This is critical right now: There’s dissonance among investors, who are pushing for ESG progress but seem wary about perceived trade-offs around other strategic goals. As firms face more volatility, clearly defined scenarios and signposts that trigger the right actions demonstrate a more stable narrative and approach to all their stakeholders.

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#2 Move from commitment to delivery to sustain momentum

To deal with the short-term operational issues brought on by disruption, companies will sometimes make decisions that limit their long-term options. The current crisis exemplifies this tricky balancing act: By reverting to coal to replace Russian gas exports, for instance, companies could find it more difficult to meet sustainability targets down the road. At the same time, the crisis has made them even more painfully aware of the need for secure, low-cost renewable energy to avoid similar supply shocks in the future.
We believe that the faster a company can deliver on its ESG commitments, the less its agenda will suffer from the vicissitudes of the geopolitical landscape. Leadership teams that have made progress on ESG will also be well versed in surveying their options and understanding the implications of their decisions.

To move from sweeping ESG commitments to tangible progress, leading companies are taking an approach that is both visionary and pragmatic. They are bringing together their best dreamers and doers to create value with customers’ ESG ambitions in mind, train managers on how to evaluate decisions and trade-offs in a way that aligns with ESG commitments, and more.

#3 Explore innovative new business models to solve operational challenges

Across industries, emerging leaders are finding new ways to balance the twin demands of building resiliency and advancing ESG goals.

Circularity is quickly becoming an effective way for companies to minimize material requirements, tackle waste, and stabilize ESG in uncertainty. Facing shortages of certain commodities, such as nickel or lithium, for example, companies can mine them from previous waste to create security, lower costs, and reduce waste. Circularity also includes improving utilization through innovative new business models, such as those that offer products as a service and sharing economy platforms.

According to Bain research conducted in partnership with the World Economic Forum, supply chain executives are planning to double the share of revenue from circular products and services by 2030. They recognize that well-designed products and circular business models can not only prepare the business for supply disruptions and shortages but also improve its viability in a low-carbon future.

#4 Establish true transparency and traceability to mitigate risks and track solutions

The next decade will require supply chains that can not only withstand shocks but also enable organizations to answer to internal and external stakeholders.

This is especially critical at the first signs of disruption, when employees, investors, and customers clamor to understand the organization’s exposure to an ESG risk or issue. In these times above all, real transparency is key.
Some companies are investing in traceable supply chains and operations. Traceability technologies can track each raw material that goes into a product, follow how the product is used, and determine where it is discarded. They also provide the data needed to make predictions, run scenarios, and dynamically optimize operations. And companies can certify that they have sustainable processes and products, building stronger relationships with customers and suppliers.

For example, consider companies that pivoted supply chains amid reports of human rights abuses in Xinjiang, China, well ahead of the US government’s Uyghur Forced Labor Prevention Act. Brands like Victoria’s Secret are using analytics tools to map their supply chains and audit suppliers, ensuring their cotton fiber isn’t sourced from the country.

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#5 Forge systemic partnerships to catalyze progress

When it comes to ESG, companies can’t act in isolation. Their actions have global ramifications—especially during moments of crisis.

To weather short-term shocks and achieve long-term goals in a more fractured world, a systemic approach will be more important than ever. Companies can lock arms with those that share the same concerns and desired outcomes, including peers, government organizations, and other external partners. By collaborating with a wider ecosystem, industry players can adjust to the new reality in a way that doesn’t undermine their ESG commitments or progress.

As with all portfolio activities, firms will need to take a focused approach. Leading companies are setting clear principles on when and where to direct partnership efforts, reviewing their partnerships to ensure continued alignment, and providing transparency for stakeholders around partnership activities.

These partnerships won’t be easy or move as fast as internal initiatives, but only the hard task of working together will build sustainable, future-proof industries.

As they face an era of continued instability, companies that build resilience in the current crisis won’t have to backslide on their ESG commitments. They will use uncertainty to reflect, learn, and adapt. Out of necessity, winning companies are exploring innovative alternatives, guided by a strong sense of purpose and a flexible strategy. Disruption doesn’t demolish ESG ambitions—it fortifies them.
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