

Article

Just transition and climate action: how companies can advance socially responsible decarbonization

What to know: The concept of just transition can help companies lessen the negative social and economic impacts of the massive shift to a less carbon-intensive economy.

Amid increasing regulatory and consumer scrutiny, achieving ambitious climate-related targets has become a strategic priority for businesses. Companies face evolving challenges as consumers and communities demand a path toward sustainability that is resilient and equitable — in other words, a **just transition** to a less carbon-intensive economy.

A just transition eases the impacts of shifting to a low-carbon economy and strengthens the resilience of the workers, communities, and other groups that could otherwise lose out in this transition. It aims to make the effects of decarbonization more equitable. Companies that work toward a just transition stand to benefit, too. Successfully balancing social and environmental impact alongside growth has been shown to generate many positives for organizations, including stronger stakeholder trust, improved risk management, and the ability to unlock new market opportunities through sustainable innovation.

In the transition to a low-carbon economy, evaluating the needs of multiple stakeholders while defining and working toward outcomes that benefit them is an ambiguous, difficult task. To move from intention to impact, companies must define actionable ways to integrate the concept of just transition into their climate strategies, grounding their planning in a clear understanding of potential impacts and a commitment to stakeholder engagement.

HALEY ALDRICH

Why the just transition concept matters for corporate climate action

The just transition concept recognizes the social and economic costs associated with the path to a decarbonized economy. It acknowledges that the workers and the communities who depend on carbon-intensive industries should have a say in identifying a path forward that, ideally, leaves no one behind.

Originally coined by labor leaders in the United States in the 1990s, the concept has gained prominence through its integration into domestic and international policy frameworks, including Colorado's H.B. 1314, the 2015 Paris Agreement, and, most recently, the Corporate Sustainability Due Diligence Directive (CSDDD). With their integration of just transition principles, these policy platforms call for progress not only in achieving net-zero targets but also in assessing and mitigating the upstream and downstream social impacts associated with a transition.

These social impacts may not be isolated to communities where economic shifts have led to loss of industry. They may also, for example, extend to communities that host increased industrial activity associated with decarbonization strategies. An industrial manufacturer aiming to reduce emissions may invest in low-carbon technology to drive electrification as part of its strategy. Yet many of the critical minerals essential for low-carbon tech, such as lithium and cobalt, are sourced from regions of the world characterized by weak governance and high vulnerability to environmental degradation, labor exploitation, and human rights violations. Without proper safeguards and engagement — as emphasized by just transition principles — companies risk exacerbating these conditions and indirectly undermining the very sustainability goals they aim to achieve.

Accordingly, identifying and mitigating these types of risks are reflected in some regulatory frameworks. The CSDDD, for example, will require certain companies to conduct risk-based human rights and environmental due diligence across their operations and value chains. It may also include adoption of climate transition plans aligned with the Paris Agreement, which calls for consideration of just transition principles. In certain cases, instances of noncompliance can lead to fines of up to 5 percent of the company's net worldwide turnover. **By integrating a just transition lens into climate action planning, companies can demonstrate ethical leadership, achieve compliance, and advance resilience — turning climate ambition into a pathway for shared prosperity and long-term value creation.**



The current state: limited progress in planning for a just transition

Despite the impetus and benefits, many companies have yet to integrate just transition into their decarbonization efforts.

The Climate Action 100+ Net-Zero Company Benchmark, an investor initiative that assesses the performance of the world's largest companies on their net-zero transition, includes an indicator on company commitments and progress toward just transition among the 11 indicators it tracks. The 2025 report notes that of 164 companies assessed, only 1 percent have met all assessment criteria related to a just transition. While 47% have made a commitment to decarbonize in line with just transition principles, **a mere 13% have developed a just transition plan that focuses on workers and employees. Only 5% have developed a plan in consultation with affected workers.**

The slow uptake is likely due to lack of clarity on how to implement a just transition lens and how to manage associated costs. Indeed, **there's no one-size-fits-all approach for aligning just transition to corporate climate action.** It's a multitiered process that will vary by industry, context, and decarbonization strategy.



Taking the next step

Integrating just transition principles into climate action planning can represent a meaningful starting point for addressing the social and economic costs of decarbonization. Robust strategies for practical implementation of these principles can take many forms, such as:

- Engaging workers and communities to identify contextually tailored solutions that mitigate potential harm
- Conducting social impact assessments alongside environmental assessments
- Investing in workforce development and training initiatives
- Establishing strong safeguards and management systems

Failure to consider the human and social impacts of corporate actions can lead to outcomes incompatible with business goals — from loss of social license and failed permit applications to financial penalties associated with lack of compliance. In contrast, companies that integrate social responsibility and just transition considerations into their operations — whether at the strategy or local project level — can distinguish themselves from their peers, bolster the trust of stakeholders, and realize win-win outcomes aligned to their objectives and community resilience.

At Haley & Aldrich, we have extensive experience guiding our partners through the complexities of ambiguous regulatory requirements, the challenges of understanding and responding to social risk, and the sensitivities of managing multistakeholder processes that build trust while advancing corporate goals. Contact us for a tailored approach to embedding just transition into your planning and projects.

HALEY ALDRICH