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Moving Beyond ESG

The framework has its detractors. Here's a new playbook for responsible business.

By [Robert G. Eccles](#)

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Summary.

It's been a rough few years for ESG—the popular shorthand for measuring and managing a company's environmental, social, and governance performance. Critics on the political left believe ESG is insufficient for addressing major societal issues such as climate change; critics on the right say ESG pushes a liberal agenda. The barrage of criticism has caused ESG to lose its luster among many executives. Yet the need for a transparent way to connect a company's financial performance with its ESG performance remains.

It's time, says Oxford professor Robert G. Eccles, to take stock of ESG and chart a path forward. He acknowledges the complex challenges that still need to be resolved. Chief among them is whether to use single materiality (which focuses on shareholder value) or double materiality (which includes societal impact).

In this article Eccles recommends a pragmatic approach for corporate leaders: clearly define corporate purpose, improve transparency in ESG reporting, and engage stakeholders constructively. These strategies will help companies manage ESG pressures by focusing on material issues that affect shareholder value while also acknowledging and addressing broader societal impacts.

It's been a rough few years for ESG—the popular shorthand for measuring and managing a company's environmental, social, and governance performance. In the United States the term has become a punching bag for both sides of the political aisle. For those on the left, ESG doesn't go far enough in forcing business to address major societal challenges, particularly climate change. For those on the right, it represents an insidious attempt to make companies adopt a liberal agenda, thus distorting markets and free competition. And critics of all stripes have complained about greenwashing—

the practice of overstating ESG efforts by companies and investors. This barrage of criticism has caused ESG to lose its luster for many executives. Some even engage in “greenhushing”—they no longer talk publicly about their ESG initiatives.

Yet the need for a transparent way to connect a company’s financial performance with its environmental, social, and governance performance remains. So, too, do the social challenges—including climate change—that business must play a role in addressing. It’s time to take stock of ESG and chart a path forward for the corporate sustainability movement. To that end I’ve spent the past two years shuttling between the warring factions in the debate, meeting with liberals and conservatives, critics and supporters, in New York, Washington, and in Europe, trying to find common ground.

The debate over ESG will take years to shake out. There are legitimate and complex challenges—both political and technical—that are not even close to being resolved. A prime example is the question of whether to use single materiality or double materiality when assessing ESG performance. Single materiality (also called financial materiality) attempts to quantify ESG issues that are important for shareholder value creation—that is, those issues that pose risks for a company. It is the dominant variant of ESG in use today. Double materiality attempts to measure a company’s *impact* as well—that is, the positive and negative externalities it creates that make the world a better or worse place but don’t directly affect corporate financial performance. But impact is fiendishly difficult to quantify, and no political agreement exists on whether it’s even appropriate to require executives to provide such information to investors and other key stakeholders. In general, European countries and U.S. liberals are pushing for regulations to enforce double materiality, confident that the measurement challenges can be overcome. U.S. conservatives and many corporate executives prefer single materiality, arguing that double materiality is neither feasible nor warranted. It’s a pickle.

At the core of the ESG debate is the fundamental question of the role of the corporation in society: What does it mean to be a responsible business? Putting aside all the florid rhetoric, this is the challenge facing corporate leaders today. They need to be clear about how their companies create value for shareholders and how their ESG initiatives contribute. They need to be equally clear about what their companies *cannot* do with ESG to make the world a better place and what belongs in the realm of public policy. Too many companies, investors, and politicians conflate the two.

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Companies can and should lobby for effective government regulations related to ESG, but that is not the focus of this article. Instead I’ll offer three strategies that corporate leaders can use to manage the conflicting pressures in the ESG political wars. The foundation for all three strategies is a recognition of the difference between traditional ESG and impact (in other words, the difference between single and double materiality). These strategies will allow leaders to shift away from their reactive postures and proactively shape discussions across the political spectrum.

Be Clear About Your Purpose

A company must define its purpose with precision. Too many mission, vision, and values statements are so broad that they could apply to any organization. Clarity of purpose requires highlighting material ESG issues that directly affect value creation—but not including the broader positive and negative impacts a company has on the world. Supporters of stakeholder capitalism and double materiality do not like this

approach; they argue that over time stakeholder and shareholder interests converge. But that simply isn't true. Not all stakeholder issues are pertinent to shareholder value. Trade-offs are inevitable.

Colin Mayer, my colleague at the University of Oxford, contends that the purpose of a company is to produce profitable solutions to the problems of the people and the planet and to minimize profit from creating problems. ExxonMobil's purpose is to service the world's energy needs profitably. At the moment, that includes supplying both green and brown energy. The company's CEO, Darren Woods, believes that its low-carbon business (such as carbon capture and storage and hydrogen) could be bigger than its traditional oil and gas business in 10 years, but he is unapologetic about meeting the energy needs of today with ExxonMobil's legacy fossil-fuel business.

Some companies use the United Nations' 17 Sustainable Development Goals (SDGs) to define their purpose, explicitly linking their work to the UN's list of humanity's unmet needs. For example, Nike highlights its contributions to SDG numbers three (good health), five (gender equality), eight (decent work and economic growth), 12 (responsible consumption and production), and 13 (climate action). Schneider Electric, too, links its work to the SDGs and provides quarterly reports on its progress.



Kevin Hoth's series *Everywhere and All at Once* explores the possibility of moving beyond a singular vantage point. He is particularly drawn to natural spaces and the mediated ways in which people often experience them.

Along with identifying unmet customer needs, companies must articulate the ESG factors that represent material risks to shareholder value creation. Managing industry-specific risk factors can keep the world from becoming a worse place, but it doesn't necessarily make it a better one. A company can be doing poorly on ESG while still having a positive impact. Tesla's low ESG rating is a case in point. According to the ratings agency S&P Global, Tesla has a total ESG score of 40 (out of a possible 100). It scores 53 for E (compared with its industry maximum of 81), 29 for S (the industry's maximum is 84), and 40 for G (the industry maximum is 69). Although its electric vehicles have a positive environmental impact, Tesla has experienced continuing labor problems, which have affected its stock price. The fundamental misconception of ESG critics on the right is that single-materiality ESG is a liberal political agenda. It is nothing so ambitious. It is simply about sustainability issues that matter to value

creation. Tesla's rating is low because agencies have assessed that its governance and labor issues present a material risk to its financial future.

Almost all companies produce negative externalities, even those that have both strong ESG performance *and* a positive impact on the world. It's important to be candid about them. Such negative externalities are the focus of ESG critics on the left who complain that companies aren't doing enough to address them. But negative externalities are inevitable, and they don't necessarily influence published ESG ratings. Owens Corning has an S&P Global ESG score of 85 and earns the highest score on each ESG element that its industry allows. It is committed to creating a circular economy and aligns its activities according to the UN's SDGs. At the same time, nonrenewable energy sources (including coal) account for a little more than half of its energy usage; its products are heavily dependent on water and create a high degree of water stress in local communities; and it puts a substantial amount of hazardous waste into landfills. The company has targets for improving on all those issues, including zero waste to landfills by 2030. But in the immediate future, these activities do not pose material risks to its financial performance—so they don't have a large influence on its ESG rating.

To be a responsible business, a company must have plans to reduce negative externalities. Every company knows what these are. NGOs, journalists, and other watchdog groups have become very effective at calling out companies on a broad range of environmental and social issues. The challenge for companies is how to address their negative impacts—even those that are not material from an ESG point of view—without hurting shareholder value creation. In many cases companies can set targets. A common example is targets to reduce carbon emissions, endorsed by the board of directors. Setting targets can spur innovation and can be a source of competitive advantage.

One of the most notable examples of negative externalities is cigarettes. Philip Morris International, or PMI (for which I'm a paid adviser), has set a target of earning two-thirds of net revenues from "smoke-free" products by 2030. To that end, it has developed a heated tobacco product that is less harmful than smoking cigarettes (although not completely harmless) and more profitable than the traditional cigarette business. The company is undergoing a dramatic business transformation, spurred by its aggressive target.



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Ultimately, however, regulation is the primary way in which negative externalities are mitigated. New laws can suddenly make them financially material. It is through regulation that governments establish the conditions for shareholder value creation by making companies accountable for their negative impacts. A carbon tax, which I support, is a good example. Companies, especially in the United States, are generally regarded as opposing any new laws and regulations. But reflexively opposing all regulations is a mistake. It is fair for companies to complain that civil society is asking too much from them. But the corollary is that they need to be clear about what the government should be doing to address negative externalities. They'd be better served seeking to provide input to regulations rather than simply opposing them.

Encouraging such legislation is largely the approach that Owens Corning has taken to address its negative externalities. In its 2023 sustainability report the company writes, "With the systems and policies we have in place, we are well positioned to meet the various requirements...around the world. These systems and policies also prepare us for the future as governing bodies everywhere establish increasingly stringent regulations in the face of the detrimental impacts of climate change." Similarly, in a statement of purpose signed by every member of its board of directors, PMI notes that "with the right regulatory encouragement and support from civil society, cigarette sales can end within 10 to 15 years in many countries."

In essence, being a responsible business requires having a clear purpose—and that requires a clear understanding of what the company can and cannot do to address societal and environmental challenges while providing long-term returns for its shareholders.

Be Candid in Your Sustainability Reporting

Reporting standards lay the foundation for ESG transparency. Thirteen years after I cofounded the Sustainability Accounting Standards Board (SASB) with Jean Rogers, a universal set of standards has yet to be agreed upon. But it is coming. Financial reporting standards require companies to report both good and bad financial performance. Sustainability reporting standards will do the same. They will enable companies to be more candid and precise in reporting on both ESG and impact performance. If companies are making the world a better place while making money for shareholders, they will be able to explain how. If they are making the world a worse place while making money for shareholders, it will be clear. If they are making the world a better place at the expense of shareholders (and probably some stakeholders), that will be clear as well. Candid reporting using standards is a way to avoid greenwashing and not hide through greenhushing.

Currently, multiple frameworks are shaping standards globally. The International Sustainability Standards Board (ISSB), under the IFRS (International Financial Reporting Standards) Foundation, focuses on financial materiality. In Europe the Sustainability Reporting Board (SRB) has developed 12 standards; they require companies to report on financially material ESG issues and on those with broader societal impact. In the United States the SEC issued a climate disclosure rule. But after facing lawsuits by groups that wanted more in the rule and by those that didn't want it at all, it has stayed the rule. Lastly, the Global Reporting Initiative (GRI), which dates back to the late 1990s, focuses primarily on a company's external impacts, appealing to stakeholders interested in the comprehensive societal effects of corporate actions. Discussion is ongoing about harmonizing these standards to ease the reporting burden on companies and achieve a uniform global standard. In the meantime, companies in Europe obviously need to comply with the SRB's standards. Companies using GRI

standards should continue to do so. And all companies should work to implement the ISSB's standards.

Be Constructive in Your Shareholder and Stakeholder Engagements

Shareholder proposals, both pro- and anti-ESG, have reached the front lines of the culture wars in the United States. The number of ESG-related proposals grew from 273 in 2022 to 337 in 2023; they were primarily delivered at the annual general meetings of companies that have a large impact on climate (such as Chevron and ExxonMobil) or that are closely tied with high-profile social issues (such as workers' rights at Amazon and racial equity at Walmart). However, investor support for such proposals declined from an average of 30% to 20% in the same period. Concurrently, anti-ESG proposals, mostly targeting DEI actions, increased in number from 30 in 2021 to 79 in 2023. But they garner much less investor support, hovering at around 3%.

The quality of ESG-related shareholder proposals varies; some are focused more on political views (values-based) than on economic or financial benefits (value-based). The pro-ESG proposals tend to wrap themselves in the language of shareholder value creation, but their arguments are often vague and unsupported by evidence—for example, “climate risk is financial risk” and “diversity improves performance.” Ironically, while critics on the right blast ESG for promoting a liberal political agenda, most conservative-backed anti-ESG shareholder proposals are blatantly political in nature (using statements such as “addressing climate change undermines America's fossil fuel industry” and “DEI programs discriminate against white men”). They assert that ESG is bad for the stock price but make no real argument for why their alternative view is good for it.

Even though ESG-related shareholder proposals have grown in number, very few companies receive them. Yet they make visible the pressures all companies face. Climate change, a big focus for liberals, and DEI, a big focus for conservatives, are the two topics that generate the greatest amount of pressure for companies. The left, typically in the form of NGOs and socially responsible investors, wants companies to shoulder more responsibility for addressing environmental, social, and governance issues. The right, typically in the form of politicians and conservative trade associations, accuses companies of wading into issues of public policy at the expense of shareholder value creation. Conflicting pressures are inherent in a world of differing ideological views. They'll never go away.

A company's best way of coping with these pressures is through constructive engagement and candid reporting, even with groups that are extremely hostile. Ignoring them won't make them go away. Denigrating them will lead to an emotional, not a rational, engagement. Corporate leaders and their boards should hear what critics have to say. They should then explain which sustainability issues aren't important to value creation, acknowledging that some issues may become relevant in the future only if the law changes. Companies should explain what they can and cannot do about their negative externalities and identify areas where regulation is needed. Some of those expecting a company to “do more” will listen; some won't. Some will listen and agree in private but maintain a different public posture as part of their overall strategy to exert pressure on the private and public sectors.

That's why it's so important for a company to be proactive in its engagements with shareholders, NGOs, politicians, and industry associations. It needs to be clear that sustainability issues are vital for value creation and explain how in financial terms. It must shape its own narrative rather than play defense against those created by others.

Take Unilever, which has faced criticism for its focus on sustainability. Under its new CEO, Hein Schumacher, it developed a “growth action plan” that, according to a public letter from Schumacher and CSO Rebecca Marmot, focuses the business on doing fewer things better and with greater impact. The letter says this approach also applies to its sustainability agenda. The company now focuses primarily on four big sustainability priorities: climate, nature, plastics, and livelihoods. “These are the areas of material importance for our business so we have implemented detailed, time-bound, costed plans to ensure we deliver in the same way we are determined to perform against our financial goals.”

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There’s no denying that corporate leaders need to wrangle with some tough issues regarding what it means to be a responsible business. These questions need to be resolved in a methodical and nonpartisan way—in other words, opposite from how the culture wars treat ESG issues. For that reason, I suspect (and hope) that the acronym ESG will eventually fade entirely. Rather than talking about ESG, corporate executives need to be clear and forthright about how their companies are responsible businesses that are addressing the needs of shareholders and stakeholders—and about what negative externalities they cannot address without changes in the regulatory environment. Then it will fall to the rest of us—the body politic—to start a constructive conversation about how best to create a fair and sustainable society for generations to come. Seen through that lens, moving past the ESG culture wars is actually the easy part.

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