

ASG Analysis: Pivoting Towards a Sustainable Recovery

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Key Takeaways

- As the physical, economic, and political scars of Covid-19 continue to form, companies will face new and accelerated sustainability challenges not factored into their current business models.
- New and emerging environmental, social, and governance (ESG) risks include expanded public and private debt burdens, clearer links between health and climate, social and political unrest in response to exacerbated inequalities, mounting geopolitical tensions, and the expanding role of government, among others.
- ASG has developed a framework to help companies look to the future and begin adapting existing sustainability efforts to ensure long-term resilience to these risks.

Sustainable Business Persists through the Crisis

Covid-19 is putting the new era of stakeholder capitalism to the test. Many companies have responded strongly to the current crisis, protecting employees, maintaining essential services, and doubling down on commitments to sustainable and inclusive growth in the recovery.

This activity builds on pre-crisis momentum for corporate sustainability strategies that drive positive change through a company's core operations, products and services, and value chain. These strategies have been sparked by international support for the Sustainable Development Goals; growing awareness of the scale of the climate challenge; and increased consumer, investor, and regulatory pressure.

Momentum also comes from mounting evidence of ESG outperformance in terms of financial returns and reduced volatility, evidence that has held through the crisis. Flight to quality in times of crisis used to mean allocations to gold and USD. Now it also includes sustainability.

By embedding sustainability in the core operations of their business, companies capture value by opening new markets, innovating for new products, reducing cost and risk in supply chains, strengthening brand and improving consumer loyalty, attracting and

Morningstar found that for Q1 2020, 24 of its 26 tracked ESG index funds outperformed. Blackrock found that 94% of sustainability indices had outperformed during the Covid-19 crisis in Q1 2020 and 88% have outperformed YTD.

retaining top talent, and reducing regulatory and reputational risk.

Adapting and Accelerating Sustainable Business Today

As the physical, economic, and political scars of this crisis continue to form, companies will face new and accelerated sustainability challenges not currently factored into their business models. Even during this time of immense challenge, there are steps business leaders can take to build resilience to these and future global risks:

- Refresh existing sustainability practices;
- Identify emerging ESG risks;
- Mobilize for collective action; and
- Expect the unexpected.

Refresh Existing Sustainability Practices

Governments, investors, employees, and customers are all reconsidering their priorities amidst the current crisis. Social and economic inequalities, already the focus of much corporate sustainability work, are being exacerbated by the pandemic. In this rapidly shifting environment, existing sustainability practices will need to be refreshed.

Covid-19 is exacerbating persistent gender and racial inequalities, and in response some organizations are significantly expanding or revamping initiatives focused on women and minorities. Companies across sectors are also committing capital to address racial injustice in the recovery and signaling deliberate steps to ensure change ultimately begins at home.

Some governments are shifting legislative priorities to pursue green and inclusive recoveries. The [European Union](#) will tie its EUR750 billion recovery fund to climate action and the [Canadian government](#) is requiring large companies seeking bailout funds to comply with recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). Every company should be asking itself, “Are there ways we can go beyond compliance with these programs to demonstrate a genuine contribution to a sustainable recovery?”

Identify Emerging ESG Risks

Many companies are considering long-term operational restructurings to adapt to a new normal. As with most business decisions, these measures will favor some stakeholders more than others, and some of the trade-offs made today will emerge as tomorrow’s ESG risks.

Pressure to deglobalize supply chains in the wake of the pandemic, for example, may lead to more reliable access to essential inputs, but leave marginalized workers, [often low-income women in developing markets](#), without work. [Accelerated adoption of automation](#) may make sense to protect health and safety in an era of social distancing but will lead to significant labor market disruption.

To anticipate and address future ESG risks to result from critical business decision made today, organizations should consider forming a resilience task force involving senior leadership as well as operations experts to assess these decisions against potential risks. [CalSTERS](#), for example, has a long-established Green Initiative Task Force to integrate consideration of sustainability-related risks into governance and investment decisions.

Mobilize for Collective Action

Ultimately, many emerging ESG risks to a business will center on a few critical issues: climate change, geopolitical unrest, technological disruption, and social and economic inequality. An organization can't isolate from these issues any more than it can isolate from a pandemic. Addressing them will require unprecedented collaboration across public, private, and social sectors to collectively bend the rules of the game towards sustainable and inclusive growth.

Now is the time to double down on these cross-sector collaborations and elevate their importance within the organization. New industry-wide and cross-sector partnerships are also emerging out of necessity during the pandemic. Businesses should identify those with lasting potential and begin building the infrastructure to sustain collaboration beyond the recovery.

These partnerships should not be left to the margins of a business—simply a means to generate goodwill among stakeholders. When a group of [155 companies](#)—including AstraZeneca, Diageo, HP, Nestle, Safaricom, Square, and Wipro—stepped forward during the pandemic to collectively reaffirm their commitment to building a zero-carbon economy, they were asking to be held to account on their efforts to dramatically alter their operations in service of a better future for our environment.

Building effective resilience to global challenges requires coordinated senior leadership with the ability to command real change, draw on resources across business units, and attract the attention of the external partners with the greatest potential to scale impact.

Expect the Unexpected

The waves of the pandemic, the social and political response to exacerbated inequalities, and the expanding role of governments in markets will be unknown for months and years to come.

Companies that do not find the courage to act on sustainability in this period of uncertainty risk losing valuable time to address these critical issues in their communities, which also have the potential to disrupt supply chains, shrink the pool of good workers, and destroy their social license to operate.

Here, again, strength in numbers helps. Move with peers, share best practices, communicate openly, and be prepared to adapt, innovate, and persevere.

"In the midst of today's uncertainties and the acute impacts – with unemployment high and little economic activity – it's hard to plan for the future," writes [JPMorgan CEO Jamie Dimon](#). "Yet to lay the foundation for the kind of recovery we need, it is critical we do so."

By protecting stakeholders today and taking steps to refresh existing sustainability practices, identify emerging social risks, mobilize new networks, and expect the unexpected, companies can lay the

foundation for the unprecedented level of cooperation required to secure a sustainable and inclusive future for business and society.

About ASG

Albright Stonebridge Group (ASG) is the premier global strategy and commercial diplomacy firm. We help clients understand and successfully navigate the intersection of public, private, and social sectors in international markets. ASG's worldwide team has served clients in more than 120 countries.

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