Challenges in Establishing ESG Frameworks in Special Situations Companies: A Critical Analysis

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Abstract- Environmental, Social, and Governance (ESG) frameworks have become essential tools for corporate accountability and sustainable value creation. However, special situations companies – firms undergoing atypical events such as restructurings, distress, spinoffs, or other one-time strategic upheavals – face unique hurdles in adopting and implementing ESG frameworks. This paper provides an academic analysis of the challenges inherent in establishing ESG frameworks within special situations companies. It begins by defining ESG frameworks and special situations, then examines why integrating ESG is increasingly imperative even for companies in crisis. The core of the paper critically analyzes key challenges: the lack of unified ESG standards and the resulting complexity of compliance; data collection and reporting difficulties; resource and expertise constraints; the tension between short-term turnaround pressures and long-term ESG goals; stakeholder alignment and governance issues; and risks of superficial adoption ("greenwashing"). Each challenge is supported by current research and industry observations. The analysis also discusses emerging efforts to address these obstacles – from global standardization initiatives to best practices in ESG integration – providing insight into how special situations firms might navigate this complex landscape.

Keywords: ESG Frameworks, Special Situations, Corporate Restructuring, Sustainability Reporting, ESG Challenges, Greenwashing, Turnaround Strategy.

I. INTRODUCTION

In recent years, Environmental, Social, and Governance (ESG) considerations have moved to the forefront of corporate strategy and reporting. Investors, regulators, and the public increasingly expect companies to demonstrate sustainability and ethical governance commitments. Studies have even linked adoption of ESG standards to enhanced equity value creation, and market sentiment now holds that a strong ESG commitment can materially affect a business's valuation and access to financing – even for underperforming or distressed companies. Nowhere is this trend more pertinent than in special situations companies, which for the purposes of this analysis refers to firms undergoing unusual or transformative events that significantly impact their value and operations. Such events can range widely, including corporate restructurings, bankruptcies, spin-offs, mergers and acquisitions, litigation, activist investor interventions, or other one-time occurrences outside the ordinary course of business. These "special situations" often leave companies with depressed valuations and investor indifference due to short-term difficulties, precisely when a credible ESG strategy could help rebuild trust and long-term value.

Ironically, while blue-chip companies have made ESG integration a priority, special situations firms – arguably in greatest need of the stakeholder goodwill and forward-looking strategy that ESG can confer – often struggle to establish ESG frameworks. The drive toward a sustainable economy means most investors now view ESG considerations as a "must have," and the world's most highly valued companies accordingly boast clear and compelling ESG agendas. It follows that ESG should be central to the recovery and transformation of any business that has fallen out of favor with investors. This is certainly the case in the realm of special situations, which deals with companies whose particular circumstances (e.g. financial distress or major structural change) have brought about low valuations and waning investor confidence. In spite of short-term challenges, integrating ESG principles could be key to these organizations' reputational and operational turnaround. Indeed, there is evidence that neglecting ESG factors can carry immediate risks: companies with poor ESG performance (in the bottom half of ratings) are significantly more likely to be targeted by activist investors looking to unlock value or correct governance failures. Thus, special situations firms face dual pressures – on one hand, an urgent mandate to improve ESG practices to satisfy stakeholders and pre-empt activism, and on the other hand, internal constraints and crises that make such improvements difficult.

This paper critically analyzes the challenges in establishing ESG frameworks in special situations companies. We first provide an overview of ESG

frameworks and clarify what constitutes a special situations company. We then examine why ESG integration is particularly important in these contexts. The main body of the analysis is devoted to unpacking the challenges these companies encounter, supported by current research and industry examples. We explore challenges including: the absence of unified ESG standards and the complexity of navigating multiple frameworks; the rapidly evolving regulatory landscape; difficulties in ESG data collection and reporting; resource and expertise limitations; short-termism versus long-term sustainability goals; issues in achieving stakeholder buy-in and cultural change; and the danger of greenwashing or superficial compliance. Where relevant, we incorporate a critical perspective on how these challenges impact the credibility and effectiveness of ESG initiatives. Finally, we discuss emerging developments and best practices that could help address these challenges, before concluding with reflections on the path forward for special situations companies striving to adopt ESG frameworks. The goal is to shed light on why establishing ESG frameworks in such companies is fraught with difficulties – a critical step toward formulating solutions for practitioners and policymakers.

II. ESG FRAMEWORKS: AN OVERVIEW

ESG frameworks refer to the standards and guidelines used by companies to measure, manage, and report their performance on environmental, social, and governance criteria. Unlike financial reporting – which is governed by relatively uniform standards such as GAAP or IFRS – ESG reporting has until recently lacked a single universally accepted standard. Instead, a variety of frameworks and reporting standards have proliferated, each with a slightly different focus or regional scope. Prominent examples include the Global Reporting Initiative (GRI), which provides broad sustainability disclosure guidelines; the Sustainability Accounting Standards Board (SASB) standards, which offer industry-specific ESG metrics tied to financial materiality; the Task Force on Climate-related Financial Disclosures (TCFD) recommendations, focused on climate risk and financial impact; and newer frameworks like the European Union's Corporate Sustainability Reporting Directive (CSRD) and the U.S. SEC's Climate Disclosure rules, which mandate specific ESG disclosures for companies under their jurisdiction. Each framework comes with its own set of metrics, terminology, and compliance requirements.

The fragmented landscape of ESG frameworks means that companies – especially those operating globally – often must navigate multiple reporting standards simultaneously. A multinational special situations company, for example, might find itself needing to comply with Europe's CSRD, report climate metrics in line with TCFD, and address investor demands using SASB metrics, all while referencing GRI for broader sustainability context. This patchwork of standards has several implications. First, regulatory complexity is high: different jurisdictions impose different ESG disclosure rules, making compliance a challenging and resource-intensive task. Second, inconsistent methodologies for data collection across frameworks can lead to discrepancies in reported information. One standard might count carbon emissions or employee turnover differently from another, complicating internal tracking and external comparisons. Third, stakeholders – from investors to ratings agencies to customers – struggle to compare ESG performance across companies when each may be using different frameworks and metrics. This lack of apples-to-apples comparability can dilute the decision-usefulness of ESG disclosures. Finally, the absence of a single authoritative ESG standard has opened the door to "greenwashing" – companies selectively reporting or overstating sustainability efforts under the guise of ESG, knowing that the lack of uniform benchmarks makes such claims harder to refute. In short, the ESG framework landscape is still maturing, and its inherent complexity poses a baseline challenge for any company, let alone one in a special situation.

Notably, efforts are underway to harmonize ESG reporting. In 2021 the International Financial Reporting Standards (IFRS) Foundation launched the International Sustainability Standards Board (ISSB) with the aim of creating a unified global baseline for sustainability disclosure. The ISSB is working to consolidate elements of major frameworks (such as SASB, TCFD, and others) into a single set of standards. Likewise, large consortiums of investors have collaborated on initiatives like the ESG Data Convergence Initiative (EDCI), which saw over 100 leading private equity firms and limited partners agree on a standardized set of ESG metrics (covering areas like greenhouse gas emissions, renewable

energy usage, workforce diversity, etc.) to track in their portfolio companies. These developments signal that within the next few years, companies may face a more streamlined set of ESG expectations. However, special situations companies must contend with the current reality of fragmentation as they attempt to establish ESG frameworks – a reality that complicates compliance and can be especially daunting without prior ESG experience.

Special Situations Companies: Definition and Context

The term "special situations" in a corporate context denotes unusual or non-recurring circumstances that have a significant impact on a company's performance and valuation, often independent of the firm's underlying fundamentals or industry conditions. Classic examples of special situations include: financial distress or bankruptcy proceedings, where a company's survival is at stake; major restructuring or turnaround plans, possibly involving asset sales or cost rationalization; mergers and acquisitions or spinoffs, which can temporarily disrupt operations and financial reporting; shareholder activism or management shake-ups; legal and regulatory shocks, such as major litigation or sanctions; and other event-driven scenarios like sudden leadership changes or unsolicited takeover bids. In investment terms, special situation opportunities are often pursued by event-driven hedge funds or private equity firms who see potential for value creation once the special situation is resolved.

Special situations companies typically face intense short-term pressures and uncertainty. By definition, these firms are in flux: they may be restructuring debt, shedding non-core units, fighting off activist campaigns, or rapidly pivoting their business models. Management attention is often consumed by the exigencies of the situation – whether that is stabilizing cash flow in a turnaround, satisfying court or creditor requirements in a bankruptcy, or managing integration in a merger. Investor focus on these companies tends to center on the special situation catalyst (e.g., the outcome of a restructuring plan or a strategic transaction) rather than on steady-state operational performance. These dynamics can foster an environment of "short-termism", where decisions are made primarily to address immediate financial or operational crises.

Under such conditions, establishing an ESG framework may not seem like an immediate priority – indeed, historically many distressed or transitioning firms largely ignored ESG initiatives. However, this mindset is changing as stakeholders increasingly demand that even companies in challenging situations uphold sustainability and governance standards. In Europe, for instance, the prevailing sentiment is that whether a company is thriving or in a distressed state, a commitment to ESG standards can materially influence its ability to preserve value and access capital. Put differently, lenders and investors are scrutinizing ESG performance as part of their risk assessment; a company's special situation does not exempt it from questions about its environmental impact, social responsibilities, or governance practices. In fact, one could argue that these factors become more salient in special situations: a firm undergoing a high-profile crisis or restructuring will find its reputation under the microscope, and any lapses in ethical conduct or sustainability can further erode stakeholder trust at the worst possible time.

There is also a pragmatic angle. For special situations companies aiming to attract new investment or to sell themselves (in an asset sale or exit), demonstrating progress on ESG can broaden the pool of interested buyers or investors. Many institutional investors today have mandates restricting investments in companies with poor ESG track records; such investors might shy away from a distressed asset unless they see credible commitment to improvement on ESG issues. Moreover, certain turnaround strategies inherently intersect with ESG goals – for example, operational restructurings that focus on energy efficiency, waste reduction, or improved labor practices can simultaneously cut costs and address ESG concerns. Industry experts note that turnaround plans increasingly may involve adopting sustainable supply chain practices or investing in renewable energy as a means to both reduce costs and appeal to ESG-conscious stakeholders (aligning with the notion of a "sustainability-oriented turnaround"). All these factors underscore why special situations companies cannot afford to ignore ESG, and why establishing a robust ESG framework is emerging as a critical component of modern turnaround management.

Having set the stage on what ESG frameworks entail and what defines a special situations company, we

now turn to the heart of the matter: the challenges involved in establishing ESG frameworks in such companies. Special situations firms face many of the same ESG implementation hurdles as any other company, but these challenges are often magnified by their circumstances. Below, we critically analyze these challenges, drawing on current research and examples to illustrate each point.

Challenges in Establishing ESG Frameworks in Special Situations Companies

Implementing an ESG framework in a special situations company is a formidable task. These organizations operate under atypical conditions that exacerbate common ESG implementation issues. In this section, we break down the key challenges into several categories for clarity. It is important to note that these challenges are interrelated – for instance, resource constraints can worsen data quality issues, and short-term pressures can heighten the risk of greenwashing. A critical analysis requires understanding not just each challenge in isolation, but also how they compound one another in practice.

1. Fragmented Standards and Regulatory Complexity

One of the primary challenges is the lack of a unified ESG reporting standard, which forces companies to navigate a fragmented landscape of frameworks and rapidly evolving regulations. As noted earlier, there is no single global ESG reporting framework equivalent to GAAP; companies must choose among or comply with multiple frameworks simultaneously. For a special situations company, which may already be struggling with basic financial reporting during a restructuring or transition, the added burden of deciphering myriad ESG standards can be overwhelming.

The absence of a universal standard means companies often face conflicting or overlapping guidelines. For example, a firm might be attempting to follow GRI's broad sustainability indicators while also responding to an investor's request for SASB metrics and preparing for mandatory TCFD-aligned climate disclosures in a certain jurisdiction. Each framework has its own terminology and criteria, and they are not perfectly aligned. This creates confusion and may lead to inconsistent internal approaches to ESG. Indeed, companies frequently end up collecting data using different methodologies to satisfy different frameworks, which can produce inconsistent ESG measurements and hinder clear evaluation of performance. For instance, how a company defines "carbon footprint" or calculates employee turnover might vary between frameworks, leading to multiple versions of the truth. In a critical scenario like a turnaround, such complexity can stall the establishment of any coherent ESG tracking system.

Moreover, the regulatory landscape for ESG disclosure is in flux and increasingly stringent. Around the world, governments and regulators are moving from voluntary ESG reporting regimes to mandatory ones – and they are doing so at different paces and with different requirements. The EU's new CSRD vastly expands the scope of companies required to report sustainability information (covering tens of thousands of companies, including many non-EU firms with EU operations). The United States, through the SEC, is introducing climate risk disclosure rules that will mandate granular reporting on greenhouse gas emissions and climate governance for publicly traded companies. The UK has made TCFD-aligned disclosures compulsory for certain large companies and financial institutions. These are just a few examples – virtually every major jurisdiction is either implementing or refining ESG disclosure laws.

For special situations companies, which may be operationally stretched and adviser-heavy, keeping abreast of and complying with rapidly changing ESG regulations is a major challenge. Compliance requires not only understanding lengthy and technical regulations but also building the systems to collect the necessary data and report it in the mandated format. This must be done under threat of penalties: failure to meet ESG disclosure obligations can result in fines, legal liabilities, and reputational damage. A company already facing financial stress or reorganization cannot afford regulatory fines or the loss of investor confidence that could come from non-compliance. Yet, adapting quickly to new ESG mandates (for example, implementing a system to track Scope 3 emissions within a year to meet an upcoming rule) can be extremely demanding. Each new rule essentially requires project management, expertise, and investment – all of which are scarce in special situations.

The costs of compliance further exacerbate this challenge. Unlike established blue-chip firms that might have entire departments for sustainability reporting, a special situations company often has lean

staffing and little budget to spare. Ensuring compliance in a dynamic regulatory environment typically necessitates hiring ESG consultants or legal advisers, investing in specialized reporting software, and training staff on new requirements. These costs can be hard to justify when the company is simultaneously cutting expenses to stay solvent. Yet, as ESG regulations tighten, even private or smaller companies (which many special situations firms are, post-restructuring or buyout) find that they indirectly fall under ESG disclosure pressures – for instance, a private company might need to provide ESG data to a large public client or a bank as part of that counterparty's compliance with regulations. In sum, the fragmented and fluid state of ESG standards presents a moving target for special situations companies. Establishing an ESG framework under these conditions is like hitting a moving goalpost: by the time a company adapts to one set of guidelines, the goalposts may have shifted with the next regulatory development. This complexity is a breeding ground for confusion and error, and it lays a difficult foundation for all the other challenges to come.

2. Data Collection and Reporting Difficulties

Even if a special situations company decides which frameworks to align with, it faces the very practical challenge of collecting, managing, and reporting ESG data. High-quality ESG reporting is fundamentally data-driven, requiring information from various parts of the business – from environmental metrics (like energy usage, emissions, waste output) to social metrics (workforce demographics, safety incidents, community impacts) to governance metrics (board composition, audit processes, etc.). Gathering this information is not straightforward in any company; in a special situations context, it can be especially arduous.

Often, ESG data is fragmented across the organization, stored in disparate systems or departments that were never coordinated for sustainability reporting. For example, environmental data might reside with facilities or operations managers, HR holds social data, and governance information might only exist in board reports or policy documents. Special situations companies frequently lack a centralized data infrastructure even for financial data (particularly if they've grown through acquisitions or are carving out from a parent company), let alone for ESG data. The result is that compiling an ESG report can feel like a scavenger hunt across the firm's information silos. A 2025 analysis notes that poor ESG data management leads to regulatory non-compliance, investor distrust, operational inefficiencies, and heightens the risk of accusations of greenwashing. This is intuitive: if data is incomplete or unreliable, any ESG commitments the company makes may appear disingenuous or could be outright incorrect, inviting scrutiny.

Furthermore, companies in crisis often have outdated or manual data processes. Imagine a manufacturing firm in a turnaround that has never measured its water usage or CO_2 emissions systematically – establishing those baselines requires installing new meters, conducting audits, or implementing software to track resource consumption. These tasks take time and expertise. Special situations firms may find that without dedicated sustainability teams or data experts, it is very difficult to gather, monitor, and report accurate ESG data. Academic research confirms that insufficient human resources devoted to ESG (e.g., no sustainability department, lack of data analysts) is a pressing obstacle, leading to gaps between what is reported and what stakeholders expect to see. In other words, even if top management is on board with ESG, the company may simply not have the people or systems in place to produce a credible ESG report in the short term.

Another facet of this challenge is the methodological ambiguity in ESG metrics. Because the field of ESG is still developing, there are often debates on how to measure certain indicators. For instance, there are multiple protocols for calculating carbon footprints or for assessing "social impact." Special situations companies, which are newcomers to ESG reporting, can struggle with these methodological questions: What exactly should be included in Scope 3 emissions? How to quantify something like "employee engagement" or "community impact"? Even established firms grapple with these, but they might have sustainability experts or industry consortiums to lean on. Our focus companies might have to develop their approach on the fly or rely on external consultants, raising the risk of inconsistency or error. Researchers have identified behavioral, data credibility, methodological, and contextual challenges in ESG reporting broadly – all of which essentially boil down to difficulties in producing information that is both meaningful and trusted. In a critical scenario, the last thing a company wants is to

publish ESG data that is later revealed to be flawed, as it could invite regulatory penalties or investor lawsuits (e.g., if a company misreports its emissions or diversity figures). This places a huge emphasis on data verification and audit, which again adds to the burden (third-party assurance of ESG reports is becoming a common expectation to ensure accuracy).

Finally, it is worth noting the challenge of ongoing monitoring. ESG frameworks are not one-time exercises; they require continuous tracking and improvement. A special situations firm might be able to scrape together a first ESG report through a heroic one-off effort, but unless processes are instituted to regularly update data (quarterly, annually, etc.), the framework will not be sustained. Setting up such processes in the middle of a turnaround is a tough ask. Without embedding ESG data collection into business routines, the initial ESG framework may wither over time, reducing the effort to a symbolic gesture rather than a lasting system.

3. Resource and Expertise Constraints

A critical limiting factor for special situations companies trying to implement ESG frameworks is the scarcity of resources and expertise. By definition, many of these companies are in a state of financial or organizational strain – they might be unprofitable, cash-constrained, shedding staff, and focused on core survival. Diverting resources (time, money, human capital) to a new ESG initiative can appear untenable. Unlike large, stable corporations that can fund comprehensive sustainability programs, a distressed firm or a newly independent spin-off often operates with a bare-bones budget and headcount.

One aspect of this challenge is the lack of in-house ESG knowledge. Special situations companies may have leadership and employees with tremendous experience in the firm's industry or in finance, but few with expertise in sustainability or ESG reporting. Academic findings highlight that a lack of awareness and expertise among top executives regarding ESG issues and their financial implications is a major barrier to adequate ESG disclosure. Executives dealing with a crisis might not fully grasp how, for example, climate risk or workforce diversity connects to the company's valuation or stakeholder expectations. In some cases, there may even be active skepticism or cultural resistance – seasoned turnaround managers might see ESG as a "nice to have" or a buzzword, not critical to the immediate task of fixing the business. Overcoming this mindset requires education and often a shift in corporate culture, which is hard to achieve in a short timeframe.

Even when leadership is supportive, the absence of dedicated sustainability staff is problematic. Many companies create roles like Chief Sustainability Officer or ESG program manager to spearhead these efforts. A special situations firm is unlikely to have had such roles historically, and hiring new high-caliber staff in the middle of a tumultuous period can be difficult (and costly). Without internal champions or experts, companies might turn to consultants for help. While consultants can provide initial frameworks and advice, they are a temporary solution; the company still needs internal capacity to maintain ESG efforts in the long run. This conundrum – needing to invest in expertise precisely when resources are most limited – is a classic catch-22. The insufficient resources and conceptual ambiguity around ESG in these firms are cited among the most pressing obstacles to improving ESG practices. It creates a scenario where even if there is will, there may not be a way to robustly implement ESG frameworks.

Financial constraints also manifest in the inability to invest in necessary systems or initiatives that an ESG framework might call for. For example, an ESG assessment might reveal that a manufacturing plant needs better pollution controls or that worker safety conditions should be upgraded. These improvements require capital expenditure – which a special situations company might not readily have. Allocating capital to ESG-related projects may seem risky when the payoff is long-term and the immediate need is to stabilize earnings. This is closely tied to the short-term versus long-term tension (discussed in the next subsection). But even aside from major projects, the basic reporting infrastructure demands investment. Purchasing new software for ESG data management, subscribing to ESG ratings or disclosure platforms, or paying for external audits and certifications all cost money. A survey of mid-market companies found that costs and deadlines are among the biggest challenges for ESG reporting in smaller firms, often necessitating outside help. For a company trying to cut costs to meet debt covenants, justifying these new expenses requires seeing ESG as not optional but essential – a narrative that may not yet be fully accepted by all decision-makers.

Another often overlooked resource challenge is simply bandwidth. In a restructuring or special situation, management and employees are typically working under great stress to handle the situation at hand (be it negotiations with creditors, integration of a merger, or addressing a lawsuit). There is often "initiative fatigue" – people are exhausted by change and extra work. Implementing an ESG framework can feel like adding another massive project to an already overburdened organization. Without clear incentives or immediate benefits, the staff might not prioritize gathering ESG data or developing new policies; tasks slip or are done perfunctorily. In a turnaround context, where layoffs or budget cuts may have recently occurred, remaining employees could also be demoralized, making it even harder to get enthusiastic engagement with a new sustainability initiative. In short, special situations companies frequently attempt ESG adoption with structural disadvantages in resources and expertise, which severely limits the depth and effectiveness of any ESG framework they can establish.

4. Short-Term Pressures vs. Long-Term Sustainability Goals

Perhaps the most existential challenge to ESG integration in special situations companies is the tension between short-term exigencies and the long-term nature of ESG initiatives. By their very nature, ESG strategies are geared towards sustainable, long-range outcomes – reducing environmental impact, investing in human capital, strengthening governance – often with payoffs that accrue over years. Special situations, on the other hand, demand urgent turnaround results. There is often a narrow window in which the company must improve financial performance or execute a restructuring plan to survive. This misalignment in time horizons creates a dilemma: actions that are beneficial for ESG may not yield immediate financial returns and might even conflict with short-term objectives.

Executives under intense pressure for quick results may view ESG projects as a distraction or a luxury to be postponed. In practice, research observes that short-termism constrains companies' willingness to invest in ESG, precisely because ESG returns are medium- to long-term. Particularly in turbulent times, companies often "hoard" capital and cut any expenditures not seen as immediately essential. Sustainability initiatives – whether it's adopting cleaner technology, enhancing employee benefits, or improving governance processes – usually do not boost the next quarter's earnings. In fact, they often involve upfront costs. As a result, to hit short-term financial targets or to conserve cash, management may scale back or eliminate ESG-related spending. A concrete example could be a distressed company deciding not to invest in a proposed energy-efficient equipment upgrade because the payback period is five years, whereas the company's planning horizon is merely to get through the next 12 months.

The consequence of this short-term mindset can be deleterious not only to ESG outcomes but to the company's own medium-term prospects. Studies have shown that companies which overly sacrifice long-term investments (in R&D, sustainability, etc.) for immediate gains tend to underperform their peers after a few years. In contrast, firms that maintained long-term investment programs even through crises rebounded faster and emerged stronger post-crisis. This suggests that while cutting ESG might seem expedient, it could undermine the company's ability to create value and resilience down the line – a critical insight for turnaround situations. However, communicating this to stakeholders isn't always easy. Creditors and investors in a special situation often demand evidence of cost discipline and a return to profitability now. Managers might fear that spending on ESG will be viewed as misallocation of resources or lack of focus.

There is also a risk/reward perception issue. The benefits of ESG – such as enhanced reputation, risk mitigation, and improved stakeholder loyalty – though real, are somewhat intangible and certainly not as immediately measurable as cost savings from, say, closing a factory or renegotiating supplier contracts. Thus, in the harsh triage of turnaround decision-making, ESG efforts can fall to the bottom of the priority list unless someone strongly advocates for their importance. Additionally, certain ESG improvements (like committing to lower carbon emissions or higher labor standards) might, in the short term, increase operating costs or require changes that could be seen as a drag on efficiency. For a company trying to slim down and become leaner, this trade-off is hard to swallow.

Special situations companies also deal with impatient stakeholders by nature – distressed debt holders, activist investors, or merger arbitrageurs who have a short-term thesis. These stakeholders may not

initially share a long-term vision for the company that includes robust ESG performance; their focus could be on specific financial or transactional milestones. If those in control (e.g., a new private equity owner after a buyout) are oriented towards a 2-3 year exit, they might prioritize measures that boost EBITDA quickly and push ESG considerations aside, unless they believe ESG will materially increase exit value. It requires a rather enlightened and perhaps courageous leadership perspective to champion ESG in the face of these pressures, essentially arguing that sustainable practices and long-term stakeholder trust are foundational to a successful turnaround – even if the evidence will only show in later years. Encouragingly, some large investors are beginning to stress long-term value creation over short-term profits, and they look for companies to articulate how ESG fits into that long-term story. Communicating to such investors that the company's strategy includes "future-proofing" the business via ESG can actually attract patient capital and buy some goodwill. In practice, integrating ESG into the turnaround narrative – by demonstrating, for instance, how certain ESG actions also create immediate efficiencies or open new markets – can help align short-term and long-term goals. But achieving this alignment is challenging and often requires a sophisticated approach to strategy and communication that not every special situations management team is prepared for.

5. Stakeholder Alignment and Cultural Challenges

Establishing an ESG framework in a company undergoing major change also involves the human and cultural dimension: getting stakeholder buy-in and embedding new values into the corporate culture and governance structures. This is a subtle but critical challenge. A special situations company may have gone years without a focus on sustainability or social responsibility; suddenly introducing ESG goals can meet inertia, or even opposition, internally and skepticism externally.

Internally, the company's governance model and priorities may need realignment to incorporate ESG. Often, in distressed or previously poorly governed companies, boards of directors and top executives have not systematically overseen ESG matters. They may lack committees or oversight mechanisms for sustainability. Changing this involves board-level education and potentially new governance structures – for instance, adding an ESG or Corporate Social Responsibility committee to the board, or assigning clear responsibility to an existing committee or executive for ESG performance. Advisors from Alvarez & Marsal note that companies should strengthen governance models to respond to evolving ESG regulation and ensure the right resources and capabilities are in place to deliver on ESG goals. In practice, this might mean bringing in new board members with ESG expertise or elevating ESG to a regular agenda item in leadership meetings. Achieving such changes in the midst of a special situation is possible, but it requires leadership conviction. Without it, any ESG framework might remain a box-ticking exercise detached from real governance.

Another internal hurdle is employee engagement and culture. Employees in a special situation are often living under the shadow of uncertainty – worried about layoffs, aware the company is in trouble, and coping with rapid changes. In such an atmosphere, launching ESG initiatives (like volunteer programs, new ethics training, or diversity and inclusion efforts) can be met with cynicism ("the company has bigger problems") or simply apathy ("why should we care about this now?"). To overcome this, management must communicate the why of ESG in a compelling way, linking it to the company's revival and future success. This requires transparent and frequent communication. Experts emphasize that communication with all stakeholders – including employees – needs to be elevated to highlight the importance of the ESG agenda and how it can be embedded in company values. In practical terms, that could involve town hall meetings explaining the new ESG strategy, training sessions, and soliciting employee input on sustainability initiatives (which can help get buy-in). Yet, committing to such an inclusive process is challenging when management bandwidth is low and many urgent issues compete for attention.

External stakeholders present another challenge. A special situations firm might have to convince skeptical investors, regulators, or business partners that its newfound ESG efforts are genuine and not mere public relations. For example, a company that had a history of environmental violations or labor disputes cannot expect overnight credibility just by publishing a glossy sustainability report. Trust has to be built through consistent action and transparency. However, the initial establishment of an ESG framework often involves setting ambitious targets or

making public commitments (to meet framework requirements), and if stakeholders perceive these as unrealistic or as virtue signaling, the company's credibility can be further damaged. A 2022 report observed that the fluidity in defining ESG principles and the plethora of guidelines have sometimes led companies to engage in virtue signaling via expensive PR exercises, inviting accusations of greenwashing – and some of this criticism is merited. Special situations companies must be exceedingly careful here: they are already under scrutiny due to their circumstances, and any hint of disingenuousness in ESG could invite backlash from media, activists, or regulators.

In some cases, a special situations company may face conflicting stakeholder agendas. For instance, certain investors may push for aggressive cost-cutting (even if that means, say, reducing workforce or closing facilities without much regard to social impact) while other stakeholders (like community groups or long-term investors) urge the company to uphold social commitments or environmental standards. Balancing these demands is difficult. The lack of a clearly "established" stakeholder consensus around ESG in special situations means the company's leadership must often persuade each constituency of the benefits of ESG integration. Creditors might need to be shown that improved ESG performance could enhance the company's valuation (and thus their recovery) or reduce risks. Regulators might need assurances that the company is turning a new page if past misdeeds occurred. And importantly, any new owners (such as private equity firms in a special situations acquisition) must be on board; if an owner's strategy is purely short-term financial engineering, they may resist deeper ESG investments unless they see it as value-adding.

Culturally, instilling a sense of accountability for ESG outcomes is a long-term process. It involves changing incentives and evaluation metrics – for example, adding ESG targets to management KPIs or linking part of compensation to achieving sustainability goals. Many special situations firms haven't done this historically, and setting it up can be sensitive (especially if people are already seeing pay cuts or uncertainty around jobs). Nevertheless, without aligning incentives, ESG frameworks may remain superficial. Research suggests that without mandatory requirements or strong legitimacy drivers, companies may produce ESG reports that are more symbolic and incomplete. In other words, they do the minimum to appear compliant or to check the box, which ultimately does not satisfy stakeholders or improve performance. This underlines that cultural and governance embedding of ESG – making it part of "how we do business" – is a hurdle that goes beyond the technical compliance aspect. Overcoming it in a special situation is arguably as challenging as addressing the financial issues, because it requires changing mindsets and behaviors under pressure.

6. Risk of Greenwashing and Credibility Issues

As a culmination of many points above, a significant challenge is ensuring that the ESG framework established is substantive and credible – avoiding the pitfall of greenwashing. "Greenwashing" refers to the practice of making exaggerated or misleading claims about a company's environmental or social performance, giving a false impression of responsibility. Special situations companies are in a precarious spot: they may feel compelled to quickly adopt ESG language to appease stakeholders, but without the capacity or time to back it up, they risk putting out disclosures or targets that they cannot fully honor. The result can be a credibility crisis.

Several factors heighten the greenwashing risk for these firms. The aforementioned lack of standardized metrics and regulatory oversight historically made it easier for companies to cherry-pick data or use creative storytelling in sustainability reports. For instance, a company might highlight a minor eco-friendly initiative while omitting the fact that its overall emissions increased – technically not false, but certainly misleading by omission. However, regulators and watchdogs are cracking down. There is growing legal action around greenwashing: companies have been sued or investigated for claims that do not match reality. If a special situations company, in an attempt to rehab its image, overclaims its ESG progress, it could find itself in legal hot water or public scandals, compounding its problems.

A striking example cited in broader ESG discussions is the case of an oil major whose board was sued for having an inadequate climate transition plan – essentially, stakeholders argued the company's talk of emissions reduction was not backed by a credible strategy. Similarly, investment firms have faced probes for overstating the proportion of "ESG investments" in their portfolios. These examples serve as warnings: stakeholders are increasingly

knowledgeable and vigilant. For a company emerging from crisis, any whiff of dishonesty in ESG matters could reignite stakeholder anger or mistrust that the company was trying to quell by engaging in ESG in the first place.

One root of greenwashing is information asymmetry – managers know more about the company's true ESG performance than outsiders. Research indicates that when managers face pressure to present the company positively but have challenges in actually improving ESG performance, they may resort to superficial disclosure as a tactic. In special situations companies, management might reason that showcasing a handful of positive indicators will buy time or goodwill, even if other indicators lag. This is a dangerous gamble. If uncovered, it can severely damage management's credibility and possibly invite enforcement action (especially as governments move to penalize false ESG claims).

Ensuring credibility requires a level of transparency and honesty that can be uncomfortable for companies in distress. A truly transparent ESG report might reveal, for example, that the company's injury rate is high or that its greenhouse gas emissions spiked during a certain period – facts that could alarm stakeholders. There could be a fear that being too candid will invite negative attention at a time when the company is already vulnerable. Thus, leadership may be tempted to gloss over or omit negative data. However, doing so undermines the whole purpose of ESG frameworks, which is to provide a balanced and truthful account of performance and areas for improvement. Stakeholders value authenticity: they generally understand that a company in transition will not have perfect ESG metrics, but they want to see recognition of issues and concrete plans to address them. A credible approach for a special situations company might be to explicitly acknowledge past shortcomings (or current ones) and set realistic interim goals, rather than overhyping achievements. For instance, admitting that "our carbon intensity is above industry average, but we have set a goal to reduce it by 30% in three years through these specific measures" is more credible than vaguely stating "we are committed to sustainability and have world-class operations," which invites skepticism.

Overcoming the greenwashing trap is thus about calibrating commitments to what can actually be delivered, and maintaining consistency between words and actions. It also ties back to earlier challenges: if data quality is poor, even well-intentioned statements might later prove inaccurate. If resources are lacking, promises might not be met. Therefore, a special situations firm must be internally very clear about where it stands on ESG before communicating externally. As part of establishing the ESG framework, some choose to undergo third-party audits or obtain certifications (like ISO environmental certifications or independent limited assurance on key ESG figures) to bolster credibility. These steps, while not trivial, can provide an extra layer of trust for skeptical stakeholders. Ultimately, the challenge is to embed integrity into the ESG framework, such that it does not become just a marketing exercise but a real management tool. This is hard in practice; it requires discipline to say "we don't have data on X yet" or "we fell short in Y area" in public reports – admissions that many companies, especially those trying to regain investor confidence, find uncomfortable. Yet, in the long run, facing these truths openly can distinguish a genuine turnaround built on sustainability from one that is cosmetic.

Towards Solutions: Mitigating ESG Challenges in Special Situations

Having analyzed the myriad challenges, a fair question arises: how can special situations companies overcome these hurdles, or at least mitigate them, to successfully establish ESG frameworks? While a full roadmap is beyond this paper's scope, we outline several emerging strategies and best practices that can address the challenges identified:

Leverage Evolving Standards and Simplify Compliance: Rather than reinventing the wheel, companies can align with the new unified standards emerging in the ESG space. For example, adopting the ISSB's global sustainability standards (once fully available) could serve as a one-stop framework to meet many stakeholder expectations, reducing confusion. Likewise, participating in industry collaborations like the ESG Data Convergence Initiative can help a company focus on a core set of metrics that matter to key investors. Regulators are pushing for standardization, which ultimately will ease compliance – special situations firms should stay informed of these developments, perhaps by assigning an advisor or internal team member to monitor regulatory updates. In the interim, prioritization is crucial: identify which frameworks

or regulations are most relevant (often driven by the company's markets or investor base) and start with those. A phased approach to compliance can prevent overwhelm.

Invest in Data Infrastructure (Smartly): While resource constraints are real, there are cost-effective ways to improve ESG data management. Utilizing software-as-a-service platforms for ESG reporting or partnering with specialized providers can reduce the need for large internal IT projects. Many emerging tech solutions can automate data collection (for instance, IoT sensors for environmental data) and aggregate information from different departments. The key is to centralize ESG data early – even a simple centralized spreadsheet or database that consolidates all ESG-related metrics is better than scattered files. Regular internal audits of ESG data can catch issues before they become public mistakes. Over time, as the company stabilizes, further integration of data systems will strengthen credibility. The benefits of good data are clear: accurate data underpins realistic goal-setting and helps avoid greenwashing by ensuring the company knows its starting point.

Seek Expertise and Build Capacity: If hiring full-time ESG experts is not feasible immediately, companies can tap external expertise in the short term while grooming internal talent for the longer term. Engaging an ESG consultant or advisory firm during the framework setup phase can accelerate progress and help avoid common pitfalls. Simultaneously, identify passionate employees or managers who can be trained to take ownership of ESG initiatives. Many businesses have found success in forming a cross-functional ESG task force or committee – even if those people wear multiple hats – to drive the agenda internally. This ensures that when external advisors depart, the knowledge and momentum remain in-house. Additionally, educating top leadership is vital: workshops for the board and C-suite on ESG trends and investor expectations can shift mindsets and make leaders allies in the process. The tone from the top will influence how seriously the rest of the company takes ESG. If a CEO publicly champions the sustainability goals and links them to the company's future success, that message permeates the culture more effectively.

Align ESG with Turnaround Strategy: Instead of treating ESG as a separate workstream, companies should look for ways to integrate it into the turnaround or growth plan. This can reveal synergies where ESG actions also drive financial or operational improvements. For example, an initiative to improve energy efficiency in manufacturing not only reduces carbon emissions (an ESG goal) but also lowers utility costs – directly benefiting the bottom line. A push to enhance workforce diversity and training can boost employee morale and productivity, aiding the turnaround while meeting social objectives. By finding these "win-win" opportunities, management can justify ESG projects as part of the solution, not a distraction. This also makes it easier to get stakeholder support; lenders and investors are more likely to back an ESG measure that clearly strengthens the company's resilience or opens a new revenue stream. Communicating such integrated thinking in investor presentations or creditor meetings can change the narrative: the company is not doing ESG at the expense of the turnaround, it is doing ESG to enhance the turnaround. This approach addresses the short-term vs. long-term dichotomy by highlighting short-term benefits of ESG efforts where possible.

Set Realistic Goals and Ensure Transparency: To avoid the credibility pitfalls of greenwashing, special situations companies should set clear, achievable ESG targets and report progress (and setbacks) candidly. Rather than proclaiming lofty aspirations with no roadmap, it may be better to establish modest short-term targets that can be met, while charting a vision for longer-term improvements. For instance, instead of declaring an intent to be "carbon neutral next year" (likely infeasible for most), a company could commit to a 10% reduction in emissions over two years, and simultaneously announce a feasibility study for longer-term carbon neutrality. This kind of grounded goal-setting builds trust. Moreover, if targets are missed, the company should be forthright about why and what is being done to get back on track. Paradoxically, admitting imperfection can increase credibility – stakeholders appreciate honesty and will often give credit for genuine effort in tough circumstances. Third-party verification of key data points (such as an independent audit of emissions or a certification of a safety program) can further bolster confidence that the ESG framework is not just marketing. Regulators and investors have made it plain that transparency is paramount, and companies that embrace it will navigate the ESG landscape with less friction.

Engage Stakeholders Proactively: Finally, engagement is a powerful tool. By involving stakeholders in the ESG journey, special situations companies can turn skeptics into supporters. This might include establishing a dialogue with investors focused on ESG, inviting feedback from customers or community leaders on the company's ESG priorities, and communicating frequently with employees about progress and milestones. In some cases, forming an external advisory panel of experts or stakeholders to review ESG plans can provide valuable perspectives and signal openness. Proactive engagement also means anticipating concerns – for example, if layoffs are part of the turnaround, explaining how the company is still upholding its commitments to employee welfare (perhaps via fair severance or retraining programs) could mitigate social reputation damage. When stakeholders see that the company is genuinely striving to balance economic and ESG imperatives, they are more likely to extend support or patience. This is particularly relevant for regulators and activist investors: early, frank communication about what the company is doing in ESG can preempt confrontations or punitive actions.

In summary, while the challenges are steep, they are not insurmountable. A combination of strategic alignment, capacity-building, prudent planning, and honest communication can significantly improve the odds that a special situations company will not only establish an ESG framework, but make it an integral part of its turnaround and future success. Each company's context will dictate the precise measures to take, but the underlying theme is that embedding ESG in a troubled company is a journey, one that requires phased progress, flexibility, and a commitment to credibility at every step.

III. CONCLUSION

Establishing ESG frameworks in special situations companies is a complex endeavor fraught with challenges, but it is increasingly a necessary one in today's business environment. This critical analysis has elucidated the main obstacles – from the maze of ESG standards and demanding regulatory changes, to the nitty-gritty of data collection and the shortage of resources and expertise, to deeper issues of short-termism, cultural adaptation, and maintaining credibility. Special situations firms, by virtue of operating under unusual and high-pressure circumstances, often experience these challenges in an amplified form. The lack of a clear ESG roadmap can leave them unsure where to begin; the urgency of survival can sideline longer-term sustainability initiatives; and any missteps in ESG execution can be magnified by stakeholder scrutiny at a sensitive time.

Yet, as we have also discussed, integrating ESG considerations is not just a burdensome expectation – it can be a strategic advantage for companies seeking to turn themselves around. Those that manage to implement robust ESG frameworks stand to gain improved access to capital (as investors reward strong ESG performers), enhanced trust and reputation (particularly if past issues are acknowledged and addressed), and potentially, better operational efficiency and innovation through sustainability-driven changes. In a world where regulatory and market momentum clearly favors ESG-conscious enterprises, special situations companies that ignore this trend do so at their peril. On the other hand, those that navigate the challenges and embed ESG into their restructured business models may emerge more resilient and competitive.

The critical insights from this analysis underscore that success in this realm is not about half-measures or cosmetic changes. It requires commitment from top leadership, a willingness to invest in systems and people even when resources are tight, and a transparent dialogue with stakeholders about both goals and shortcomings. Importantly, one size does not fit all – the ESG priorities for a bankrupt coal producer undergoing reorganization will differ from those of a tech company facing a sudden reputational crisis – but the process of systematically identifying material ESG issues, setting up governance and metrics to manage them, and integrating those into the company's turnaround plan is a universal need.

For practitioners – executives, investors, and advisors involved in special situations – the message is clear: ESG should be treated as an integral part of the solution, not an afterthought. The road is undoubtedly challenging, as this paper has critically laid out, but the trajectory of business and society suggests that these efforts will only grow in importance. Future research and case studies will no doubt shed more light on innovative approaches and perhaps success stories of special situations companies that have effectively transitioned to sustainable practices. In the meantime, the findings here provide a foundation

of understanding and a call to action. A special situation may be extraordinary in nature, but embracing ESG is fast becoming an ordinary expectation – and meeting that expectation, though difficult, can critically influence the outcome of a company's most pivotal moments.

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