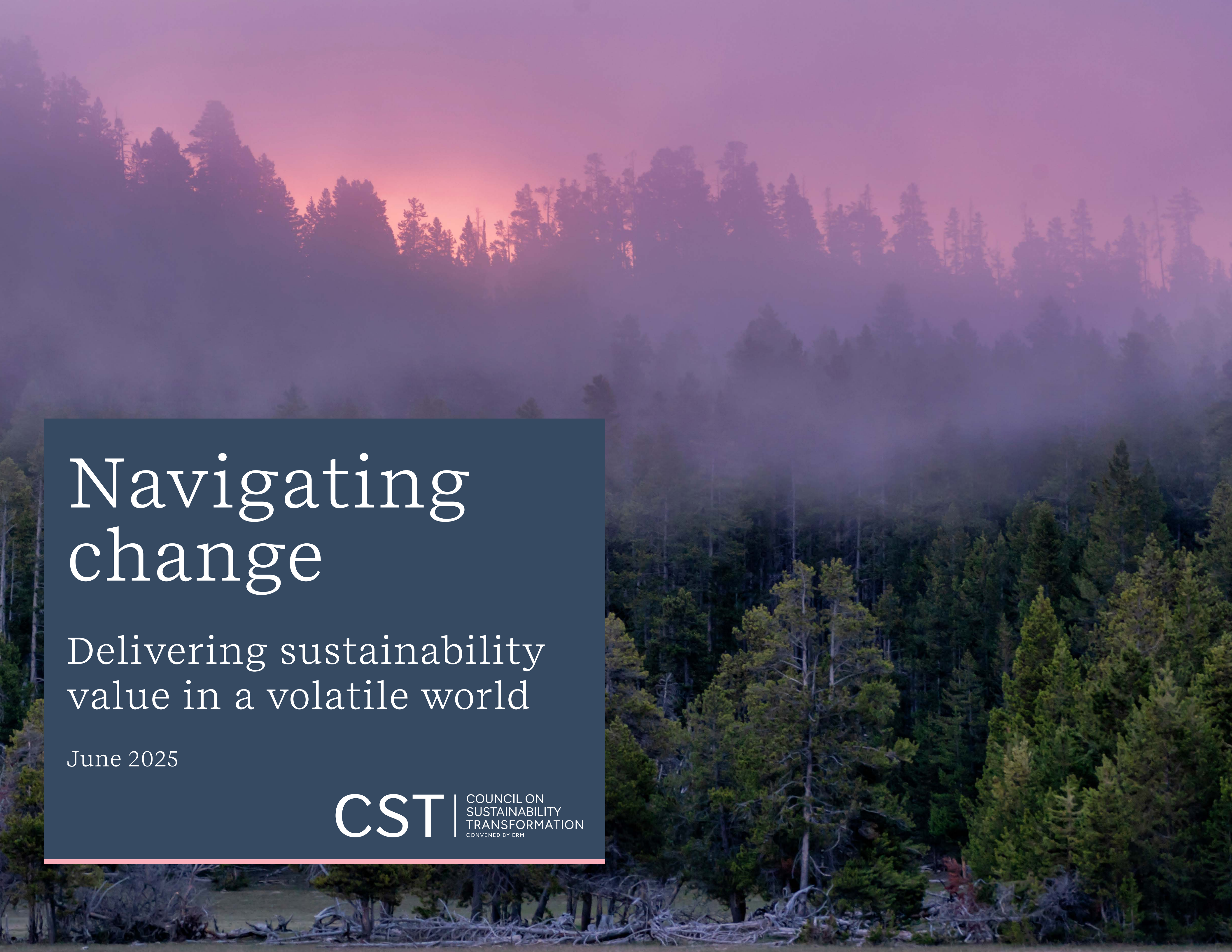


Navigating change

Delivering sustainability value in a volatile world

June 2025

CST | COUNCIL ON SUSTAINABILITY TRANSFORMATION
CONVENED BY ERM

Executive Summary

Businesses face a convergence of geopolitical, economic, and societal challenges that compete for attention with sustainability, which is forcing a recalibration of the corporate sustainability agenda. Responses vary.

In the U.S. and Europe, some companies are scaling back their climate and nature ambitions to focus on short-term geopolitical or security concerns and avoid growing sustainability skepticism. In China, solar and electric vehicle (EV) companies, confronted with tariffs and sustainability pushback in their main export markets, are rethinking how to maintain the flow of goods.

During volatility, companies may hesitate to act. But company leaders who truncate their sustainability efforts take at least two big risks:

1. Hesitation may undermine their commercial well-being. Investors, consumers, and stakeholders will continue to demand corporate action on climate and nature; sustainable products are increasingly driving market share growth; and, as electric vehicles (EVs) have shown, slow sustainability innovation can let bolder pioneers who move fast build hard-to-overcome technological and cost advantages in new markets.

2. Businesses may underestimate the strategic options available to advance sustainability transformation, navigate geopolitical turmoil, and enhance supply chain and energy security simultaneously. To grasp these opportunities, companies must identify which issues are most interrelated and develop adaptable strategies that address both immediate and long-term pressures.

Instead of dialing back sustainability efforts, companies can choose to embrace today's market complexity and recalibrate their sustainability approaches to continue progress. Successful recalibration necessitates these actions:

Focus on the existential battles and meaningful value creation.	Given the global threats to climate and nature, and the commercial and societal risks they create, companies should prioritize these two areas plus the social issues most material to their individual organizations.
Identify where sustainability challenges overlap with other strategic priorities.	Companies benefit when they find where strategic priorities and practical solutions overlap. This allows sustainability actions to address some other concerns concurrently.
Adapt to short-term realities without sacrificing core values or long-term direction.	Senior business leaders need to be pragmatic and steadfast. A deep understanding of sustainability's commercial benefits and risks and how it interacts with other priorities like supply chain security and geopolitical navigation is vital.
Reframe sustainability narratives from planet-saving to business-critical.	Shifting the narrative from 'planet-saving' to 'business-critical' helps show how sustainability actions also enhance value creation, political and supply chain stability, innovation, and resilience.
Build stronger collaborations as a bulwark against challenges and uncertainty.	The recent trend of companies and investors leaving collective sustainability alliances needs to be reversed. What may seem logical in response to short-term pressures makes individual businesses and industries more vulnerable in the long run.

The priority should be progress, not perfection. Companies that consistently deliver pragmatic, incremental advances will be better positioned to manage volatility, maintain credibility, and navigate complexity than their peers.

Introduction

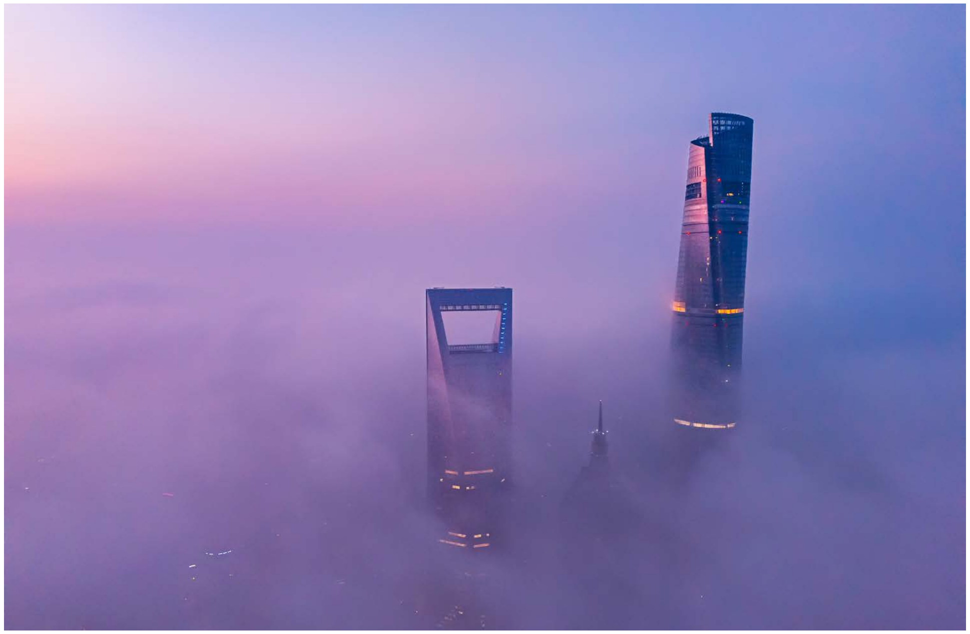
The sustainability agenda is undergoing transformation. Businesses face a convergence of geopolitical, economic, and societal challenges that compete for attention with sustainability imperatives. While climate change and nature loss continue to present significant and growing business risks and opportunities, many companies' sustainability efforts have been stalled by other immediate external pressures and internal uncertainty.

Charting a new path forward will not be simple, but it is essential. It requires careful analysis of the numerous political and market dynamics reshaping business priorities, plus a deeper understanding of how these forces interact with one another—and with societal expectations and corporate sustainability ambitions. From that starting point, companies, investors, and policymakers can develop more coherent and interconnected approaches to navigating today's complex world.

Continuing and recalibrating sustainability efforts is crucial for maintaining competitiveness and avoiding the potential risks that inaction poses to business operations and profitability. Multiplying climate- and nature-related shocks are disrupting production and supply chains and increasing geopolitical tensions, affecting trade and driving costs upwards. Companies need to proactively assess and respond to these circumstances or risk being subject to their whims. Additionally, inaction may hold back sustainable innovation, limiting future access to new markets or eroding existing market share as consumers increasingly demand sustainability as a default feature, which may let competitors forge ahead. Finally, policymakers and investors are setting higher sustainability performance standards, requiring continuous effort and improvement to comply.

The first part of this white paper explores some of the current commercial obstacles companies face and how their consequences pan out in different regions. The second part identifies corporate responses with high potential to maintain sustainability progress while simultaneously improving the outcomes of other priorities. Though difficult to develop and implement, today's market volatility and intricacy are likely to reward organizations that apply the multi-layered thinking and adaptable strategies needed to advance sustainability and strengthen business resilience together.

Despite — and because of — the complexity of today's business landscape, the case for corporate sustainability investment and action remains strong. Commercial risks and opportunities stemming from climate change, nature loss, and shifting customer expectations are accelerating with huge implications for future business value creation and value destruction. This is a reality corporate leaders cannot afford to ignore.



Part A.

First, reassess.

Understanding the sustainability agenda and how to advance it depends enormously on where companies are headquartered, where they operate, and the stakeholder pressures they face. Currently, the ground is especially uncertain in the U.S., with political and cultural forces reversing progress on everything from offshore wind energy development to sustainable finance commitments. In Europe, concerns about competitiveness are leading governments to recalibrate the speed and intensity of sustainability-related regulatory efforts.

The scene is different in many parts of APAC. Climate-related regulation is gathering momentum in jurisdictions like Singapore and Malaysia. At the same time, in China, the combined forces of policy and industry have elevated the country to unprecedented levels of market and technological dominance in sectors such as solar, electric vehicles, and the production and processing of the critical minerals crucial to advanced low-carbon technologies.

Whatever the local context, companies operating globally and other participants in the interwoven value chains that deliver products and services worldwide must understand varying regional dynamics and adapt strategic approaches accordingly. Below are a few of the factors challenging current corporate sustainability practices.

Geopolitical and regulatory instability elevate uncertainty.

Geopolitical tectonic plates continue to shift, with the newly strained alliance between the previously dominant pairing of Europe and the United States entering an unpredictable new chapter. The landscape is evolving in other ways also, and change is accelerating as other actors, including China, India, and Brazil, gain economic and political prominence. The post-World War II global order is being challenged from east to west and north to south, heightening trade disputes, political standoffs, and resource nationalism. At the same time, global sustainability regulations are diverging: the U.S. is pulling back, while the E.U., China, and other APAC countries are developing and redesigning rules that raise expectations for sustainability performance and disclosure. These contrasting approaches contribute to supply chain, market access, and investment uncertainty for companies.

Deep regional divisions strain international climate and nature negotiations.

Persistent divides between high- and low-income nations keep stalling international talks on climate and nature, with disputes over historic responsibility and the required financial flows from high- to low-income countries posing major sticking points. Meanwhile, rising public and political pushback in some advanced countries, including the United States' withdrawal from the Paris Agreement, weakens global alignment.

Growing global policy divergence on sustainability complicates corporate decision-making.

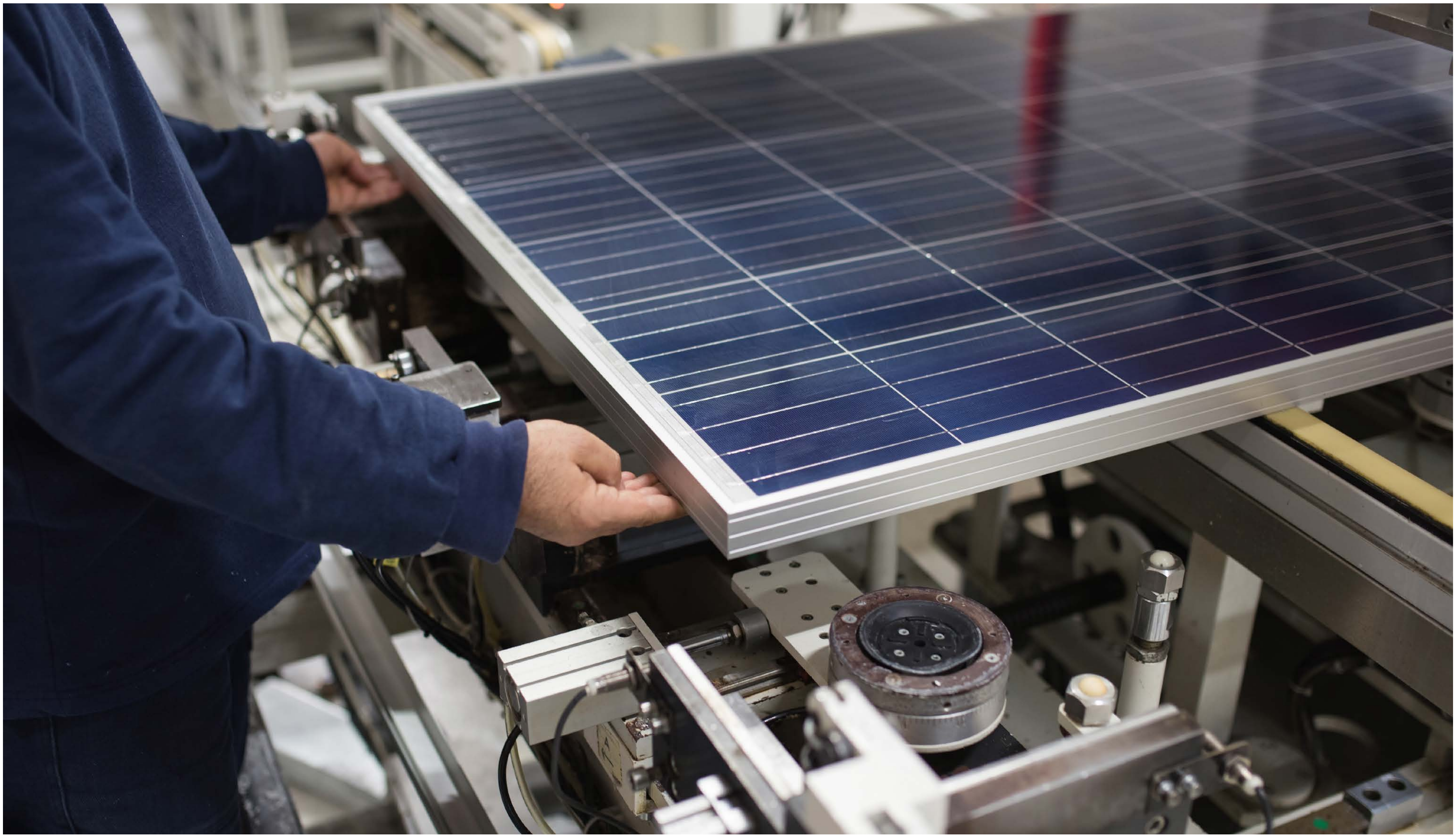
The scope of government support and active industrial policies that countries such as China, India, and Brazil provide for cleantech and other sustainability-related sectors is growing even as it is slowing down in parts of Europe and going into reverse in the U.S. In 2024 alone, China invested USD 890 billion in cleantech, mainly for solar, batteries, and electric vehicles (EVs). This may put European and U.S. companies at a long-term disadvantage as Chinese companies continue to scale, innovate, and drive down costs at an ever-faster pace.

Global energy demand is outpacing renewable energy growth.

In 2024, new renewable power capacity covered only 80 percent of electricity demand growth, resulting in net carbonization rather than decarbonization of the global power supply. Emerging and developing economies generated 80 percent of this growth. However, the average cost of capital for renewable projects in these economies (excluding China) is twice as high as in advanced economies, limiting corporate decarbonization potential in these regions.

The corporate response to these pressures varies. Some global companies, especially in the U.S., and to some extent in the E.U., are scaling back or pausing previously-stated climate and other sustainability ambitions to focus on short-term competitiveness, address immediate geopolitical or security concerns, and avoid the ire of sustainability-skeptic political forces. Others are taking a wait-and-see approach.

For Chinese companies exporting solar equipment, EVs, wind turbines, and batteries, the situation is quite different. Faced with high tariffs and reduced support for a speedy energy transition in their main export markets, they are rethinking how to keep goods flowing, for example, by shifting production to the E.U. and the U.S. to avoid tariffs, or agreeing to joint ventures and technology transfers.



CEOs and company leaders who succumb to the scaling back or wait-and-see approach are missing the mark in two important ways.

1.

First, investors, stakeholders, and consumers will likely demand more focus on reducing corporate impacts on climate and nature over the long term—for example, nearly 90 percent of global individual investors still express interest in sustainable investing.

Developing sustainable products is not just about potential attractiveness to investors or (elusive) price premiums, but also about capturing specific market segments and growing overall market share. In the U.S., nearly 20 percent of all consumer-packaged goods today are marketed as more sustainable than competing options, and the annual growth rate of sustainable products is one-third higher than that of non-sustainable products. Developing and positioning products to win as markets evolve to meet demand for more sustainable options and/or as regulation requires stronger sustainable performance will be critical to future competitiveness and is something every company needs to prepare to do.

Another commercial reason for companies and countries to anticipate, identify, and seize sustainability-related market opportunities is the risk that competitors may develop hard-to-overcome technological innovations and cost advantages. Once that has happened, like with emerging Chinese dominance in EVs and batteries, it is hard for other businesses and/or governments to reclaim ground. For example, even steep tariffs couldn't prevent Chinese EV maker BYD from becoming the best-selling electric vehicle manufacturer in Europe. At a country level, an enviable 40 percent of China's GDP growth is now driven by the cleantech sector.

2.

Second, companies sometimes underestimate or underinvest in the search for strategic options that help advance sustainability transformation, navigate geopolitical events, and enhance both supply chain and energy security simultaneously. While not obvious or simple to grasp, such options are crucial—and have the potential to create the most benefit—during periods of volatility like the one businesses and markets are currently experiencing.

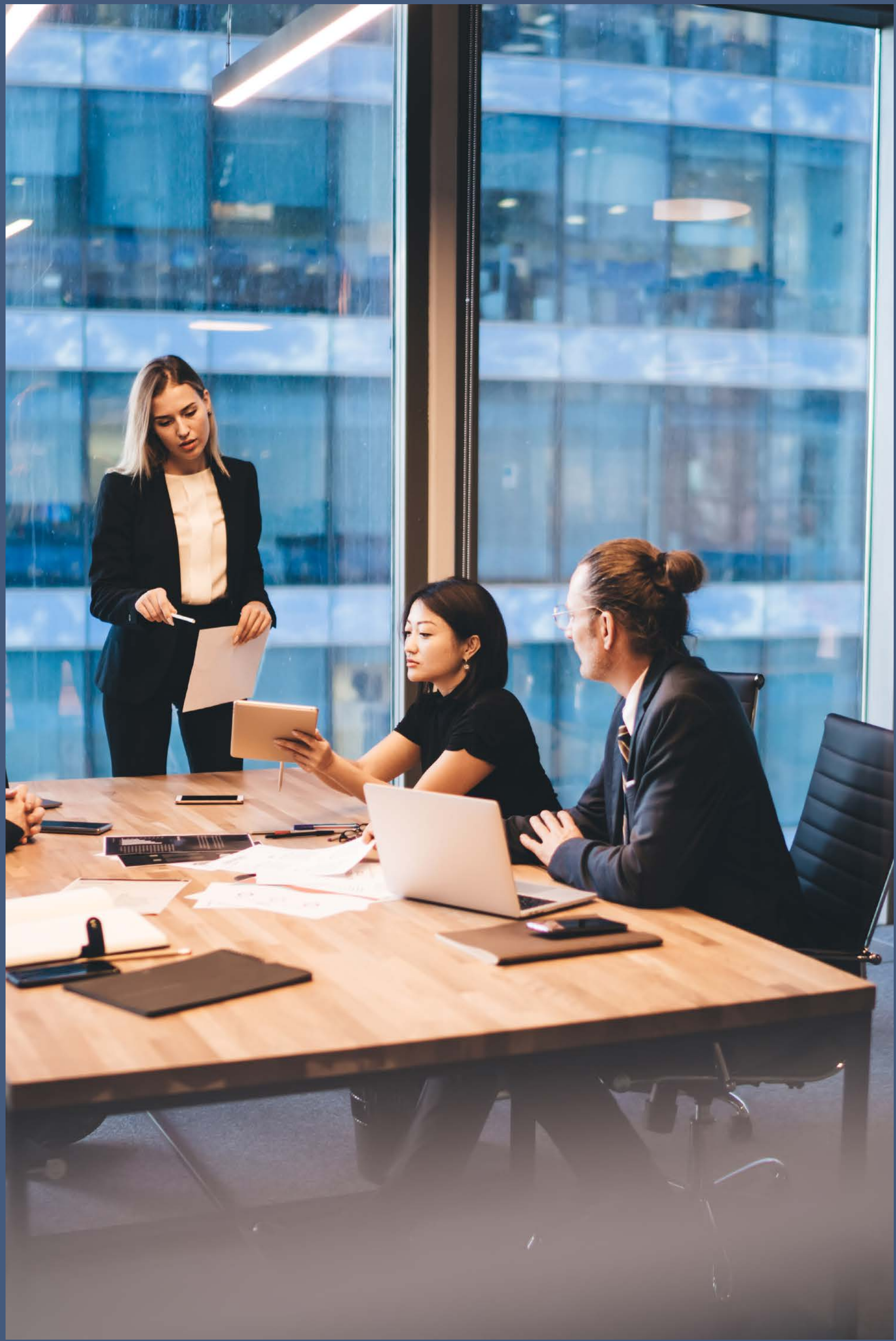
Successfully identifying multipurpose options requires systems-level thinking. This depends on three foundational factors: first, identifying which sustainability, geopolitical, and market issues are most deeply interrelated; second, developing unified strategies with high potential to address the immediate pressures and opportunities associated with them; and third, maintaining the adaptability required to pivot as needed to maximize business success and returns over the longer term.

Senior executives are responsible for steering their organizations through turbulence in ways that mitigate the risks created by pressures like those shaping today's polarized external environment, enhance resilience, and protect both short- and long-term performance. And amidst all the other business priorities pressing them, they need to show how sustainability will contribute to current and future value creation and lasting business success.

Part B.

Next, recalibrate.

Companies need to embrace change to navigate the complexity of today's geopolitical, economic, and societal circumstances and continue sustainability progress. The right changes for each business focus on the most material issues, respond to external pressures, balance management of risk and opportunity, and improve corporate sustainability performance, thereby connecting diverse business priorities and supporting value creation.



B1 Focus on the existential battles and meaningful value creation.

Given the global threats to climate and nature, as well as the commercial and societal risks associated with them, all companies should prioritize these two areas along with the social issues that are most material to their individual organizations.

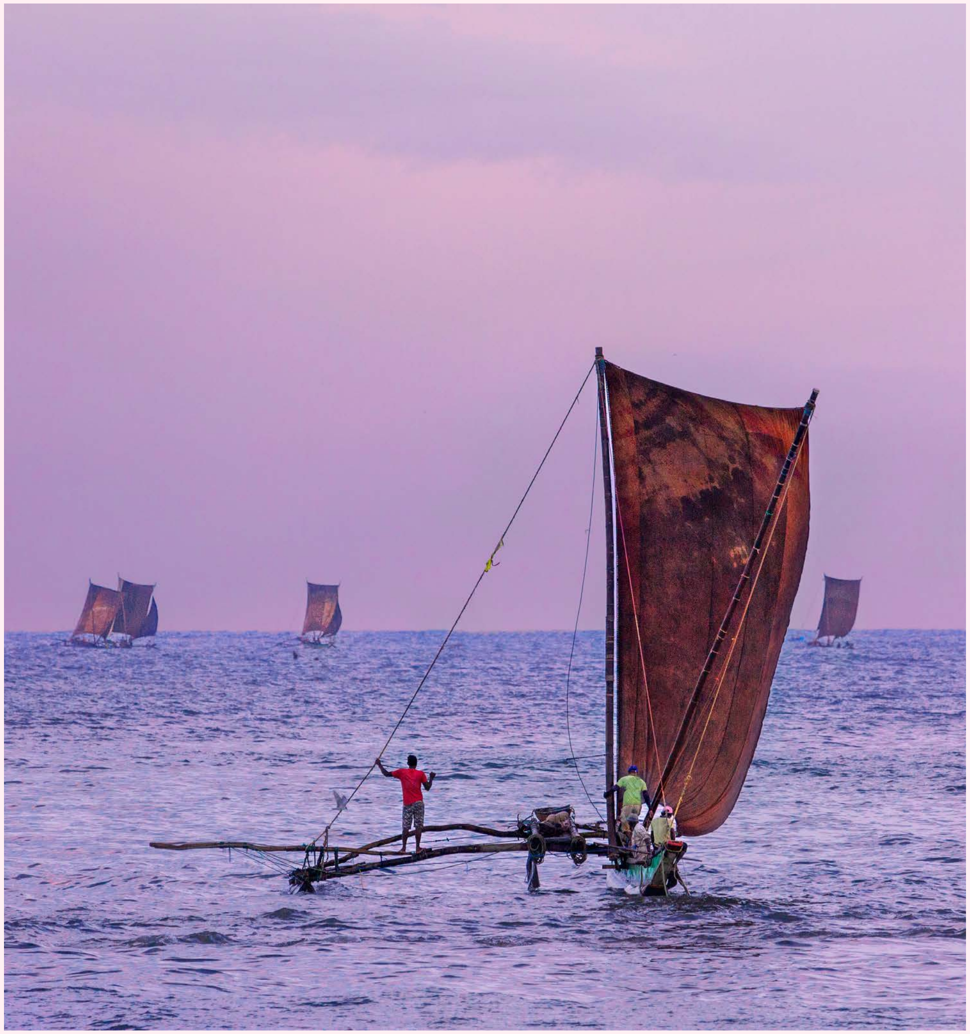
The relevance of sustainability-related social issues can differ from company to company. While human rights in the supply chain and worker safety will be material issues for most if not all businesses, not all social issues are as widely relevant across sectors and geographies. Conversely, climate change and nature loss present immediate, potentially irreversible global risks that impact institutions universally and require urgent action everywhere.

It is important to note that emphasizing climate and nature does not mean neglecting social impacts—reversing global warming and nature loss is essential to mitigating the enormous potential societal consequences associated with them, such as negative health or economic outcomes that could disproportionately affect already vulnerable communities and workers.

Strict prioritization of material issues is also the best way to unlock sustainability's value-creation potential, from cost savings and the development of new revenue-generating products to expansion into new markets. Value creation is essential because significant and enduring corporate contributions to combating climate change and nature loss will only come from commercially viable solutions and innovations.

The current sustainability agenda compels companies to invest effort in topics that are not always as pressing or universal as the ongoing climate and nature crisis in terms of their worldwide impacts and relevance to every business. Companies should recognize this and clearly communicate why they are prioritizing climate and nature—along with their most material social issues—and how this approach best serves both value creation and positive climate, nature, and societal outcomes.

Robust climate and nature transition plans enable companies to capture sustainability value methodically. Developing and applying these plans lets companies systematically identify their most material short- and long-term sustainability-related commercial opportunities and risks. Guided by those findings, companies can more confidently invest the time and capacity needed to quantify the value of the sustainability actions that contribute most to their company's resilience and competitiveness. Numbers speak louder than words, making meticulously quantified business cases the foundation of sustainability action and value creation.



B2 Identify where sustainability challenges overlap with other strategic priorities.

It's reality: sustainability competes with other priorities in both private and public decision-making, and the level of sustainability effort that governments, investors, and other stakeholders expect from companies varies dramatically. Competing priorities and inconsistent mandates muddle corporate decision-making and pressure regions with ambitious sustainability goals, like the E.U., to lower standards to protect competitiveness.

Companies must find where strategic priorities overlap, allowing sustainability actions to address at least some of the other concerns simultaneously. For example, renewable energy and energy efficiency combined with smart grids and widespread electrification enhance energy independence and can shield countries and industries from geopolitical blackmail due to overreliance on fossil fuel imports — which partly explains why Europe has doubled down on renewables to reduce dependence on imported oil and gas from Russia. The share of renewables in total E.U. electricity generation jumped from 37 percent in 2021 to 47 percent in 2024.

National and regional policies focused on low-carbon energy, efficiency, and electrification also create new markets and jobs in sectors such as solar energy, electric vehicles, smart grids, and energy-efficient equipment. In 2023, the number of global green jobs rose by 3 million to 16 million people compared to 2022, with China accounting for almost half of these roles, and Europe placing second with 11 percent of the total.

The connection between sustainability and more secure supply chains is another overlap companies can explore. For example, today's trade tensions will likely accelerate the commercial viability of circular production, which can simultaneously reduce environmental impacts and make supply chains less vulnerable to interference by reusing vital inputs like critical minerals. In 2022, the world generated 62 billion kilograms of e-waste, containing USD 91 billion worth of critical minerals and metals, of which just a fraction is currently retrieved.

B3 Adapt to short-term realities without sacrificing core values or long-term direction.

In today's information-overloaded and chaotic environment, company leaders need to exercise discipline and remain pragmatic. The trick is to adhere to your long-term course without getting distracted by ever-shifting headlines. CEOs and other senior business decision makers will need both pragmatism and steadfastness to get this right. While tactical responses to short-term financial and market pressures will sometimes be necessary, CEOs are responsible for future-proofing their company and ensuring its long-term commercial viability.

This is a delicate balance. A comprehensive understanding of sustainability's commercial benefits and risks, as well as its interaction with other priorities such as supply chain security and geopolitical navigation, is vital for success. Investing in sustainability training and education for executives, board members, and other key leaders is also crucial to raising sustainability awareness to the necessary level for the balance to be understood and supported enterprise wide.

Ultimately, success depends more on progress than perfection. In complex, volatile environments like today's, continuous improvement that takes current market conditions and long-term strategic objectives into consideration trumps waiting for flawless solutions. Steady effort builds credibility, preserves momentum, and helps organizations navigate uncertainty.

B4 Reframe sustainability narratives from planet-saving to business-critical.

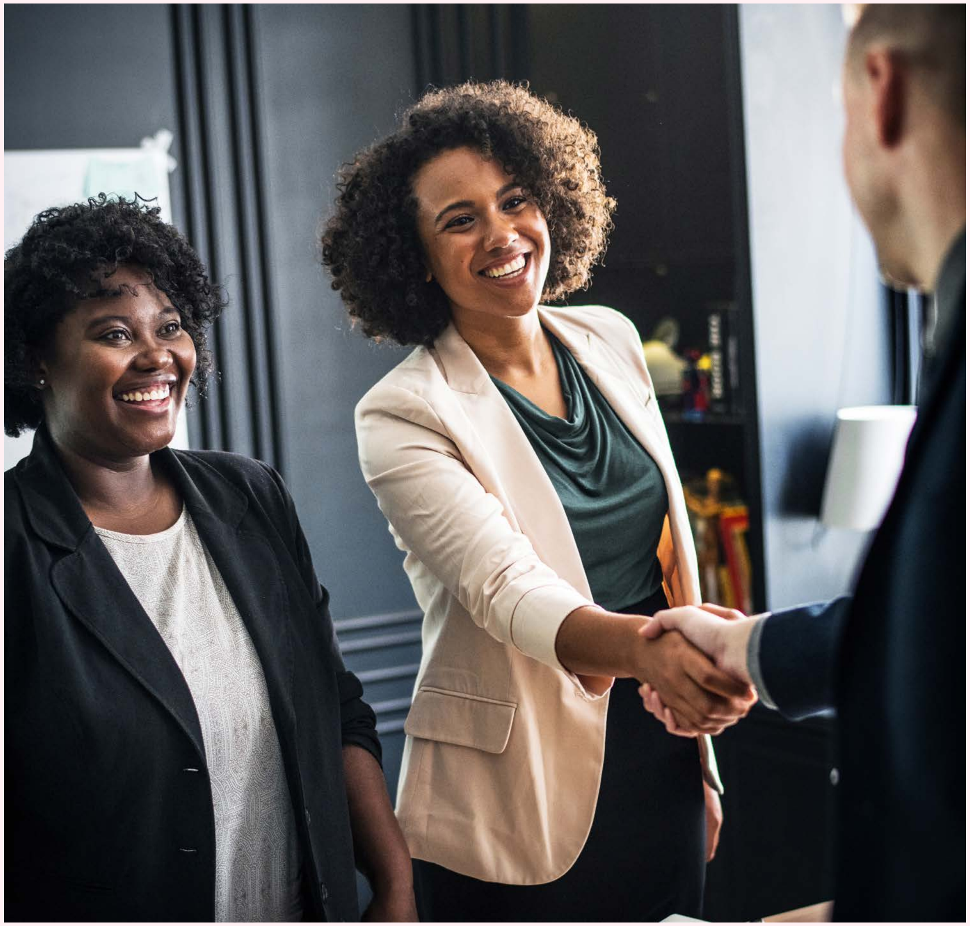
Engaging broader audiences requires a narrative shift from 'planet-saving' to 'business-critical' that shows how sustainability actions enhance value creation, political and supply chain stability, efficiency, innovation, security, self-reliance, and resilience at the same time as improving sustainability performance itself.

Thriving requires companies to communicate how these critical factors for long-term commercial success are interrelated. Shifting the focus to how sustainability actions boost operational security and drive value creation helps companies address concerns about cost and competitiveness, positioning sustainability as a business imperative rather than a moral crusade.

To succeed, companies need to uphold universal core values and adapt messaging to fit regional differences. Companies should also communicate sustainability results, benefits, and co-benefits wherever they operate using hard data. Robust numbers are more widely understood and more readily trusted by stakeholders than qualitative information, which needs more tailoring to different audiences.

Greenhushing tempts and creates risks. Short-term greenhushing may shield sustainability initiatives from scrutiny and politicization, but this should not become the default. Systemic change requires transparency as well as visible and accountable leadership. It also plays a crucial role in countering false narratives, which is essential to companies' ability to differentiate based on sustainability performance.

Documented success stories are the lifeblood of effective sustainability communication. Compelling, quantified examples of value creation related to corporate actions on climate, nature, and individual companies' most material social issues present the best options for meeting compliance requirements, engaging investors, and satisfying stakeholders.



B5 Build stronger collaborations as a bulwark against challenges and uncertainty.

The recent trend of companies and investors leaving collective sustainability alliances needs to be reversed. What may seem logical in response to short-term pressures makes individual businesses and industries more vulnerable over time.

Collaboration takes many forms, from supply chain alliances focused on EV development or the supply of critical minerals to procurement alliances designed to kickstart new markets, such as the H2 Global platform for green hydrogen and the Sustainable Aviation Fuel Buyers Alliance. Other partnerships and collective efforts promote policy changes essential to corporate and national climate and nature goals, such as the call for green demand creation by European industries and NGOs.

Institutional asset owners warning banks and asset managers not to retreat from weighing sustainability risks in investment decisions is another example. At a regional level, the African Financial Alliance for Climate Change brings insurers together with private, central, and development banks across Africa to unlock capital for climate solutions and stresses the urgent need for substantial capital transfers during international climate negotiations.

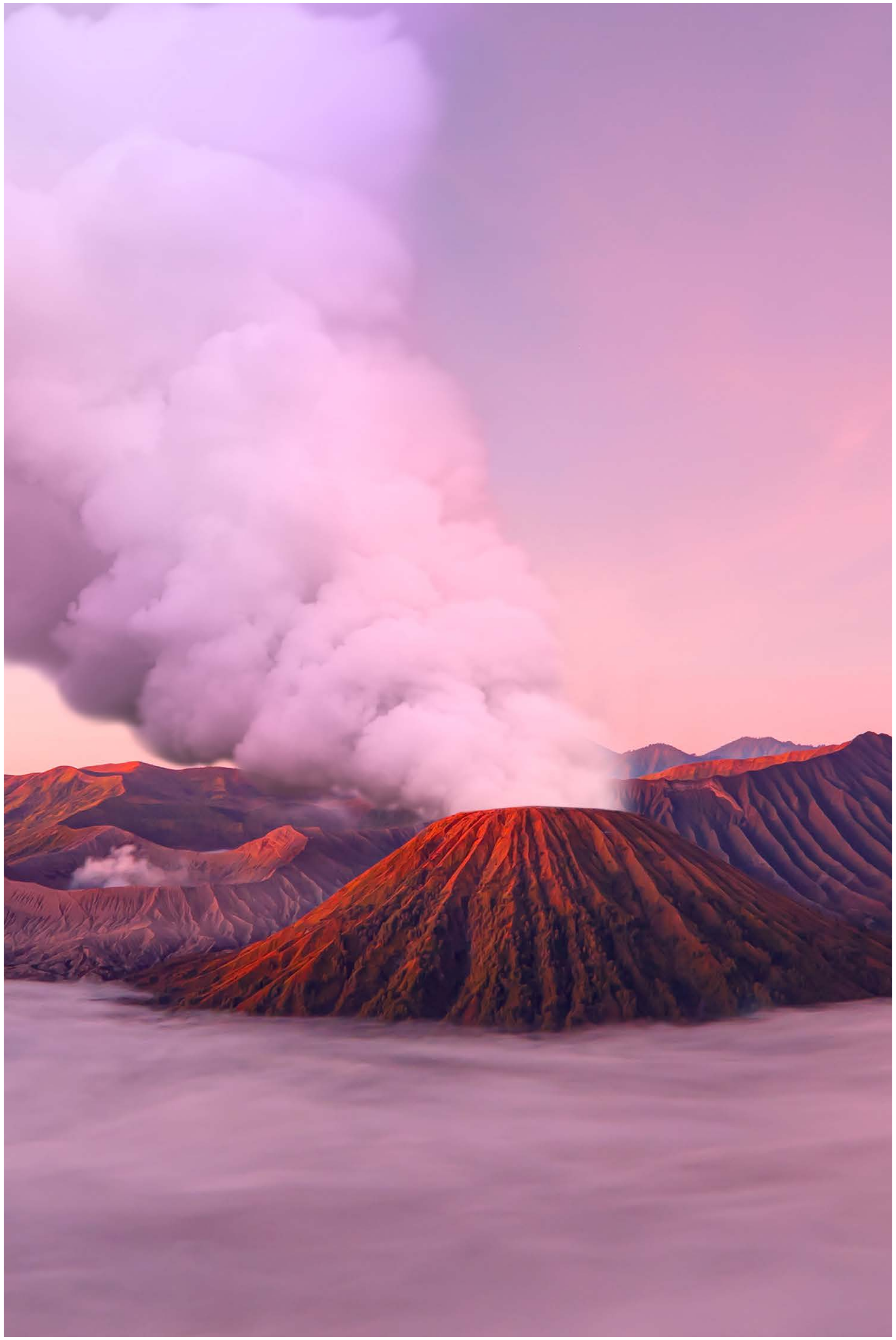
Given the sustainability, geopolitical, economic, and social challenges currently swirling, companies and investors have reasons to cooperate more closely and intently across the board. Governments and the private sector should also expand public-private partnerships across value chains to achieve climate and nature goals and set their economies up for future success. Conversely, policymakers need to shield industries from unreasonable antitrust allegations, since collaborations on sustainability and supply chain continuity are crucial and largely pre-competitive.

Conclusion

Today and for the foreseeable future, geopolitical, economic, and societal challenges will continue to compete with sustainability imperatives. However, the steep consequences of inaction make backtracking on sustainability unviable. Companies and industries need to understand and address geopolitical disruptions such as tariffs and trade wars alongside sustainability challenges like the physical risks climate change poses to supply chains and business operations — they can't choose one or the other.

Again, the priority should be progress, not perfection. Companies that consistently deliver pragmatic, incremental advances will be better positioned to manage volatility, maintain credibility, and navigate complexity than their peers.

Above all, companies can't ignore the influence that sustainability will have on future competitiveness and value creation. Sustainability will continue to be an increasingly important driver of resilience and revenue. This should serve as a motivator for companies seeking the elusive yet invaluable solutions best suited to addressing the volatility shaping the current business environment. Meeting this challenge will help companies thrive during and on the other side of the sustainability transformation that is unfolding.



About the Council on Sustainability Transformation.

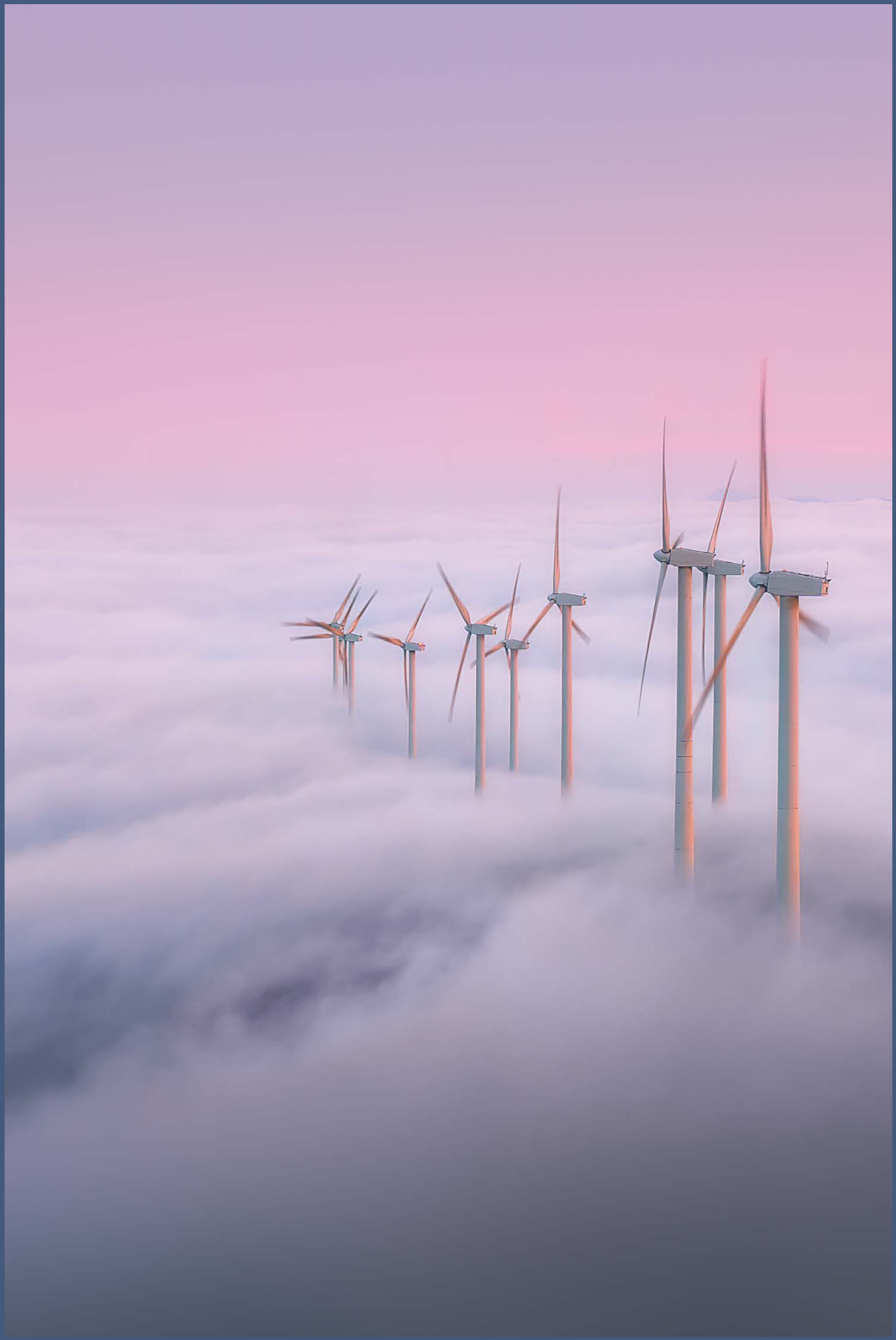
Thousands of major companies have committed to climate action and other sustainability initiatives. While the commitments are real, many organizations find it difficult to achieve the transformational change required to reach their ambitions.

Convened by ERM, the Council on Sustainability Transformation (the Council) is a group of highly experienced and well-respected leaders from corporations, governments, and academia focused on accelerating private sector action on critical sustainability challenges.

The Council looks at obstacles to progress, marshalling the experience of its members and other experts to develop recommendations on how to overcome them and future proof businesses.

The Council will issue a series of papers that explore topics relevant to accelerated corporate action on sustainability. This is the second publication in that series. The first, **Reimagining Company-Investor Engagement to Catalyze Climate Action**, was published in December 2024.

The Council's main target audiences are C-suite executives and board members of major global corporations plus important corporate stakeholders such as customers, employees, investors, policymakers, regulators, and civil society including NGOs.



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