CED
COMMITTEE FOR ECONOMIC DEVELOPMENT
THE PUBLIC POLICY CENTER OF
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Policy Backgrounder: ESG and the Backlash

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Insights for What's Ahead:

CED's recent Trustee Policy Summit included a session on the growth of ESG and the associated backlash. CEOs and boards are increasingly considering their responsibility to society; however, backlash has been growing against initiatives as unnecessarily political. Businesses must consider the response to societal issues that best suits them, but several factors are contributing to ensuring that the ESG issues remain on the business leadership agenda.

- Generational change in the workforce is a key driver of ESG; for many Millennials and Gen Z, the employer is often their principal connection to society, and these workers have a strong desire to work for an organization doing good in the world.
- Today, more than 85 percent of business value is tied to intangibles, rather than physical assets, which increases the relative value of human capital.
- The backlash against ESG has had greater impact on what businesses say rather than what they do. They are still sticking to their ESG principles, particularly on climate, but being not careful about the stands they take publicly on controversial issues.

Why ESG is Growing

ESG is growing first because of the changing landscape in business, as CEOs are increasingly considering their responsibility to society. Second, generational change in the workforce is also a key driver: many business leaders are driven to invest in ESG because of employee interest. Many corporate leaders say they focus on ESG because their employees want them to. Millennials and Gen Z are less likely to get married early, participate in organized religion, or become active in social/rotary clubs. Instead, the employer is often the principal connection to society, and these workers have a strong desire to work for an organization doing good in the world. Third, the changing nature of how businesses add value is also a factor driving interest in and adoption of ESG. Fifty years ago, 80 percent of the value of *Fortune* 500 companies was tied to physical assets and capital. Today, more than 85 percent of business value is tied on intangibles including intellectual property and brand value. People are more important. There has been a shift from materialization to humanization within businesses.

The Backlash

Most companies are pursuing ESG because their various stakeholders want them to—not because of politics. Indeed, most CEOs express an intense desire to stay out of politics. But an increasing number of Republican candidates are eager to drag corporations into the fray, trashing them as "woke" CEOs for their ESG commitments.

The reaction of most CEOs to date seems to be to stay the course—since the policies were adopted for business reasons - but avoid high profile public statements.

The rise in the use of social media also fueled the rise in ESG because business' actions—and their response (or lack of one) were more easily observable. A participant cited an incident regarding a video of a US airline's treatment of a customer which went viral; the company's CEO later said he was concerned at first about his employees and had not taken sufficient account of the effect on public opinion; he wishes he had responded more forcefully and directly at first. Business has also been driven to take action on broader issues in society because of government actions, for instance regarding changes to laws on voting in Georgia, an action which itself provoked a backlash. Climate change and inequality are other examples of this trend.

There is a distinction between what companies do and say: the impulse to speak out about controversial issues is a dramatic change, but some business leaders are also facing backlash politically. ESG's greater impact has been on what businesses say rather than what they do. However, there is growing evidence of businesses backing down from what they have said in response to pressure.

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