The Environmental, Social, and Governance Backlash

How Did We Get Here and What is Next for Corporate Responsibility?

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Opinion Piece

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Corporations have long operated under a simple, comfortable illusion: make profits, keep shareholders happy, and everything else will be fine. However, that narrative cracked in the mid-2010s, when a powerful new argument emerged – not from activists, but from within a "Big Five" boardroom.

In 2015, consulting giant McKinsey set the tone with its report *Why Diversity Matters*. The message was both clear and profitable: diverse teams were not just about fairness and inclusion, they performed better. Three more studies followed, with the latest in 2023, *Diversity Matters Even More*. Suddenly, even German CEOs, who had long regarded the 2006 General Equal Treatment Act as an annoying bureaucratic exercise, saw its value. Companies that actively promoted women, employees with migrant backgrounds, and workers with disabilities were not just doing *the right thing*, they were securing better business deals, cheaper loans, and top-tier talent.

But diversity was just one piece of a larger shift. The world was waking up to an uncomfortable truth: the biggest challenges of our time – climate change, inequality, and political instability – were not just the responsibility of governments. The scale of the challenges pushed governments' ability to manage to the limit. Even supranational organizations cannot fill this gap on their own. The challenges require solutions from all areas of society. Companies, with their vast resources and influence, were being called to the table, precipitating the rise of Environmental, Social, and Governance (ESG) principles: a new framework that redefined corporate responsibility and placed businesses at the heart of shaping society.

THE CLIMATE CATALYST: A NEW ECONOMIC REALITY

The 2015 Paris Agreement was a turning point for governments and it shook businesses. By setting a global goal to limit Earth's warming to below 2°C and achieve net-zero emissions by 2050, climate responsibility entered the "Marketverse". Supply chains faced increasing disruptions. Natural disasters spiked insurance costs. Investors started asking hard questions about long-term stability. Microsoft, for example, pledged to go carbon-negative by 2030, signaling that businesses were no longer mere passive observers of environmental policy, but active players in shaping the future. Patagonia went even further, embedding sustainability into its very identity, proving that a business model could be both responsible and wildly successful.

FROM HASHTAGS TO BOARDROOMS: SOCIAL MOVEMENTS RESHAPE BUSINESS

At the same time, another force was reshaping corporate responsibility: social movements. The rise of #MeToo in 2017 forced companies to tighten compliance rules, address toxic workplace cultures, and rethink power dynamics. Black Lives Matter, which gained worldwide momentum after the murder of George Floyd in 2020, made it impossible for corporations to stay silent on racial injustice. Employees, consumers, and investors alike demanded action. The question was no longer *whether* companies should take a stand but *how*. And this was not just about internal policies: public pressure campaigns forced businesses to reckon with the role they played in shaping society. The #MeToo movement led to stricter compliance rules and the introduction of new corporate policies aimed at preventing sexual harassment and the abuse of power, particularly against women. At the same time, companies faced growing pressure to clearly define their role in the fight against racism and discrimination. This became particularly evident during the Black Lives Matter movement, which triggered global protests following George Floyd's murder in 2020, and also with the Stop Asian Hate campaign, which emerged in response to the rise in anti-Asian violence during the COVID-19 pandemic. Companies were increasingly urged to take a public stand, strengthen internal diversity and inclusion measures, and implement targeted initiatives against discrimination.

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The common denominator in these developments is obvious: the public scrutiny behind ESG initiatives. This pushed companies to go beyond performative gestures, urging them to integrate real change into their core strategies. Companies that failed to engage risked losing

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consumer trust. Those that took bold action saw their reputations *and* profits soar.

ESG AS A BUSINESS IMPERATIVE

Between 2019 and 2020, ESG grew into a globally recognized financial imperative. Major investors, such as BlackRock, began integrating ESG criteria into their investment strategies. These investors demanded that companies provide transparent and verifiable sustainability reports. This led to the introduction of new regulatory frameworks in the EU, such as the Non-financial Reporting Directive (NFRD) in 2017, which required large companies to report on ESG topics. These regulations, along with the EU Taxonomy Regulation of 2020, aimed to establish a unified definition of sustainable economic activities and prevent greenwashing. As the Paris Agreement was implemented and investor expectations increased, more companies began setting clear net zero targets for 2030 or 2040. The term "net zero" became a central component of corporate strategy.

The positive effect of responsible corporate engagement on business' success is, thus, not merely idealism but an empirical correlation, which has manifested itself manifoldly. The connection between corporate engagement and business success has become increasingly evident. Companies that integrated ESG initiatives into their business strategies were not only recognized as responsible actors but also gained a competitive advantage.

THE BACKLASH AGAINST ESG

ESG seemed to be thriving and looked sure to sweep through the entire business world. But now, in 2025, companies such as Meta, Starbucks, McDonald's, Amazon, John Deere, Harley-Davidson, and even Aldi Süd are rolling back their diversity programs in the US. The once "flagship" Diversity, Equity, and Inclusion (DEI) initiatives are either being scrapped altogether or relegated to some forgotten corner on the company's website. While this sudden retreat is extreme, it is not isolated and far from new. It is part of a wider phenomenon of companies retreating from social-responsibility-related initiatives and ESG practices over the last four years.

As early as 2021, the first signs of growing ESG criticism appeared in an influx of rising inflation and economic pressure. This led to a perception that ESG measures were an added and costly financial burden at times of financial uncertainty. Opponents of ESG argue that these strategies burden companies financially and divert them from their core goal of profitability, arguing that sustainable investment strategies often yield lower returns than traditional investments. The COVID-19 pandemic led to global supply chain disruptions and soaring oil and gas prices. Russia's invasion of Ukraine in 2022 and the resulting energy crisis further reinforced this development, but it also shifted political and societal focus from sustainability to security. Rising energy prices and potential supply shortages even led some companies to temporarily revert to fossil fuel usage.

At the same time, the principles of stakeholder capitalism and the ESG-themed investing trend that has emerged with it are increasingly being attacked by populist politicians and finance industry contrarians. Conservative politician Ron DeSantis labeled ESG as "woke capitalism", and the head of responsible investing at HSBC Asset Management, Stuart Kirk, dismissed the idea that investors should attempt to promote more environmentally responsible capitalism by taking climate risks into account. Kirk's criticism of a fundamental tenet of the nearly US$3 trillion sustainable funds sector was not an isolated claim, but demonstrated a rising willingness to challenge conventional opinion on ESG practice, not only rhetorically but with harsh political measures. In the US, multiple states banned ESG-based investments for public funds. This increased pressure on companies to scale back or at least communicate less openly about their ESG initiatives. Perhaps the most well-known entrepreneur in our world today, Elon Musk, called ESG a "scam" after Tesla was removed from the S&P ESG Index. He foreshadowed a political reality under the Trump administration, who, on the very day of his inauguration, put all federal diversity officers on paid leave and ordered their offices shut within 60 days. The message was clear: Donald Trump has declared war on the "woke" crowd and politically correct America. His words are emblematic of a new political and pop-culture narrative around the globe, which increasingly frames corporate societal engagement as ideological fanaticism.

ESCALATION OF THE ANTI-ESG MOVEMENT AND STRATEGIC RETREAT

At first glance, this might seem like an American affair, but the reality is different. Banks have begun dissolving their involvement in the Net Zero Asset Managers Initiative, while oil and gas companies have scaled back their sustainability commitments. Social engagement has also come under pressure, with some brands reducing their support for LGBTQ+ and diversity initiatives following public backlash, as seen in the Bud Light controversy. When major investors such as BlackRock and Vanguard begin scaling back their public ESG communication to avoid political controversy or when steadily growing ESG investments stagnate or decline (as in 2023), the return to conservativism in today's business best practice is undeniable. As a diversity consultant from Beyond Gender Agenda put it, "Corporate Germany is in full retreat" and an alternative form of engagement within the public sphere is on the rise: not woke capitalism, but "spite capitalism" – resistance against well-documented progress, where influence is wielded not to build, but to dismantle.

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AGAIN, CORPORATE RESPONSIBILITY

The current trend seems to be that companies who have done the opposite until recently are trying to withdraw from socio-political arenas. This trend is not absolute, as shown not least by the numerous calls to vote from associations and companies in Germany. Nevertheless, the examples cited above show that the global trend is currently pointing in a different direction.

So, is this the return to Friedman's dictum, "The business of business is business"? Definitely not: the influence of companies on society is substantial and the initial transformation has had a massive impact on them.

This means that a company's decision not to position themselves within the social transformation is highly political. This decision does not reduce its influence, but it decides not to use it to shape the societal transformation in a certain way. Negating it, and thereby their responsibility, is not possible. Therefore, the question is not so much *whether* companies take responsibility, but *how*. Social expectations can also change in the process – just as investors and customers can base their decisions on whether a company applies sustainable and/or ethical business practices, they can also base their decisions on whether a company does not.

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However, companies bear their responsibility not only because of the demands placed on them by society but also to preserve the foundations of their own business activities. Companies depend on a liberal societal model that allows them to grow, develop ideas, and protect their intellectual and economic property. They need a framework within which they can develop and where innovative action is rewarded. Their actions cannot be viewed independently of geopolitical conflicts either. Those who enter relationships with authoritarian regimes, for example, risk both a loss of reputation and make themselves vulnerable to possible sanctions, confiscations, and supply chain problems. Not only do they risk being perceived as part of the problem by their customers and employees, but they also put the survival of the company at risk. They are also at risk when their investors perceive their business model as seriously threatened or political decision makers tighten the regulatory screws.

Incorporating corporate responsibility into decision-making processes is not public relations (PR) but risk management; the foundations of entrepreneurial activity are in danger of being lost if the planetary boundaries, geopolitical conflicts, excessive technology, or attacks on the liberal social order attack the conditions that have allowed companies to operate successfully. Therefore, the current ESG backlash also presents a small but valuable opportunity for realignment and improvement. The last big wave of ESG measures in companies was not the perfect model it often pretended to be. Rather, it led to a significant amount of greenwashing, with companies making sustainability promises without actually delivering on them. Now is the time to do things better. Companies need to make real, measurable progress in ESG areas and prioritize transparency and accountability. Only then can they achieve a positive economic impact and protect themselves against the multitude of risks. A serious commitment to ESG practices builds stakeholder trust, improves reputation, and can lead to long-term financial benefits. This is an opportunity to regain stakeholder trust and truly embed sustainable practices.