Hitting the Reset Button on ESG

Setting Strategy in a Time of Uncertainty

Facing economic uncertainty, global tensions, cooling investor demand, and the politicization of many ESG issues, companies should consider “hitting the reset button” to reassess and revitalize their ESG strategies. This report, focused on redefining ESG strategy during uncertain times, draws insights from discussions with, and polls of, senior sustainability executives.

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- **As regulations and market dynamics evolve, it is crucial for businesses to revisit and refresh their ESG frameworks to ensure alignment with their business strategies.** Doing so will ensure these strategies remain relevant as companies integrate ESG and sustainability into their core business. While 42% of surveyed executives consider ESG to be well integrated within their firm’s activities, 50% are neutral—indicating room for further improvement.
- **Most companies have more effectively tied their ESG strategy to broader environmental goals than to economic and social objectives—which likely reflects greater clarity and international consensus around environmental targets.** While 54% of executives say their ESG efforts are well aligned with broader environmental objectives (such as reducing emissions), only 41% feel the same about socioeconomic goals and 33% about social/political goals. This highlights the significant challenge of developing an ESG strategy that not only drives core business value but also addresses pressing societal challenges effectively. Our analysis shows that global frameworks are typically clearer on environmental goals than economic and social objectives, and do not tend to allocate responsibilities between the public and private sectors—making resource allocation, coordination, and scaling impact more challenging.

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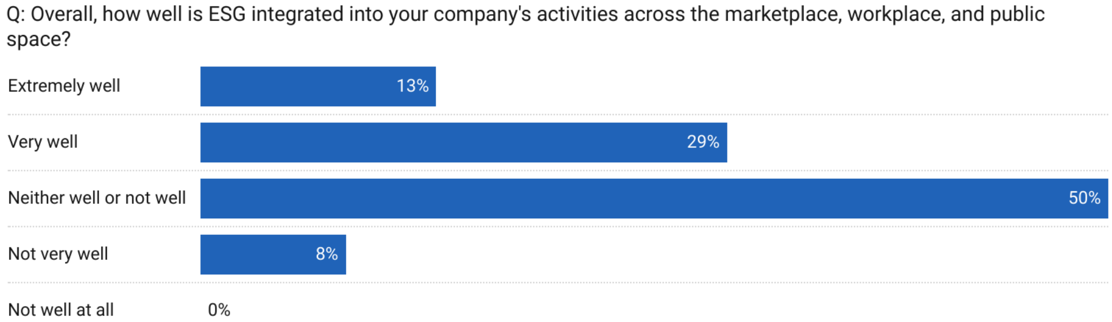
- **Although politicization and backlash can complicate ESG efforts by reinforcing polarization and divergent views, they also present an opportunity to refine strategies, priorities, commitments, and communications.** ESG backlash often has an emotional component, but companies should objectively assess the legitimate empirical and philosophical objections rather than react emotionally to the opportunistic aspects of ESG opposition. By focusing on business strategy and risk, refining terminology, engaging policymakers, assisting investors, and maintaining perspective, companies can turn backlash into an advantage and drive long-term value.
- **The absence of an agreed methodology to calculate the ROI of ESG investments makes it difficult to compare performance across different initiatives and companies.** Only 9% of surveyed executives feel their company effectively measures the financial return of sustainability initiatives, which complicates planning and performance assessment. Companies should adopt a long-term view on sustainability benefits that drive shareholder value, including employee engagement, brand reputation, and access to capital. Since firms already have KPIs associated with many of these areas and much of the data is internally generated, the capacity exists for measuring and reporting the internal ROI of ESG initiatives.
- **Since ESG strategy and goals are heavily influenced by rapidly evolving policies and regulations, companies that proactively adapt to new reporting regulations in the US and Europe, as well as to legislative measures that incentivize sustainable impact investment, can gain a competitive advantage and reduce the risks of noncompliance.** Only 24% of companies say they are ready for upcoming sustainability reporting requirements, indicating a need for enhanced focus on cross-functional collaboration and closely monitoring the regulatory and political landscape.
- **As shifting global dynamics shape a more fragmented international order, businesses need to monitor political and market dynamics and the rule of law in the areas where they operate, integrating risk assessments into their ESG strategic planning processes.** Developing an understanding of the global challenges that lie ahead can help companies explore opportunities for sustainable growth, navigate uncertainty, and reduce risk.

Why It's Important to Hit the Reset Button on ESG

Companies encounter many challenges and complexities when formulating and implementing ESG strategies. Externally, they need to navigate trends such as macroeconomic uncertainty, global tensions, cooling investor demand, and the politicization of environmental and social issues. Internally, leaders face several financial, governance, and communication hurdles in integrating ESG and sustainability into their core operations. This evolving landscape reflects how organic ESG goals are and how adaptable they should always be to changing circumstances, stakeholder needs, and market conditions.

Figure 1

Half of surveyed executives are neutral about how well ESG is integrated across the firm's activities, indicating further room for improvement



Note: 52 poll respondents
Source: Hitting the Reset Button on ESG: Setting Strategy with the Broader Picture in Mind (Roundtable Series), The Conference Board, August 2023

At the same time, several societal, regulatory, and market forces that have propelled ESG forward continue to be pertinent. Extreme weather and supply chain disruptions emphasize the need to manage ESG risks effectively, while new sustainability reporting regulations demand better measurement and reporting within organizations and their broader value chains. Furthermore, while institutional investors may be playing a less prominent public role, ESG and sustainable investment funds remain an important source of capital. In this context, it can be valuable for senior executives to reevaluate and refresh their ESG strategies to stay relevant in a changing world, while acknowledging that ESG goals often pose several additional complex challenges compared to straightforward business opportunities.

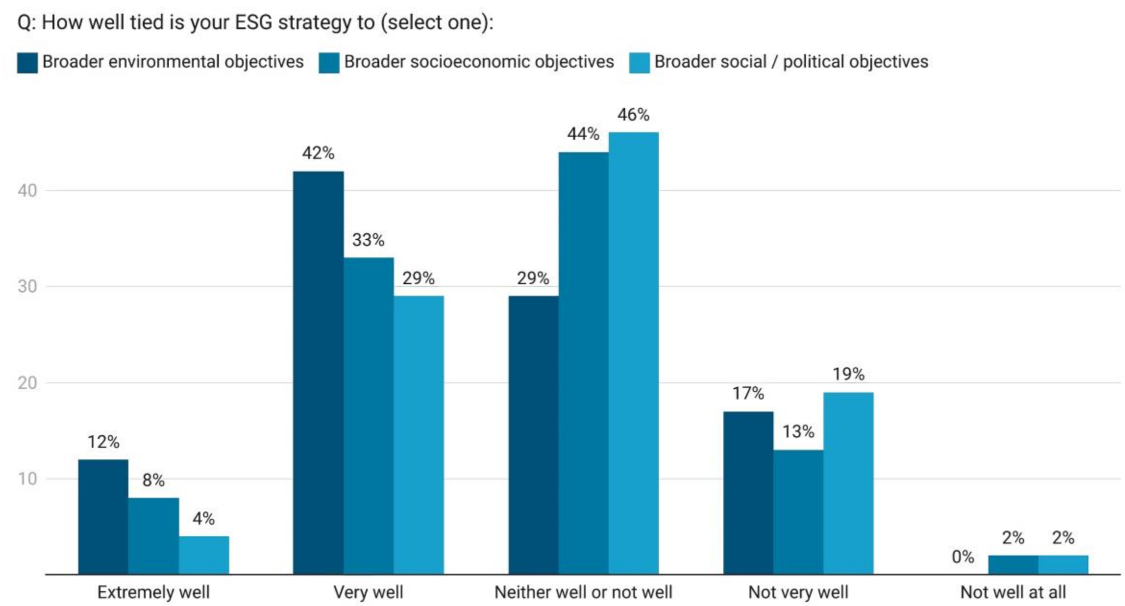
Key Challenges in Setting ESG Strategy

Focusing on the broader picture

A primary challenge in developing an effective ESG strategy stems from the need to consider financial and ESG objectives in way that addresses broader societal goals and balances the evolving needs of all constituents, including employees, customers, shareholders, and communities. While 54% of executives in our poll feel their ESG strategy aligns effectively with broader environmental goals (such as reducing emissions), fewer feel their strategy is well tied to broader economic (41%) and social/political objectives (33%). This underscores the complex nature of integrating ESG considerations that are linked with business operations but also extend beyond them to contribute to wider societal benefits.

Figure 2

Most companies have more effectively tied their ESG strategy to broader environmental goals than to economic and social objectives



Note: 52 poll respondents
Source: Hitting the Reset Button on ESG: Setting Strategy with the Broader Picture in Mind (Roundtable Series), The Conference Board, August 2023

This discrepancy likely reflects the lack of clarity in many international frameworks regarding broader economic and social goals. An illustrative analysis by The Conference Board shows that frameworks for broader societal environmental goals are generally more developed than those for broader economic or social objectives (Figure 3). For example, the Paris Agreement clearly presents a long-term goal to keep global warming below 2°C (3.6°F) above preindustrial levels. While international frameworks such as the UN Sustainable Development Goals do also articulate economic and social goals, these are often more ambiguous (such as reducing inequality or ensuring decent work) and can vary significantly in meaning and application across different markets.

Figure 3

International frameworks are clearer on environmental goals—although all could better allocate responsibilities between public and private sectors

Framework	Focus	Clarity of goals	Allocation of public / private responsibilities	Allocation of responsibilities within private sector
Sustainable Development Goals	**Environmental, Social, Economic**	**Good** Clear and measurable targets across 17 goals	**Neutral** Encourages broad participation but lacks specific guidelines	**Neutral** Encourages voluntary integration, no sector-wide responsibilities
Paris Agreement	**Environmental**	**Good** Goal to limit temperature rise is clear	**Neutral** Relies on national governments, unclear role for private sector	**Neutral** Expects certain sectors to innovate (e.g., energy, transport), no specific responsibilities
Global Biodiversity Framework	**Environmental**	**Good** 23 action-oriented global targets	**Neutral** Encourages private engagement but no specific roles	**Limited** Does not specify sector-wide responsibilities
United Nations Global Compact	**Economic, Social**	**Neutral** Sets broad principles without quantifiable targets	**Neutral** Targets firms for voluntary adherence, limited public sector engagement	**Neutral** Encourages industries to adopt sustainable practices, no allocation of responsibilities
International Labor Organization Declarations	**Economic**	**Neutral** Clearly articulates labor rights, but no overarching quantifiable targets	**Neutral** Directs responsibilities to government with some implications for private firms	**Neutral** Encourages sectors to uphold labor standards (e.g., agriculture, manufacturing, services), no specific responsibilities
International Covenant on Economic, Social and Cultural Rights	**Social**	**Neutral** Defines rights broadly but lacks detailed implementation strategies	**Limited** Primarily aimed at governments, limited involvement for private sector	**Limited** Lacks clear guidance on how different sectors should contribute

Note: Analysis is illustrative and not an exhaustive list
Source: *Hitting the Reset Button on ESG: Setting Strategy in a Time of Uncertainty*, The Conference Board, July 2024

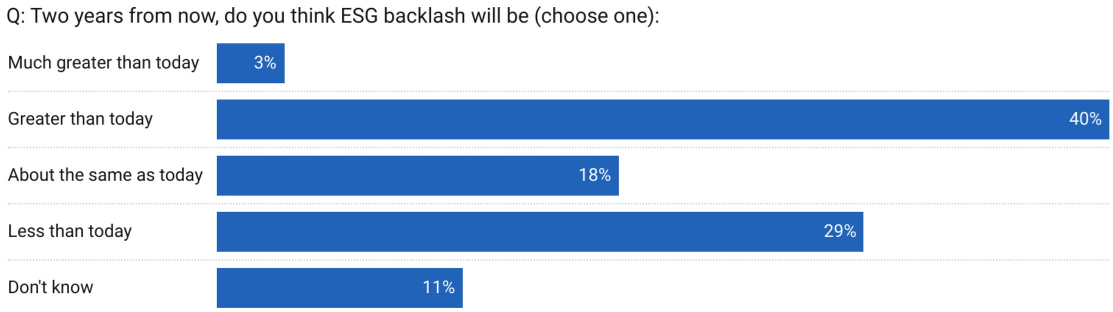
International frameworks also often fall short in clearly defining responsibilities between the public and private sectors. This is a notable gap, as effective partnerships with government help align corporate strategies and ESG efforts with public policies, leverage public sector resources, and foster a conducive environment for innovation and sustainable business practices. The absence of clearly defined responsibilities can lead to inefficiencies and overlaps in efforts, making it challenging for both public and private entities to allocate resources effectively and coordinate actions. Without a single universally agreed framework for companies to align with, business leaders should instead actively engage with multiple standards and stakeholder groups to develop tailored, effective strategies that address global challenges while reflecting their unique contexts and goals.

ESG backlash

A further challenge is "ESG backlash"—an umbrella term encompassing various types of opposition to ESG, from healthy skepticism and philosophical disagreement to political opportunism. In an April 2023 survey by The Conference Board of 125 firms, nearly half reported experiencing some form of backlash. This backlash has primarily targeted companies' "E" and "S" initiatives, particularly on culturally sensitive topics such as racial equality, LGBTQ+ rights, reproductive rights, and job losses associated with the renewable energy transition. While backlash emanates from multiple sources, the leading drivers are policymakers and political candidates at both the federal and state levels. The politicization of ESG is not a passing fad; 61% of companies in our 2023 survey expected it to persist or intensify over the coming two years. ESG backlash has tangible impacts on company efforts; for example, as of June 2024, at least 22 US states had enacted anti-ESG legislation.

Figure 4

Most surveyed companies said they expected ESG backlash to stay the same or increase through 2025, driven primarily by policymakers



Note: 113 survey respondents
Source: *How Companies Can Address ESG Backlash*, The Conference Board, August 2023

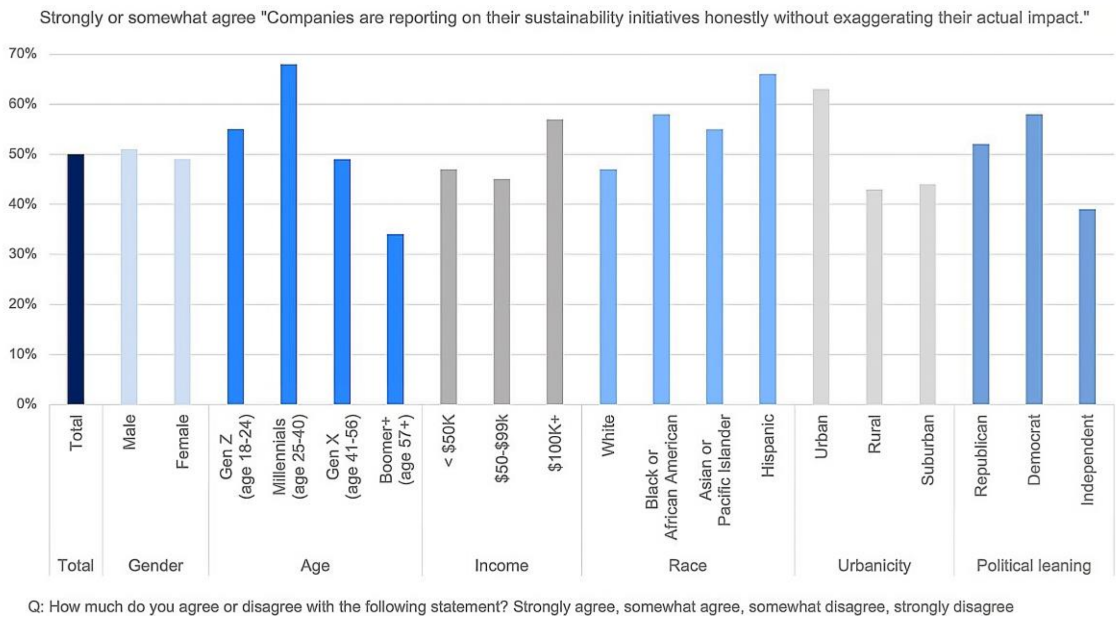
Heightened backlash requires firms to be resilient in their planning processes and responsive to shifting sentiments and political pressures. Backlash also presents an opportunity for firms to clarify their ESG strategies, priorities, commitments, and communications. This requires candid discussions between the CEO, board, and senior management to determine if the company is still committed to its current ESG strategy and, if so, how it will move forward and communicate these commitments. Indeed, ESG backlash can sharpen how companies articulate the business case for ESG integration and its role in value creation and shareholder returns. According to our survey fielded in April 2023, over 60% of backlash-affected firms have responded by increasing focus on the link between ESG and core business value.

Consumer skepticism

Corporations also face persistent consumer skepticism about the authenticity and impact of corporate sustainability efforts (Figure 5). To mitigate the risk of "greenwashing," companies should ensure their efforts are closely aligned with their core values; informed by verifiable data and evidence; and linked to clear, measurable sustainability targets that reflect genuine commitments and provide a framework for accountability and progress. Furthermore, companies should ensure their public disclosures and communications on ESG and sustainability are accurate, substantiated, and compliant with evolving legal standards. Such actions will also help mitigate the emerging risk of greenwashing litigation.

Figure 5

Half of US consumers think corporations exaggerate the impact of their sustainability efforts, which makes it challenging to implement ESG goals



Note: Survey by The Conference Board and The Harris Poll of 2,025 US consumers, September 2022
Source: *On Sustainability Communicators' Agenda: Labor Practices and Greenwashing Watch*, The Conference Board, December 2022

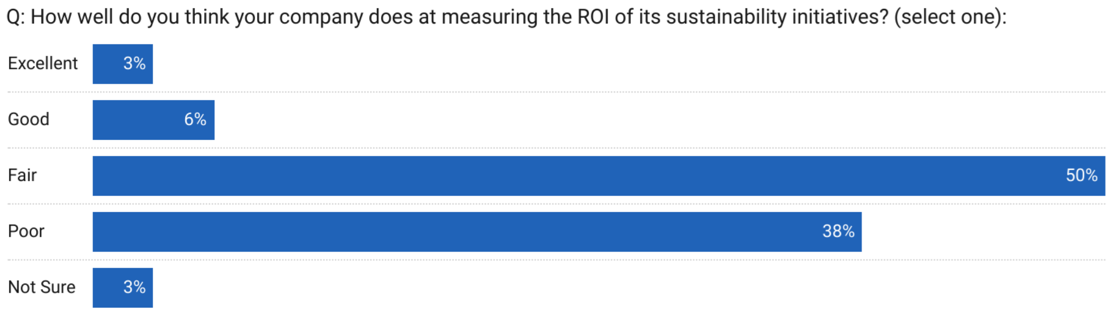
Measuring ROI

A major challenge in setting corporate ESG strategy is the difficulty of measuring how such efforts have a tangible ROI to the firm (Figure 6). Unlike conventional business investments, which use clear financial metrics and predictable returns within a defined timeline, ESG activities—such as reducing emissions or adopting sustainable processes—are evaluated using more complex metrics without direct or immediate financial returns. This lack of clear return makes it challenging for businesses to justify, prioritize, and allocate resources to ESG initiatives. Moreover, the emergent nature of ESG metrics often results in data gaps and accuracy issues, further obstructing strategic planning and implementation.

To make progress in this area, companies should first take a longer-term perspective akin to major capital or R&D investments, where benefits materialize gradually but can be crucial for competitive advantage. They should then apply their firm's existing ROI definition, while gradually investing in data systems and working toward a more comprehensive ROI framework that includes intangible and "submerged" value. Critical to such a framework is the development of specific metrics and KPIs against which companies can assess results.

Figure 6

Few executives believe their company is good at measuring the ROI of sustainability efforts



Note: Poll of 34 roundtable participants
Source: The ROI of Sustainability (Session One), Roundtable Series, The Conference Board, March 2024

Policy and regulation

An additional challenge in ESG strategy formation is the rapidly evolving regulatory landscape. Global regulations are broadening in scope and impact, reaching deeper into companies' value chains. Corporations must adapt to complex new requirements, such as the SEC's enhanced climate-related disclosure rules,[1] California's new climate disclosure laws,[2] and Europe's Corporate Sustainability Reporting Directive.[3] These regulations impose substantial compliance demands and require a dynamic approach to corporate governance and internal collaboration. According to a recent survey by Bain & Company, only 24% of companies say they are ready for upcoming sustainability reporting requirements.[4]

Regulatory and policy changes also present real business opportunities. A proactive strategy that extends beyond compliance can leverage these requirements to embed sustainability across the firm's activities in the workplace, marketplace, and public space. The potential of policy changes and subsidies to influence business strategies is evident in new legislative measures such as the US Inflation Reduction Act, which has catalyzed private sector investment in clean energy production, electric vehicles, batteries, and other green technologies through tax incentives and federal subsidies.

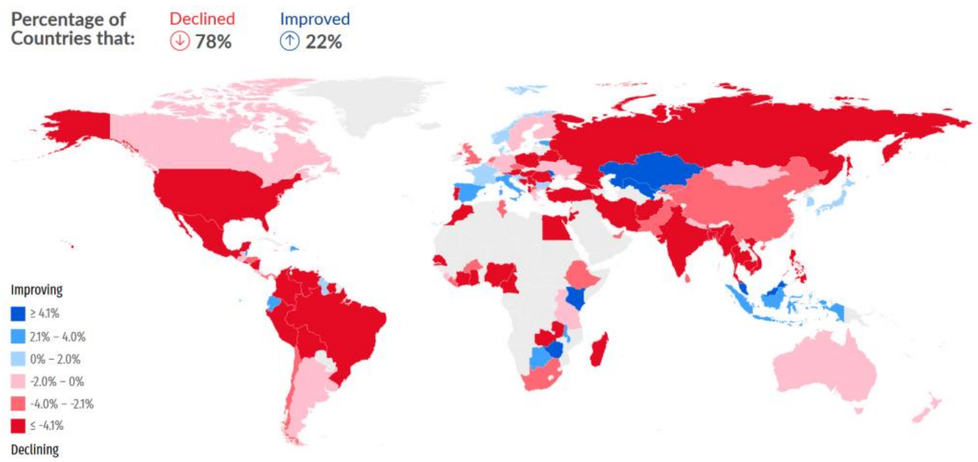
Global challenges and awareness

When developing an ESG strategy on a global basis, companies need to be aware of societal and market dynamics, as well as volatility in the rule of law in the countries where they operate. As the global landscape shifts toward a more fragmented international order, businesses face heightened risks that can include terrorism, cyber threats, natural disasters, and severe weather events.[5]

Companies rely on a stable and trustworthy legal environment to make long-term, sustainable investments. The rule of law is vital to ensure that businesses operate under a consistent, transparent legal framework where laws are fairly applied and enforced, protecting rights, ensuring security, and enabling predictable and equitable dispute resolution. According to the World Justice Project, adherence to these principles has declined in many countries and regions since 2016, and The Conference Board C-Suite Outlook survey indicates that CEOs in the US and Europe now rank the rule of law as a top-six ESG priority.

Figure 7

Adherence to the rule of law declined in 78% of countries between 2016 and 2023, undermining business confidence and ESG efforts



Source: Rule of Law Index: 2023 Insights, World Justice Project, 2023

Companies should respond by integrating risk assessments of relevant regional, national, and local political and legal environments into their ESG frameworks. By doing so, businesses can ensure they make sustainability investments in stable regions and diversify their supply chains to mitigate potential disruptions. Additionally, firms should enhance their governance structures to remain compliant with varying international regulations and monitor and enforce standards relating to labor laws, environmental regulations, anticorruption efforts, and human rights.

Conclusion

As regulatory, political, and market dynamics grow more complex, companies can achieve important business and societal objectives by hitting the reset button on ESG, refreshing their strategies and objectives in a changing landscape. This involves considering broader environmental, economic, and social goals; assessing the private sector's contribution to such goals, both individually and collectively; and collaborating with the public sector. Other critical factors include navigating ESG backlash and skepticism; measuring ESG's return on investment; staying ahead of evolving regulations; and incorporating thorough analyses of global challenges and the rule of law.

About This Report

This report explores how corporate leaders can "hit the reset button" to ensure their ESG strategies remain relevant and effective in a dynamic business and societal landscape. It draws on insights and data from a Chatham House Rule roundtable of senior sustainability executives, convened by The Conference Board in August 2023, titled "Hitting the Reset Button: Setting ESG Strategy with the Broader Picture in Mind—Prerequisites for Progress." This roundtable was the first in a series of four, each sponsored by Weil, Gotshal & Manges LLP and accompanied by a corresponding report. This publication is the first in the series, with the subsequent three examining how firms are setting and addressing broader societal environmental, economic, and social/political goals, both individually and collectively.

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About the Knowledge Partner

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Endnotes

[1] The SEC's new climate-related disclosure rules, adopted in March 2024, aim to enhance and standardize climate disclosures by public companies. These rules mandate disclosures on material climate-related risks, their potential impacts, and mitigation strategies; climate-related targets and goals with material impact; information on material scope 1 and scope 2 emissions with an assurance report; and the costs and losses incurred due to severe weather and natural conditions, as well as those related to material use of carbon offsets and renewable energy credits.

[2] In 2023, California enacted two laws mandating that both public and private companies operating in the state report their greenhouse gas emissions and climate-related financial risks. The Climate Corporate Data Accountability Act (SB 253) requires entities with over $1 billion in annual revenues to report their scope 1 and scope 2 emissions from 2026, and scope 3 emissions from 2027, with a limited assurance report. A second law, Greenhouse Gases: Climate-Related Financial Risk (SB 261) mandates that entities with revenues over $500 million disclose their climate-related financial risks on their websites by 2026, detailing adaptation and mitigation strategies. Also in 2023, California enacted the Voluntary Carbon Market Disclosures Act (AB 1305), which requires disclosure about data and claims by businesses operating in California that market or sell voluntary carbon offsets, or that make claims about achieving net-zero emissions, carbon-neutral status about the company or a product, or significant carbon emissions reductions. The compliance deadline for AB 1305 was January 1, 2024, but the bill author's intended date was January 1, 2025.

[3] The European Union's Corporate Sustainability Reporting Directive (CSRD), which took effect in January 2023, with the first reports due for certain EU entities in 2025 reporting 2024 data, requires companies operating within the EU, including those from the US with relevant subsidiaries, to provide comprehensive sustainability disclosures and limited assurance reports pursuant to the new European Sustainability Reporting Standards (ESRS). These standards, drafted by the European Financial Reporting Advisory Group (EFRAG), require reporting based on the principle of "double materiality," covering both the impact of sustainability issues on business and vice versa.

[4] Survey facilitated for Bain & Company by the Gerson Lehrman Group (GLG) in 2024, utilizing its Network Members, independent industry professionals, consultants, and other individuals.

[5] The world may be experiencing a geopolitical inflection point comparable to those of 1945 and 1989, characterized by significant shifts in global power structures and international relations toward a multipolar system. This realignment is driven by the emergence of new economic powers, changing alliances, rising nationalism, and global challenges such as climate change and cybersecurity. Nations like China and India are asserting greater influence, and regional powers are seeking more autonomy in their foreign policies. This transformation is reshaping how nations interact, altering trade networks, security arrangements, and international diplomacy.

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