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Climate change and the politicization of ESG in the US

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ESG, or environmental, social, and governance, is seen by some as an instrument to tackle climate change, and by others as a tool to allow investors to assess climate change risks and opportunities. It has been widely politicized in the US, where Republican critics have characterized it as an attempt by the liberal financial elite to impose a leftist decarbonizing mission on the US economy through an investment risk back door. The current paper explores the way in which ESG has become a, perhaps unlikely, object of politicization by the political right. In doing so, it analyses the meaning of politicization in an ESG context and the various forms it has taken, both discursive and substantive. The paper also seeks to explain why it is that ESG politicization has occurred at particular junctures and draws on political opportunity theory from social movement studies to account for this. It further examines various reactions to the politicization of ESG that have sought to depoliticize it.

KEYWORDS

politicization, ESG, climate change, political opportunity structure, political economy

1 Introduction

ESG (environmental, social, and governance) has been defined as "a means for helping companies identify and communicate to investors the material long-term risks they face from ESG-related issues" (Crowley and Eccles, 2023). It was created in 2004 as an attempt to come up with a non-contentious system for addressing material investment risks, and to distinguish it from earlier frameworks for corporate environmental and social action like corporate social responsibility (CSR), which had been contested by the right for politicizing corporate decision-making (Friedman, 1970; Blumberg, 1971; Chan Smith, 2020).

ESG remained uncontested and under the radar for a long time after that. However, in the last few years, it has become increasingly contentious in the US, not least in its connection with climate change. Supporters of ESG in the climate movement see it as a policy instrument to help tackle climate change, ensuring financial markets support the necessary transition away from fossil fuels to a decarbonized economy. Mainstream supporters of ESG in the financial sector view it as having a much more limited, technical scope, confined to assisting investors to identify material risks and opportunities associated with ESG factors in relevant companies, including climate risks and opportunities within the environmental (E) part. The definition of ESG provided at the start of the paper reflects that mainstream view. A number of critics of ESG on the Republican right regard it as a Trojan horse (Peirce, 2022; Copley, 2023; Harper Ho, 2023): its proponents may claim that it is all about financial risks, but they believe the real motivation is to use private financial markets to achieve a political transformation away from fossil fuels. In other words, they claim that the second view is actually a mask for the first view. ESG has become particularly politicized in the US, where the oil and gas industry makes up nearly 8% of GDP (API/PWC, 2021) and where that industry provides political funding, principally to Republican politicians (Goldberg et al., 2020). Given that political economy backdrop (Gordon, 2023), it is perhaps no surprise that ESG and its role in securing a move away from fossil fuels has become contentious.

The main aim of this paper is to develop discussion of ESG politicization on a conceptual level. While the politicization of ESG has been much mentioned in press articles and in academic commentary within finance and business law journals, there has not been much attempt to analyze precisely what politicization entails in this context. I novelly distinguish between discursive and substantive politicization. The former captures the most common use of politicization in the existing political science literature, which involves an increase in visible, contentious and polarized public debate around a particular policy topic (Gheyle and Rone, 2023). However, while that discursive element is clearly important in relation to ESG as a policy, I argue that there is a need to consider a further, substantive, element, which has received little recent attention in the politicization literature. Substantive politicization is what US Republican critics of ESG claim is occurring when both corporations and the financial markets investing in them are being used for political ends instead of, as they see it, their proper purpose of delivering financial returns to shareholders. Rather than the sociological phenomenon of increased visibility of debate on a topic, this involves an empirical observation of a normative claim being made by political actors. The Republican critics' claim – based on a strict public/private divide – is that those who want to secure political change should only do so via the ballot box and not by mobilizing corporations and investors directly. Their vision of the corporation is based around "shareholder primacy" and purely financial return. Although this is a vision which its mainstream supporters claim that ESG is designed to serve, Republican critics deny this, arguing that ESG is acting as a cloak for competing visions such as "corporate social responsibility" or "stakeholder capitalism", which allow for consideration of non-financial social and environmental impacts on a wider set of stakeholders.

In discussing substantive politicization, I draw a distinction between arguments made by key Republican political actors in the ESG debate on corporations themselves "doing" ESG on the one hand, and on the use of ESG by large investors on the other. These contexts matter because the arguments about why the substantive politicization is said to be illegitimate vary across the two, albeit that there is a common thread that ESG is being used to drive political purposes and not financial returns. I also examine responses to these politicization claims by key finance sector supporters of ESG, who argue that, in considering ESG factors, they are in fact driven by shareholder returns and not by stakeholder capitalism. In addition, I discuss conceptual inconsistency, including where anti-ESG Republican states have, via legislative bans on considering ESG factors, themselves engaged in the sort of substantive politicization of investment that they have criticized in others. As I note, this legislative substantive politicization has itself boosted the discursive politicization of ESG, keeping its visibility high with the contentious nature of these new anti-ESG laws.

The paper's second aim is to explore the puzzle of the politicization of ESG which, at first sight, is an acronym describing a very niche topic which seems an unlikely candidate for politicization. I argue that this can be explained both materially and temporally, with fossil fuel interests helping to account for why Republicans have discursively politicized ESG, and with political opportunity structure theory useful to see why politicization emerged when it did. In analyzing the latter, I examine ESG hedge fund Engine No. 1's activism against Exxon around climate. I do so because that was a high profile example of a threat to fossil fuels which Republicans have attempted to see off via discursive politicization, framing ESG as an illegitimate "woke" activity. The final aim is to analyze reactions to the politicization of ESG by actors seeking to depoliticize it. Here I draw on recent European work on reaction to politicization (Dür et al., 2024) and its language of "confronting" and "dodging".

The paper starts with a discussion of ESG's origins, looking at how its designers sought to set it apart from corporate governance and investment approaches such as CSR and impact investment with political purposes. I then discuss the academic literature on politicization, including work on the politicization of climate change, which is the principal focus of the current paper within ESG. That section is followed by a discussion of research design. The next section proceeds to consider how arguments about politicization have been deployed by key figures on the Republican right and how key ESG supporters in the financial sector have responded. I then consider possible causes of politicization of ESG, including material, interest-based explanations and temporal ones linked to political opportunity structure. Finally, I explore reactions to ESG's politicization seeking to depoliticize it, including "green hushing" as a form of "dodging".

2 ESG's origins

The origins of ESG can be traced back to a letter by United Nations (UN) Secretary General Kofi Annan who in 2004, under the auspices of the UN Global Compact, wrote to 55 CEOs asking them to cooperate in developing guidelines on how to better integrate environmental, social and corporate governance issues into companies and the investment sector (Pollman, 2022). This led to a report, *Who Cares Wins* (The Global Compact, 2004) containing relevant guidelines and recommendations on ESG. The report places primary emphasis on ESG's role in relation to investors, mentioning societal sustainable development only as a secondary outcome (Schanzenbach and Sitkoff, 2020).

A report by the law firm Freshfields, led by Paul Watchman, was subsequently commissioned by the UN Environment Programme Finance Initiative, which investigated existing legal frameworks and potential barriers for ESG across various jurisdictions (UNEP Finance Initiative/Freshfields, 2005). In looking at barriers, it examined in particular whether legal fiduciary duties prevented portfolio managers such as pension fund trustees from taking into account ESG factors in their investment decision-making. Building on this came the Principles for Responsible Investment (PRI, 2023), a network of institutional investors financially supported by the UN, which requires signatories to commit to its six principles for responsible investment which are centered around ESG. The principles were launched in 2006 and, like the *Who Cares Wins* report, place investors at the heart of ESG's purpose, with social objectives secondary.

In tracing the origins of ESG, it is important to distinguish it from other investment approaches such as socially responsible investing (SRI)[1] and impact investing, and also from corporate social responsibility (CSR). SRI is an investment approach often centered on negative screening or avoiding certain types of industries and their

1 Not to be confused with PRI above, which is an ESG-based approach.

stocks based on ethical principles. Impact investing has been defined as "investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return" (Global Impact Investing Network, 2023). CSR is much more squarely focused on corporations and their governance as a site for responsibility, rather than on investors, who are the key focus of SRI, impact investing and ESG, all three of which sit under the sustainable finance umbrella (Migliorelli, 2021).

The *Who Cares Wins* report deliberately avoided these other terms in choosing ESG (The Global Compact, 2004; Pollman, 2022), placing its primary emphasis on the role of ESG in generating shareholder and investment value. A driver for this was ensuring that investment intermediaries like pension funds or asset managers did not fall foul of laws on fiduciary duties in taking investment decisions on, for example, climate grounds. They could do this on a risk and return basis (as the Freshfields report emphasized) but, with limited exceptions, could not do so just because they were concerned about climate change. With divestment for example, "instead of avoiding the fossil fuel industry to achieve collateral benefits from reduced pollution, ESG proponents argued that the fossil fuel industry should be avoided because financial markets underestimate its litigation and regulatory risks, and therefore divestment would improve risk-adjusted return" (Schanzenbach and Sitkoff, 2020, p. 389).

The emphasis of these approaches is thus very different in terms of their ultimate purposes. SRI and impact investing are examples of substantively politicized finance – they are using investment to reflect ethical principles and to advance social and political change, respectively. Those are their primary purposes; investment returns are a secondary aspect. CSR, as we will see later, had also become seen as substantively politicized, serving non-financial purposes. ESG, in contrast, was originally designed to be substantively depoliticized, primarily aimed at improving financial investment performance, with any social change merely secondary.

The origins of ESG are thus rooted in a primary emphasis on financial shareholder value. That was initially legally driven (from concerns over fiduciary duties). However, now that ESG is being attacked politically by the Republican right in the US, many mainstream ESG proponents have pointed to that originalist intent as a way of attempting to avoid Republican accusations of left-wing politicization. This will be returned to later in the paper, where I explore reactions to politicization.

3 The politicization literature

Definitions of politicization tend to reflect the academic disciplinary areas in which the term has been deployed, including European integration, science communication, climate politics, and international relations (De Wilde et al., 2016). De Wilde and Zürn (2012, p. 139) define politicization as a process that involves "the demand for or the act of transporting an issue into the field of politics – making previously apolitical matters political." They observe two elements to this: first, it may involve a previously unnoticed or undiscussed matter becoming debated and contested in the public sphere; and second, a matter may move from the private sphere to become the subject of binding political decision-making. In other words, politicization "means making a matter a subject of public regulation and/or a subject of public discussion" (De Wilde and Zürn, 2012, p. 139).

While this definition is a useful start, it requires adjustment for an ESG context. The discursive contestation element works: the Republican right has made the previously arcane and technical area of ESG into a political talking point and site of controversy. However, as we shall see below, when Republicans accuse ESG of politicizing corporations and investment decision-making, they are not accusing proponents of ESG of making these the subject of binding political decision-making. Rather, they are claiming that companies and investment decisions properly belong in the sphere of private market logic, guided by financial returns to shareholders. Acting for political purposes outside of this market logic is what they regard as politicized. These political purposes are seen as unsuited to the market and ones that should instead be pursued via democratic political means. They accuse the ESG movement of being unable to achieve their leftist aims via those means which, they claim, explains why they are attempting to secure these political ends via the market instead, aided by ESG. The mainstream US proponents of ESG refute this accusation, arguing that ESG involves upholding the market logic of shareholder value. In doing so, they often point to the intentions of the original framers of ESG in this respect.

The literature on climate change and politicization is also relevant here, because climate change and fossil fuels are at the heart of much of the US contestation around ESG. In essence, the literature reflects two view of how climate change has been and/or should be approached (Pepermans and Maeseele, 2016; Kenis, 2019; Marquardt and Lederer, 2022). Some point to the way in which climate change is treated as a technical policy area led by climate science and thus remains depoliticized and uncontested. Others, from both the right and left have opted instead for the politicization of climate change, wanting to open it up to political debate. That debate on the far right involves a discussion either about whether manmade climate change is real or not (climate denialism), or the extent to which there should be a move away from fossil fuels (delayism). The debate by the far left involves opening up the hegemonic logic of the capitalist system with its reliance on economic growth, thereby enabling them to link up concerns of social and climate justice.

This climate politicization literature is relevant to the discussion of depoliticization of ESG later in the paper because, as will be seen, one of the reactions to the politicization of ESG has been to argue for depoliticization by separating out E and climate and making it a stand-alone concern. If climate change is merely a technical scientific issue, that might work; however, if climate has become just as politically controversial as some of the social topics in the S part of ESG like diversity and inclusion (D&I), then it will not help to depoliticize ESG.

That section on reactions to ESG politicization draws on recent scholarship in the politicization literature by Dür et al. (2024) which has established a useful conceptual framework for reactions. Their work also usefully discusses the terminology deployed in much of the literature. They draw a distinction between the "salience" of an issue, "contestation" and "politicization", arguing that politicized issues are ones that are both highly salient and highly contested. They generally prefer the term contestation, rather than contentious which they identify with a disruptive repertoire like protest. In this paper I use contentious and contestation interchangeably because protest does not feature in my discussion. However, with discursive politicization, it can be useful to think of ESG in terms of its move from a low salience issue to one that became more salient because of contestation, and ended up politicized.

There is also a wide literature on depoliticization. Much of this involves concerns about public policy topics being substantively removed from the public democratic sphere via, for example, delegated governance (Fawcett et al., 2017). That is essentially the reverse side of a standard politicization definition seen above, which involves transporting an issue into the field of politics: with depoliticization, in contrast, it is about transporting an issue out of the field of democratic choices. This again needs adjusting in an ESG context. The claim by Republican critics about substantive depoliticization is that ESG issues are political and thus inappropriately dealt with in the private market – they should instead be dealt with in the public sphere of electoral politics. Such critics are not complaining that something political has wrongly been transported out of the sphere of democratic politics where it now remains shielded from necessary political debate (a common depoliticization literature position). They are, rather, complaining that political debate *is* happening in the private market where it does not belong. There is then also discursive depoliticization to consider. Something is discursively depoliticized when debate disappears and a subject returns to being unnoticed. However, if a topic remains substantively politicized, then that discursive depoliticization is unlikely to occur (Hekma and Duyvendak, 2016).

4 Research design

The analysis in the sections that follow is based on qualitative content analysis of print media articles, websites and blogs on ESG, from the year 2021 (when contestation around ESG noticeably increased) to 2023. These sources were found using a mix of search terms, including ESG, politicized/politicization, anti-ESG, woke, populism, stakeholder capitalism, shareholder primacy, climate, and separate. I also closely followed ESG developments on LinkedIn and in the media during that period and used snowballing to locate other sources. My aim was to see what core substantive politicization arguments were being made by key actors in the debate, on both the Republican critics side, and on the industry ESG-supporting side. Next, my analysis of why politicization of ESG occurred was principally based on tracing potential political opportunity moments in the chronological evolution of ESG and contestation around it. While there is existing academic literature that links politicization with political opportunities, this is the first study to do so for ESG. Finally, in looking at depoliticization, my focus was on actor reactions to ESG politicization which sought the former. These reactions were also sourced from the media and related materials mentioned above which, building on the conceptual framework for reactions by Dür et al. (2024), I allocated to the categories of "confronting", "separating", and "dodging".

5 The politicization of ESG

Implicit in the definition of ESG set out at the start of this paper, is that it is both something that companies do themselves – in other words they may take steps to assess and mitigate environmental and climate risks, social risks and governance risks – and is also something that companies then also report on to investors. Investors may use that ESG information as a basis for their investment decisions, including whether to invest or divest, and actions post-investment such as day-to-day engagement with corporate boards on ESG, and using shareholder resolutions and voting in relation to ESG issues (Benjamin, 2021). Wider stakeholders including the climate movement may also mobilize around ESG factors, pushing companies and large investors on the above. Or they may even become shareholders and put forward activist resolutions themselves. While the two sections below address the nature of Republican concerns about the substantive politicization of companies and large investors, one should note that, typically underlying these concerns, is a claim that they are not reacting to risk, but to pressure for impact-style social change from wider stakeholders, including the climate and other social movements.

5.1 Companies, ESG, and politicization

Many on the Republican right in the US see companies doing ESG as running the risk of politicizing themselves and encroaching on the sphere of democratic politics. A key example here – not pushed for by investors but by employees – lies with Disney's corporate statements criticizing Florida's so-called "Don't Say Gay" and "Stop WOKE" legislation which placed restrictions on education and training involving race, sex, gender identity and sexual orientation in schools and workplaces (IGC, 2023). Disney eventually spoke out publicly on these social issues (S within ESG) because it saw them as materially affecting its business, including its ability to attract and retain LGBTQ+ staff and to provide appropriate corporate D&I training (IGC, 2023). While acknowledging Disney's freedom of speech and "right to indulge in woke activism" (Bergeson, 2023), Ron DeSantis, Florida's Republican state governor, nevertheless criticized companies "that wield their power to express views 'on issues that do not directly affect their businesses'" (Breuninger, 2023).

At the heart of this debate about ESG politicizing companies are two competing visions of company purpose. The dominant Republican view is that a company's sole purpose is to make a profit for its shareholders – so-called shareholder primacy (Sneirson, 2019). This doctrine is famously associated with the economist Milton Friedman (1970) and his arguments against a much earlier example of corporate governance which similarly drew Conservative ire – "corporate social responsibility". Friedman argued that companies should not take on responsibilities to wider stakeholders or society that are not in the interests of the company. He gives the example of a company spending on pollution control beyond its financial interests or what the law requires. In doing so, he states that the corporate executive is spending shareholders' money for the general social interest, here of improved environmental quality. He argues that this amounts to the imposition of a tax, which is the function of elected government. He claims that this form of corporate social responsibility "involves the acceptance of the socialist view that political mechanisms, not market mechanisms, are the appropriate way to determine the allocation of scarce resources to alternative uses" (Friedman, 1970). He also points out that it is difficult for a corporate executive to determine exactly how much a company should spend on the environment when compared with its competitors: in theory it could spend a great deal, significantly reducing shareholder profits. According to Friedman, this would be a failure in management's responsibility, as agents, to their principal the shareholders.

The other, progressive, view of the purpose of the corporation is that of stakeholder capitalism (Schwab, 2021; Mazzucato, 2022), which does not focus solely on shareholders but rather seeks to create value for all stakeholders including employees, consumers, the wider public and the environment. Republican critics of ESG like DeSantis clearly think that, in publicly criticizing the Don't Say Gay law, Disney was seeking to appeal to its stakeholders including employees and customers and was not expressing political views that directly affected its business and shareholders. However, this kind of accusation against ESG – that it is pursuing an illegitimate "woke" objective in serving stakeholders and wider society rather than the objective of making profits for shareholders – has been challenged by leading figures in finance including Jamie Dimon (CEO of JPMorgan). For Dimon, listening to stakeholders is about ensuring that companies keep them happy and thereby carry on making profits for shareholders. If those companies (like Disney), have progressive customers and employees, then it is in the interests of shareholders to ensure that they do not lose them by not listening to their concerns: "All we are saying is when we wake up in the morning, what we give a shit about is serving customers, earning their respect, earning their repeat business" (Franklin, 2022). In other words, he claims that this is not stakeholder capitalism. Disney's public statements can be located within the narrow original scope of ESG, focusing on material risks to the company and shareholder value Disney would face in not speaking out on this social issue. It remains faithful to shareholder primacy [although as Doug Chia has noted, after the backlash legislative retaliation by DeSantis on Disney's favorable self-governing status, companies now also need to factor in that "ESG is now an ESG risk" (Hood and Hudson, 2023)].

This debate matters in discussing politicization here because the two sides have very different visions of the appropriate role of the corporation. For advocates of shareholder primacy, the purpose of corporations is to make profits for shareholders and not, as in stakeholder capitalism, to politicize themselves by catering to wider society: the latter is the job of democratic politics. For key corporate defenders of ESG like Dimon, catering to wider stakeholders, including by speaking out politically, is not illegitimate politicization of companies – it is, rather, still about serving shareholder value in accordance with the shareholder primacy vision of corporate purpose. As law professor Ann Lipton states, "ESG is a financial thing. This is not about companies going out to do good in the world, out of the goodness of their hearts. This is the set of nonfinancial concerns that really do impact the company financially" (Hood and Hudson, 2023).

There is also Republican inconsistency on politicization of companies, because Republicans receive corporate political donations (Strine, 2024). DeSantis has indirectly acknowledged this, commenting on the fact that "Democrats often rail about the nefarious power exerted over politics by large corporations" (Bergeson, 2023). If companies engage in left-leaning politics directly in the public sphere, like Disney, Republican critics regard this as illegitimate corporate politicization. However, if fossil fuel and other companies donate and thereby exert political influence indirectly behind the scenes, that is not questioned.

5.2 Investors, ESG, and politicization

Next, there are investors, who may choose to rely on ESG data from companies in making their investment decisions. The major target of Republican concern is specifically around powerful institutional investors including large asset managers like BlackRock and major state pension funds. These institutional investors are "intermediaries" – in other words, they are agents investing money in company stocks on behalf of their investor principals. Here a Republican claim has been that these powerful investors can in effect pressure companies to improve their ESG ratings which, they argue, reflect left wing values. Trump's former Vice-President Mike Pence has stated: "ESG is a pernicious strategy, because it allows the left to accomplish what it could never hope to achieve at the ballot box or through competition in the free market. ESG empowers an unelected cabal of bureaucrats, regulators and activist investors to rate companies based on their adherence to left-wing values" (Pence, 2022). In similar terms, DeSantis has described ESG as "an attempt to impose ruling class ideology on society through publicly traded companies and asset management," seeking to "achieve through the economy what it could never achieve through the ballot box" (Bergeson, 2023). Referencing the fossil fuel divestment campaign as a particular example, DeSantis states that "when ESG activism forces changes to a nation's energy posture, it represents the imposition of a policy through extraconstitutional means" (Breuninger, 2023). His view, in other words, is that moving away from fossil fuels is a strategic political choice which should be made by democratically elected politicians in the legislature. Again, this politicization claim – which implies that powerful investment intermediaries have a political ideological intent here – has been contested by leading figures in the finance industry including Larry Fink, Chair and CEO of BlackRock. For Fink, focusing on the environment element of ESG is important because there are opportunities for investors in innovative new industries servicing the energy transition: "We focus on sustainability not because we are environmentalists, but because we are capitalists and fiduciaries to our clients" (Agnew and Wigglesworth, 2022). In other words, his vision for ESG is not to drive forward a progressive ideological political agenda (of environmentalism); it is about making profits for shareholders.

Vivek Ramaswamy, an anti-ESG activist and former candidate for the 2024 Republican presidential nomination, locates the problem squarely with intermediaries as agents. He defends the freedom of capital owners wishing to pursue an environmental or social objective with their capital. His problem is, rather, when intermediaries do that without the knowledge or consent of capital owner principals. He points the finger at asset managers who have committed not only to "vote shares on behalf of the subset of clients who want them to advance … non-pecuniary objectives," but who have "made firm-wide commitments that require them to vote with the full weight of all of their clients' capital underwriting it" (Wolman, 2023).

While Pence and DeSantis have argued against ESG for what they see as its politicization of financial markets in a left direction, related to this, Ramaswamy has advocated for "an apolitical private sector," because he claims that provides the best way to avoid further dividing people in an already divided body politic (Wolman, 2023). DeSantis has likewise written that "it is not healthy when a market-based economy becomes an extension of political factionalism" (Breuninger, 2023). In making the above arguments about ESG's alleged leftist agenda and framing it in the populist language of wokeness, the Republican right is itself discursively politicizing ESG, converting it from an esoteric, low salience field of finance into an issue of sustained political contestation. In doing so, it is also stirring up factionalism.

6 Explaining the politicization of ESG

Existing studies of politicization often include explanations based on material interests and on favorable political opportunity structures (Gheyle and Rone, 2023). Trade deals, for example, may become politicized because of the material interests of the winners and losers from such deals (Gheyle and Rone, 2023). So too one might seek to explain the US politicization of ESG in terms of fossil fuel losers, with ESG increasing their cost of capital (and Republican supporters seeking to prevent that); and climate movement winners hoping that ESG will help avoid material climate harms. As Republican Congressman Andy Barr stated in a hearing: "Let us be honest, the agenda here is not to provide investors with relevant information, but instead to redirect capital away from fossil energy" (Copley, 2023).

Political opportunity structure is a key theory within social movement studies, which explains why movements and their forms of collective action arise when they do. It has also been used within the literature on politicization to explain why that arises at particular times (De Wilde and Zürn, 2012; Sarkissian and İlgü Özler, 2013; Grande and Hutter, 2016). Political opportunity structure can be defined in terms of "dimensions of the political environment that provide incentives for collective action by affecting people's expectations for success or failure" (Tarrow, 1998, pp. 76–77). These dimensions need not be formal or permanent. With ESG, as we shall see, political opportunities for the Republican right to discursively politicize it were presented by key moments in the political environment involving, for example, a surge in D&I activity after #MeToo and Black Lives Matter (BLM) and subsequent backlash against this.

If politicization depends on the strategies of political actors and the opportunities they face (Grande and Hutter, 2016), then what elements make up those opportunities is important. In unpacking political opportunity, Tarrow draws attention to a number of key dimensions, including the existence of influential allies and also emerging splits within the elite (Tarrow, 1998). In an ESG context, as will be seen below, these two elements of opportunity are among those that have helped relevant actors to politicize it, bringing it out of the shadows.

Examining various temporal points along ESG's journey reveals that discursive depoliticization and politicization tend to coincide with favorable political opportunity structure at the relevant time. Beginning with ESG's 2004 origins, its emergence needs to be placed within two political contexts. One was sustainability, with its more politicized baggage. There was UN pressure on states to take practical steps to implement sustainable development, which many had first signed up to in 1992 under Agenda 21 at the Rio Earth Summit (UNDSD, 2005). ESG – with its similar focus on environmental, social and economic issues – helped to carve out a role for the private sector in this regard. The UN Global Compact, which came up with the 2004 report on ESG, was a UN initiative, set up in 2000 in response to the challenges of globalization, to encourage companies to respect a set of principles around corporate responsibility and citizenship. Both sustainability and corporate social responsibility were contentious however, and the 2004 ESG report (The Global Compact, 2004) was therefore careful to position itself as aiming at producing better investment markets, focusing on potential misallocation of capital in the absence of reporting on ESG risk. Sustainability was mentioned only as a secondary outcome. The second context was risk, and it was no accident that ESG centered on this. The 2007/8 financial crisis had given rise to a focus on global financial market risk and stability, and the Task Force on Climate-related Financial Disclosures, set up by the international Financial Stability Board, was established to address the effects of climate risks on such stability. By playing into a technical risk framing rather than an already politicized sustainability frame, and through its creation at international level (thereby avoiding contentious national politics), there was thus a favorable political opportunity for ESG to emerge in a largely uncontested, depoliticized form.

For Republican critics, political opportunity to politicize ESG arose from the high profile given to the social (S) aspect of ESG as a result of the #MeToo and BLM movements (Clements and Cunningham, 2023). Republicans sensed that there was political capital in framing these as woke concerns taken too far by American companies in their D&I policies, and in laying the blame at ESG's door. In relation to climate change in 2021, ESG activist hedge fund Engine No. 1 famously managed to replace three of ExxonMobil's Board members with its own nominees, for acting insufficiently on climate change. To do so, it was able to rely on votes from the two largest Exxon shareholders – the major asset managers BlackRock and Vanguard (Aliaj and Brower, 2023). This high profile example of ESG activism on climate provided a key political opportunity for Republican critics like Pence to politicize ESG (Niquette and Crowley, 2022). It was characterized as a major US fossil fuel company being forced to change in a left wing, climate conscious direction as a result of ESG investment pressure (even if those pushing for the Board change have since argued that it was driven by risk and return – Aliaj and Brower, 2023). In both instances, with D&I and climate, Republicans were responding to what they saw as substantive politicization of the issues by the left, where political purposes were inappropriately driving market decision-making. In other words, their discursive politicization of ESG stemmed from substantive politicization by the left and the political opportunity this provided.

For the Republican anti-ESG movement, general criticisms of ESG within the financial sector that had surfaced in 2021–2022 provided both a split within the financial elite (Fancy, 2021; Kirk, 2022) and, at the same time, a key set of influential allies in the shape of those criticizing ESG for other reasons, including greenwashing, where a company overstates its green credentials (Palma and Storbeck, 2023). This created an ideal opportunity to politicize ESG and mobilize against it. The wider political opportunity was in any event favorable at the time because of the presence of populist leaders at both state and federal level like DeSantis and Trump with their anti-climate and anti-progressive social policy views. This political context offered a favorable opportunity to politicize ESG in a discursive sense, framing it as the "woke" activity of liberal financial elites like BlackRock and its wealthy boss Larry Fink – pursuing liberal values which ordinary investors may not have signed up to (Ramaswamy 2021). The existence of numerous Republican red state politicians willing to join this populist anti-ESG movement provided a further opportunity to politicize ESG in both a discursive and substantive sense. Between January and June 2023, there were 165 anti-ESG bills and resolutions across 37 states, fueled in part by allies with links to the fossil fuel industry (Rives, 2023). Although many fewer ended up becoming law, Florida's legislation is an example of one that did. House Bill 3, introduced in May 2023, bans state pension funds and local government investment managers from considering any non-pecuniary ESG factors (Cicconi, 2023). In doing so, Florida was part of an "alliance" of 18 states set up to "protect individuals from the ESG movement" (Cicconi, 2023). We have already seen one example of inconsistency above in relation to corporate politicization and political funding. Here we can see another. While the alliance and the state bills help to create more discursive politicization of ESG, bills like Florida's are themselves examples of the very sort of substantive politicization of investment decision-making that populist Republicans have accused ESG proponents of engaging in. Here, the law is, perversely, seeking to order state pension fund managers and state treasurers not to consider material ESG risk, despite the fact that this may prove financially harmful to pensioners or state finances and be in breach of relevant fiduciary duties. This is an example of substantive politicization of ESG, because it places anti-ESG politics where risk and return-based private financial decision-making would be expected.

7 Depoliticizing reactions to ESG

This section explores actor reactions to ESG politicization which have advocated depoliticization. Adapting Dür et al. (2024), these reactions can be characterized as "confronting", "separating", and "dodging". "Confronting" is often the province of practitioners and academics like Crowley and Eccles (2023) – a Republican attorney and business professor – who are dismayed at the politicization of ESG and who want it to become depoliticized and hence boring and unnoticed again. When seeing accusations of substantive politicization by ESG critics on the Republican right, their reaction is to confront them, arguing that they are misunderstanding the true, original intent of ESG, which is focused on material risks to companies and their investors from ESG factors. Some might see this as exhibiting a "deficit model of understanding" (Suldovsky, 2017): if only we clearly explain originalist intent (and that ESG is not the same as impact investing) to the anti-ESG movement enough times, then they will understand and accept it. While material interests at stake make this unlikely in the short term, if US courts support this confronting argument,[2] then Republican critics may be forced to accept it.

If confronting, and reasserting ESG's original intent, is one reaction to politicization, another is "separating". The strategy argued for here is to break up ESG and separate out the E from its more politically contentious S (social) colleague (Pollman, 2022; Glynn, 2023; Gordon, 2023). There are instrumental measurement reasons why separation has been recommended for climate purposes (Stewart and Engelsen, 2022; Ehlers et al., 2023). However, the rationale under consideration here is depoliticization. The view is that environmental issues, and particularly the technical matter of climate change, would be depoliticized by stripping out E and no longer tying it up with more politically sensitive social issues like D&I. Nevertheless, the literature on climate change and politicization discussed earlier reveals that this is unlikely to be successful. Climate change is a charged political issue in the US – it is far from a neutral, technical policy area.

Finally, in terms of depoliticization reactions, there is "dodging" in the form of "green hushing" – the deliberate avoidance of making public statements about sustainability and environmental performance. Companies may continue with ESG activity but simply avoid the politicized ESG label, or avoid speaking up about it publicly (Kaplow and Hudes, 2023; Vanham, 2023). This reaction attempts to depoliticize ESG by not provoking contestation. Speaking in 2023, BlackRock's Larry Fink commented: "I do not use the word ESG any more, because it's been entirely weaponized … by the far left and weaponized by the far right" (Binnie, 2023). However he was also reported as stating that "dropping references to ESG would not change BlackRock's stance. The firm would continue to talk to companies it has stakes in about decarbonization, corporate governance and social issues to be addressed" (Binnie, 2023). There is evidence that this particular example of ESG "hushing" is part of a wider corporate trend, particularly in venues like earnings calls (Brue, 2023; Kaplow and Hudes, 2023; Vanham, 2023). Nevertheless, while green hushing may be a reaction to politicization and associated anti-ESG backlash, it may also be due to corporate fears about the regulatory, reputational and litigation risks of "greenwashing".

2 See Roy and Skinner (2023) for evidence that this is beginning to happen.

8 Conclusion

ESG is widely observed as having been politicized in the US, with climate change playing a key role in that. This paper has analyzed the form that this politicization has taken, and also its dynamics – using political opportunity structure to help account for why politicization occurs at particular times. I have also explored reactions to the politicization of ESG seeking to depoliticize it. These ranged from defensive arguments reminding detractors of ESG's origins, through stripping out E and separating it from S, to ESG hushing and avoiding explicit use of the term. These were classed as "confronting", "separating", and "dodging" reactions, respectively.

In many ways ESG looks, on the surface, like an unlikely subject for politicization. And, after all, as we have seen, it was designed that way. However, the Republican right has sought to look underneath that technical financial surface to reveal what they regard as concerning. Chief among those concerns are social aspects like D&I policy, but also the potential for a focus on climate risk and opportunity to end up defunding the fossil fuel industry, a key Republican donor. That potential of course exists even with an originalist, shareholder value version of ESG. Republican arguments about ESG being a Trojan horse with decarbonization as its real, political, aim may therefore be a red herring, because the cost of capital for the fossil fuel industry may rise with either. Republicans have sought to prevent ESG from having this effect via anti-ESG legislation which attempts to forbid consideration of ESG factors including climate change. This is an example of inconsistent substantive politicization, where the Republican right are engaging in the very sorts of practices they complain that the left is doing.

Finally, like ESG itself (Fancy, 2021), politicization of ESG might well be regarded as a distracting sideshow, detracting attention from where the focus really needs to be for tackling the climate crisis, which is on strong state regulation and international cooperation to place a sufficiently high price on carbon. ESG and climate disclosure by companies – and then subsequent reaction to climate risks and opportunities by investors – are a necessary, but nowhere near sufficient, form of market-driven, climate governance. Politicizing the sideshow may itself be seen as a strategic attempt to distract people's attention away from the main event, and future research could usefully explore this.

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