THE BACKLASH AGAINST ENVIRONMENTAL, SOCIAL, AND GOVERNANCE IN THE UNITED STATES: A RESOURCE-BASED VIEW

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Abstract

While interest in environmental, social, and governance (ESG) investments and initiatives has remained strong in Europe, it has collapsed in the United States (U.S.). This paper argues that the reason for the backlash is that most ESG investments lack the potential to sustain a competitive advantage and, consequently, have fallen under legal and political attack. We review the literature on the relationship between ESG and corporate financial performance (CFP) and conclude that the results are inconsistent and, in some cases, indicate a negative relationship. The purpose of this paper is to identify the source of the inconsistency and introduce a framework for evaluating ESG initiatives. We describe several approaches to ESG, including "greenwashing", "borrowed virtue", and "bureaucratic ESG", and contrast these with "strategic ESG". We rely on the resource-based view (RBV) of the firm (Barney, 1991, 2018) to develop the circumstances under which corporate ESG programs have the potential to sustain a competitive advantage and qualify as "strategic ESG". We conclude that ESG investments that are imitable cannot provide a basis for sustainable competitive advantage. Only by leveraging valuable, rare, imperfectly imitable, and non-substitutable resources can an ESG initiative sustain a competitive advantage and superior financial performance.

Keywords: ESG, Competitive Advantage, Corporate Governance, Resource-Based View, Stakeholder Theory

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1. INTRODUCTION

Business has undergone a recent and frenetic transformation through the proliferation of environmental, social, and governance (ESG). In essence, ESG measurement and reporting have formalized the way companies communicate their corporate social responsibility (CSR) to a variety of stakeholders. Recently, however, this reporting and assessment tool has taken on a prescriptive role, particularly as activist investors, ratings agencies, exchanges, and governments have used it to pursue their own ESG agendas.

A brief history of ESG shows just how quickly it has grown. The term ESG was first introduced in the 2004 United Nations (UN)-backed report "Who Cares Wins", in which it was argued that integrating ESG into capital markets was both ethical and financially sound. This laid the groundwork for initiatives like the UN Principles for Responsible Investment (PRI), launched in 2006, which now includes over 5,000 signatories representing $121 trillion in assets under management. The guiding principles include the promotion of ESG into investment analysis, decision-making, and encouraging activist investor policies. In 2017, 140 chief executive officers (CEOs) signed the Compact for Responsive and Responsible Leadership, in which they committed to aligning their corporate goals to serve the long-term goals of society (Lawton, 2024).

In addition to the above, in 2018, BlackRock CEO Larry Fink, a vocal advocate of ESG, threatened that BlackRock would vote against boards that failed to disclose their ESG risks and that access to capital may be difficult for firms that do not adhere to ESG standards (Fink, 2019). Finally, the 2019 Business Roundtable (BRT) Statement on the Purpose of a Corporation prioritized the interests of multiple stakeholders over the traditional shareholder-first model. The statement, signed by 181 CEOs of major United States (U.S.) companies, signaled a move away from short-term profit maximization toward long-term sustainability, CSR, and ESG factors (Gelles & Yaffe-Bellany, 2019).

As a result, investors, managers, consumers, and academics have accelerated their interest in ESG. Roughly 25% of investors now consider ethics a primary reason for investing — even if it means underperformance (Giglio et al., 2023). A majority of executives (91%) believe their firms are responsible for addressing ESG issues (PricewaterhouseCoopers [PwC], 2021), and over 60% of consumers report valuing sustainable products (Frey et al., 2023). According to Google Scholar statistics, academic attention has grown as well. ESG-related publications rose from 48,500 in 2005–2014 to over 205,000 from 2015–2024.

Like any investment, ESG initiatives can add or subtract value. This paper seeks to fill the gap in the research regarding the theoretical basis for evaluating whether ESG investments can improve financial performance. We conclude that the resource-based view (RBV) of the firm (Barney, 1991, 2018) provides a framework for evaluating ESG investments and only imperfectly imitable investments in ESG offer the potential to create value.

The structure of this paper is as follows. Section 2 reviews the relevant literature, specifically, the evolution and measurement of ESG, its relationship to financial, environmental, and social performance, and discusses the growing backlash in the U.S. against ESG. Section 3 explains the research methodology. Section 4 consists of the results and discussion, particularly on utilizing RBV to introduce a strategic framework for evaluating ESG strategies that offer the potential to create both social and economic value. Finally, Section 5 presents the conclusions.

2. LITERATURE REVIEW

Stakeholder theory (Freeman, 1984) asserts that businesses should consider the interests of all stakeholders, not just shareholders, in their decision-making processes, with the assumption that improving stakeholder value will contribute to overall long-term sustainability and the performance of the firm. Similarly, CSR suggests that companies should voluntarily take responsibility for their impact on society and the environment. CSR goes beyond profit-making and emphasizes ethical, social, and environmental considerations in business operations and decision-making (Carroll, 1991). ESG can be viewed as a bridge between stakeholder theory and CSR by offering a structured approach to communicating ESG issues to a variety of stakeholders.

2.1. Measurement of environmental, social, and governance

Each ESG category encompasses numerous factors that traditionally are not part of financial analysis and yet have been argued to lead to enhanced financial performance. Environmental factors focus on a company's environmental impact and sustainability efforts and may include factors such as carbon emissions, energy efficiency, climate change, and resource management. The social component evaluates a company's impact on society and its stakeholders and may include labor practices, human rights, product safety, customer and supplier relationships, and workplace diversity. Finally, governance factors assess the quality of a company's leadership, management, and internal controls. It involves evaluating the composition and independence of the board, executive compensation practices, shareholder rights, and ethical behavior. Generally, companies with diverse leadership teams and boards tend to score higher in ESG governance metrics, with regulators and investors increasingly expecting public companies to disclose their diversity statistics.

The growing interest in ESG has created a rating and measurement industry currently worth $15.42 billion and expected to reach $16.69 billion by 2030 (Mordor Intelligence, 2025). It is estimated that, worldwide, there are over 140 rating agencies such as MSCI, Sustainalytics, Bloomberg, and Morningstar, each with their own definitions of ESG and system of measurement. In addition to ratings agencies, information is provided to investors by ESG indices such as the Dow Jones Sustainability Index (DJSI) and the FTSE4Good Index track specific ESG criteria. Additionally, numerous fund management companies have their own proprietary rating methodologies.

Despite the growing attention and utilization of ESG metrics, there remain substantial problems with their measurement that question their usefulness in strategic decision-making. Just a few of the problems with ESG ratings include a lack of standardization, the dynamic nature of factors and measures, their subjectivity, and their overall poor quality (Berg et al., 2022; Kotsantonis & Serafeim, 2019; Pollman, 2024; Larcker et al., 2022).

First, there is no standardized set of metrics or universally accepted methodology for measuring ESG. For example, what constitutes "good" labor practice can vary from one rater to another. Numerous scholars have found low correlations between the different ESG rating providers (Chatterji et al., 2016; Berg et al., 2022). This lack of measurement standardization makes the ratings less effective for investors and managers when making strategic resource allocation decisions.

Additionally, ESG criteria continue to evolve and expand as societal expectations and environmental concerns change. As a result, what may be considered a core ESG issue today may differ from what was important just weeks earlier. As a result, it may be extremely difficult for managers to integrate their ESG strategy into a cohesive long-term corporate strategy. Additionally, due to the constant changes, there are often rating lags. This lag can lead to outdated ratings that do not reflect a company's current ESG performance, potentially misguiding investors and making it difficult to assess the ESG rating-corporate performance relationship. Further, the lag in ESG data poses another challenge, as ratings may not reflect a company's current ESG performance but rather outdated information (Larcker et al., 2022). These shortcomings raise concerns about the reliability of ESG scores as a basis for investment decisions and corporate strategy, potentially leading to misallocation of capital and ineffective ESG integration (Christensen et al., 2022).

Finally, the quality and accuracy of data used by ESG rating agencies have been questioned. Inaccurate or incomplete data can undermine the reliability of ESG assessments and potentially mislead investors. Many ratings rely on self-reported, unverified corporate disclosures, raising concerns about data integrity (Pollman, 2024). ESG scores also tend to be correlated across categories, meaning strong performance in one area can inflate ratings in others without clear justification. Additionally, aggregating ESG factors into a single score ignores their varying relevance across industries — such as governance risks in finance versus environmental risks in energy — leading to potentially misleading assessments for investors.

2.2. The ESG-CFP relationship

The general assumption in stakeholder theory, CSR, and ESG is that good social responsibility (high ESG score) will result in positive performance outcomes for corporations, such as increased stock prices, increased returt on equity (ROE), risk mitigation, access to capital, enhanced brand reputation and customer loyalty, attracting top talent, innovation and efficiency. With more than 36,500 academic papers (Google Scholar statistics for 2005–2023) examining the ESG and corporate financial performance (CFP) relationship, the results remain inconclusive.

In terms of positive results, Friede et al. (2015) found that 90% of the more than 2200 studies reviewed had a non-negative ESG-CFP relationship. Similarly, Gillan et al. (2021) found that companies with higher ESG ratings have higher operating performance and Tobin's Q. Whelan et al. (2021) reviewed over 1,000 studies that included both corporate studies and investment funds published from 2015–2020. They report a positive ESG-CFP relationship for 58% of corporate studies and 33% of investment funds. Their conclusions are that ESG is good for financial performance.

However, Whelan et al. (2021) also reported that 21% of corporate studies were mixed, while 8% found negative ESG-CFP relationships. For investment funds, 28% had mixed results, while 14% were negative. Similarly, Hong et al. (2012) found that only 15.5% of the studies they examined found a significantly positive ESG-CFP association, 11% were negative, with the others having either neutral or mixed findings.

Others have found a more definitive negative ESG-CFP relationship. For example, in a meta-analysis of studies examining the relationship between ESG performance and corporate financial performance, Huang (2021) found that factors other than ESG are likely more significant determinants of CFP than ESG. Di Giuli and Kostovetsky (2014) examined the relations between changes in firms' ESG/CSR scores across three years and their revenue growth over that period. They find no significant relationship. Finally, Masulis and Reza (2015) concluded that investors react negatively to the announcement of corporate philanthropic activities, suggesting an agency problem with this type of ESG.

More recent research (Intezar et al., 2024) found no relationship between ESG and return on assets (ROA) and a negative relationship with ROE. Breaking down ESG to its sub-categories had little effect on their results. Yang and Lindrianasari (2025) found mixed results for their sample of Indonesian firms. In their most comprehensive model, they found no significant relationship between ESG and ROA. Despite the mixed results linking ESG to financial performance, Dung et al. (2024) found that Vietnamese investors indicated an increased willingness to invest in firms with ESG reporting.

Despite these findings, several research limitations complicate the interpretation of ESG's impact on financial performance. One primary concern is the issue of causality. While many studies identify a correlation between ESG and CFP, establishing a direct causal link remains challenging. Research by Tan and Tuluca (2024) emphasized the difficulty in distinguishing whether strong ESG performance leads to improved financial outcomes or if financially robust companies are more capable of investing in ESG initiatives. The study suggests that the observed relationship may be correlational rather than causal, underscoring the need for caution in attributing financial benefits directly to ESG activities.

Another significant limitation is the inconsistency and retroactive modification of ESG ratings. Berg et al. (2021) discovered "widespread and repeated" retroactive changes to ESG scores, which can obscure the true relationship between ESG efforts and financial performance. These alterations pose challenges for researchers attempting to draw accurate conclusions, as the shifting metrics may not accurately reflect a company's historical ESG performance.

2.3. The growing backlash

After years of increasing interest among investors and academic researchers, there is a growing backlash against considering ESG issues in investing in the U.S. In 2021, Texas outlawed contracting with organizations that boycott the oil and gas industry. In 2022, four states passed various forms of anti-ESG legislation, and Florida pulled $2 billion in pension funds from BlackRock's management. In 2023, 15 states passed anti-ESG legislation, and the U.S. Congress passed legislation reversing Biden Administration guidelines on ESG investing (earning Biden's first veto). On January 10, 2025, a court decision affirmed the Employee Retirement Income Security Act of 1974 (ERISA) requirement that pensions may only consider risk-adjusted returns when making investment decisions. By the end of 2024, 37 states introduced more than 100 anti-ESG laws (Pollman, 2024). Finally, in June 2023, Larry Fink, CEO of BlackRock, announced he would no longer use the term ESG (Binnie, 2023).

Other evidence of the growing backlash in the U.S. includes S&P Global's announcement in August 2023 that it will no longer consider ESG in credit rating decisions. In January 2025, Goldman Sachs withdrew their board diversity requirement for initial public offerings.

Additionally, most major financial institutions in the U.S. recently withdrew from various climate initiatives such as the Net Zero Asset Managers Initiative (NZAMI) and Climate 100+. A partial list withdrawing in December 2024 through January 2025 includes BlackRock, State Street, Wells Fargo, Goldman Sachs, Morgan Stanley, Bank of America, Citigroup, JP Morgan Chase, and Northern Trust. So devastating are the withdrawals that NZAMI has suspended its operations. Countless more U.S. firms have cancelled their diversity, equity, and inclusion (DEI) initiatives. A partial list is provided in Table 1 below. Some firms are adjusting wording or de-emphasizing DEI, while others are making substantial changes. Meta and McDonald's dropped representation and hiring goals and suspended diversity pledges from suppliers. Meta also dropped diversity training and eliminated their DEI group. Target, McDonald's, and others will no longer participate in the Human Rights Campaign Survey. Tractor Supply will "stop sponsoring nonbusiness activities like pride festivals and voting campaigns" (Tractor Supply Co., 2024, para. 7) and withdraw its carbon emission goals. All of these efforts should reduce ESG scores for these firms.

Investor sentiment may have also changed. In 2020, an estimated $15 trillion was invested in ESG mutual funds in the U.S. Beginning in the 1st quarter of 2022, Morningstar reported outflows from funds in their sustainable index. In 2024, those outflows totaled more than $19.6 billion, up nearly 50% over 2023 (Bioy, 2025). Traditional funds experienced $740 billion in inflows in 2024. Moreover, Morningstar reports a median return of 20.7% in 2024 for sustainable funds versus 24.1% for the U.S. Market Index. In 2023, Morningstar's U.S. Market Index also outperformed its Sustainability Index by 26.4% to 24.4%. In 2024, the number of sustainable funds dropped 9% (Bioy, 2025). These outflows in the U.S. contrasted with inflows from Europe.

Table 1. Firms rolling back DEI initiatives in 2024–February 2025

No.	*Firm*	*No.*	*Firm*
1	Meta	13	Pepsi
2	Google	14	Deloitte
3	Amazon	15	Harley Davidson
4	Walmart	16	John Deere
5	Boeing	17	Caterpillar
6	Toyota	18	Tractor Supply
7	McDonald's	19	PayPal
8	Ford	20	Accenture
9	GE	21	Comcast
10	Target	22	Lowes
11	Coors	23	Chipotle
12	Jack Daniels	24	Dekker

Source: Murray and Bohannon (2025).

The legal landscape in the U.S. has changed as well. In 2023, the U.S. Supreme Court ruled that universities that consider race in admissions violate the 14th Amendment to the U.S. Constitution, barring discrimination on the basis of race (*Students for Fair Admission v. President and Fellows of Harvard College*, 2023). Whereas the case did not address considering race in hiring, there is a question whether colleges can consider race in college admissions, a firm cannot consider race in selecting employees or recommending board members. More directly affecting ESG programs was *Spence v. American Airlines, Inc.* In this 2024 case, the district court ruled that American Airlines Pension violated its duty of loyalty under ERISA when selecting BlackRock to manage its pension fund. ERISA is the law governing pensions, and it requires that investment managers consider only the interests of pension plan participants when making investment decisions. In this case, the judge held that employing an investment firm (BlackRock) that indicates a commitment to promoting ESG violates the requirement to consider only the financial interests of the pension participants. The decision relied on various statements from Blackrock's CEO, Larry Fink, such as his 2019 letter to CEOs in which he declared that firms "must contribute to society" or risk losing the support of the World's largest asset manager (*Spence v. American Airlines, Inc.*, p. 30). Finally, a lawsuit was filed in 2025 against Target for failing to disclose the risks of ESG programs, causing consumer boycotts (*City of Riviera Beach Police Pension Fund v. Target Corporation*, 2025).

Whereas the growing backlash in the U.S. is undeniable, outside the U.S., this development may be puzzling as the European Union moves toward more extensive mandatory reporting. The primary concern among U.S. critics of ESG is that it imposes liberal political policies on corporations at the expense of shareholders and does so in a coercive manner. Further, the ill-defined mix of reporting standards, measures, and scores encourages "greenwashing" and reduces accountability for financial performance.

2.4. Why the backlash?

Evidence on CSR suggests that the preferences of corporate leaders drive decision-making and do so at the expense of shareholders. For example, Di Guili and Kostovetsky (2014) found that S&P 500 firms with Democrats as CEOs and operating in Democrat-leaning states invest $80 million more (approximately 10% of net income) in CSR initiatives than those with Republican CEOs and operating in Republican-leaning locations. This suggests that the political preferences of the leadership affect CSR decision-making. They further found that increases in CSR scores are associated with negative stock returns and declines in ROA. Critics contend that a similar relationship may drive ESG investment.

Additional research demonstrates that commitment to ESG is not associated with improved environmental or social performance. Raghunandan and Rajgopal (2022) found that firms in ESG portfolios have lower compliance with environmental and labor regulations. Similarly, firms committed to supporting the UN PRI earn worse ESG ratings and experience lower financial performance and higher risk than those that do not (Brandon et al., 2022). Furthermore, eight of the 10 largest ESG funds in 2019 invested in oil and gas (Pollman, 2024).

Whereas the evidence regarding ESG scores and financial performance is mixed, Hartzmark and Sussman (2019) found that investment funds with low sustainability ratings outperform those with high ratings. Lopez-de-Silanes et al. (2019) examined ESG scores of firms outside the U.S. and found no evidence of positive risk-adjusted performance. Porter et al. (2019) conclude that "despite countless studies, there has never been conclusive evidence that socially responsible screens deliver alpha" (para. 1). Flugum and Southern (2025) found that firms failing to meet earnings expectations highlight commitment to ESG in earnings calls, whereas those that beat expectations highlight performance. Bhagat (2022) concluded that "funds investing in companies that publicly embrace ESG sacrifice financial returns without gaining much, if anything, in furthering ESG interests" (para. 9).

Finally, concerns have been raised regarding coercive tactics used to promote ESG. S&P Global included ESG scores in credit ratings while selling ESG evaluation services to clients. Larry Fink at BlackRock noted that you have to force behavior, and at BlackRock, we are forcing behavior (New York Times Events, 2017). BlackRock has been accused of using the market power of its $11 trillion funds to pressure management to adopt ESG investment and reporting. For example, in *Spence v. American Airlines, Inc.*, the decision noted that BlackRock owned 5% of American Airlines and held $400 million in its debt, which could impose damaging carbon emission standards on the firm through proxy fights, which created a conflict of interest in supervising their management of pension assets. Furthermore, the firm hired to monitor BlackRock's pension management was AON, whose largest shareholder is BlackRock.

Larcker et al. (2022) noted conflicts of interest in ratings firms that sell consulting services to the firms they rate. Consequently, the author concluded that the independence of the ratings is compromised. Pollman (2024) provided evidence that vendors of ESG ratings give higher scores to firms connected through institutional ownership.

In conclusion, concerns that ESG scores are not predictive of alternative rating agencies' ESG scores, lack a clear relationship to corporate financial performance, and do not necessarily reflect actual commitment to ESG goals all provide the basis for the growing backlash against ESG initiatives. We contend that many of the concerns regarding ESG stem from the failure to align ESG initiatives with the strategic interests of the firm. Utilizing the RBV of the firm, we provide a strategic framework for evaluating ESG initiatives and their impact on value creation.

3. METHODOLOGY

This section presents the methods utilized in this research. Following Grove et al. (2024), we reviewed the literature on ESG measurement and the link with financial performance. This review revealed that despite significant attention in both academic research and the popular press, there is still no consensus on the impact of ESG on firm value.

We further review and document the literature describing the waning interest and backlash to ESG in the U.S., utilizing press releases, court cases, as well as articles from the contemporary press. This review provided insights into the multifaceted criticisms regarding its effectiveness in creating long-term value, transparency, cost implications, and potential for politicization.

Finally, we reviewed the theoretical foundations of stakeholder theory, CSR, as well as the RBV of the firm. We identify four approaches to ESG. The RBV is then applied to each category to determine its potential to create and sustain a competitive advantage.

There are other alternative methods that could be used for this type of study. These may include, but are not limited to, surveys and interviews with managers and executives. Gaining direct insight into their perspectives could help clarify how companies use ESG to build long-term competitive advantage and which types of ESG investments may, in fact, destroy value.

4. RESULTS AND DISCUSSION

4.1. Strategies for increasing environmental, social, and governance scores

In this study, we identify four categories of ESG strategies: "greenwashing", "borrowed virtue", "bureaucratic ESG", and "strategic ESG". This is not meant to be an exhaustive list of possible approaches to ESG, but describes approaches identified in the literature and are familiar in practice. Greenwashing involves exaggerating commitment to ESG by making investments that distract from significant corporate failings or inflate progress on ESG goals. This would include advertisements that mislead on carbon emissions or winning "best employer" awards, for example, or create an apparent commitment to ESG while engaging in inappropriate labor practices. These investments serve to create the impression that the firm is a "good corporate citizen" while engaging in unethical or illegal business practices. The observation that firms scoring highly in ESG violate employment and labor laws more frequently is an example of how common this practice may be. Enron would be the ultimate example of greenwashing. Enron invested heavily in a variety of community organizations while engaging in egregious financial fraud.

There are numerous current examples of greenwashing that concern environmental sustainability. H&M, a fast-fashion multinational retailer, faced greenwashing accusations in 2022. Although it claimed sustainability commitments, such as using recycled materials and launching eco-friendly clothing lines like its "Conscious Collection", it faced criticism for greenwashing, labor practices, and the environmental impact of its fast-fashion model. Such misleading marketing has eroded consumer trust, with many now skeptical of corporate sustainability claims. Feghali et al. (2025) offer a thorough review of the literature on greenwashing and conclude that this practice is pervasive and is receiving increased attention from scholars regarding its antecedents, consequences, and efforts to mitigate it.

A second group engages in "borrowed virtue" ("The good company", 2005). These firms use shareholders' money for ESG purposes to promote the personal political or social values of top management or other stakeholders, to buy prestige for top management, or to create opportunities for top management. Investments in ESG may lead to invitations to serve on prestigious boards, to be invited to high-status gatherings, or to raise their visibility in international organizations. The virtue of these investments is "borrowed" because it is funded with shareholder resources rather than the personal resources of top management. To an extent, the "borrowed virtue" ESG strategy is simply a perquisite for top management or other employees. "Borrowed virtue" may, in fact, increase commitment to ESG goals, but does so for the benefit of top management or other stakeholders rather than shareholders. As an example, while Disney's opposition to Florida's Parental Rights in Education law may have strengthened employee morale and DEI commitments, it risked alienating customers and investors by entangling the company in political and legal conflicts that had financial repercussions. Additionally, the prolonged legal battles and negative media coverage distracted from Disney's core business and may have influenced its stock underperformance, frustrating shareholders looking for financial stability and growth.

"Bureaucratic ESG" seeks to minimize ESG reporting costs to gain access to capital or meet other regulatory requirements. This is "box checking" to meet some government or other requirement. The goal of Bureaucratic ESG may be to attract capital from BlackRock or to meet some international reporting requirements regarding ESG with as little investment as possible. Often, it involves recasting current investments and activities as advancing ESG. The intent is to do the minimum to appear responsive to expectations regarding ESG without making changes to operations. The flexible and vague ESG standards and measurements, and the vast number of initiatives that can be considered advancing ESG goals, facilitate efforts to appear to be responsive to ESG considerations while doing very little.

El Ghoul et al. (2025) found that signees to the 2019 BRT Statement on the Purpose of a Corporation engaged in more tax avoidance behavior than other publicly traded firms. There was also no evidence that they adjusted their behavior after signing on. Bebchuk and Tallarita (2022) reviewed corporate documents from 128 corporations that signed on to the BRT Statement. The firms signing this statement indicated in proxy statements and other documents that the commitment to the BRT Statement required no change in governance practices. Ultimately, they concluded that: "Overall, our findings support the view that the BRT Statement was mostly for show and that BRT companies joining it did not intend or expect it to bring about any material changes in how they treat stakeholders" (p. 1031).

Clearly, greenwashing, borrowed virtue, and bureaucratic ESG do not offer the potential to gain a competitive advantage or sustain superior performance. Although Bureaucratic ESG involves modest investments relative to Greenwashing or Borrowed Virtue, it typically reduces firm value less than these other two approaches. Since each of these approaches can increase ESG scores but not improve performance, the use of these strategies introduces noise into research attempting to link ESG investment to financial performance. To the extent that these approaches to increasing ESG scores are common, it is unlikely that any definitive links can be detected between ESG and financial performance.

The prevalence of these approaches to ESG underlies the current backlash against ESG in the U.S. Indeed, the *Spence v. American Airlines, Inc.* decision notes that ESG must not "pursue a non-pecuniary interest as an end in itself rather than a means to some financial end" and "there must be a sound basis for characterizing something as a financial benefit" (p. 27) to comply with the requirements of the duty of loyalty to shareholders or pension beneficiaries. We argue that "strategic ESG" can offer a sound basis for financial benefit under limited circumstances.

4.2. Strategic environmental, social, and governance

"Strategic ESG" involves meaningful investments that leverage core capabilities. We rely on the RBV of the firm (Barney, 1991) to evaluate the potential of an ESG strategy to create value and develop a theory identifying the specific requirements of ESG initiatives for adding shareholder value. We argue that greenwashing, borrowed virtue, and bureaucratic ESG lack that potential. We recognize firms may invest in ESG initiatives for reasons other than sustaining superior financial performance, but we are concerned here only with the circumstances under which they can. Grove et al. (2024) similarly observe that investments in ESG should be monitored for "strategic alignment".

Investments in ESG that offer the potential to sustain a competitive advantage and superior financial performance must meet the same criteria as any other investment. In discussing the RBV of the Firm, Barney (1991) argues that economic profits are generated by leveraging rare, imperfectly imitable, and non-substitutable resources. Strategies that have the potential to sustain economic profits for the firm and superior financial performance must use these resources to create and appropriate value. Initiatives that do not leverage rare, imperfectly imitable, and non-substitutable resources can be copied, resulting in competitive parity rather than competitive advantage. Consequently, these imitable initiatives will not allow the firm to appropriate the value created.

Several authors have linked RBV to stakeholder theory and investments in CSR (Barney, 2018; Freeman et al., 2021; Barney et al., 2010). Freeman et al. (2021) argue that to sustain a competitive advantage, a firm must sustain access to resources controlled by stakeholders other than shareholders. Therefore, responding to the preferences of these stakeholders is critical to financial performance. To the extent that firms invest to sustain access to resources controlled by stakeholders other than shareholders, they are engaging in shareholder value maximization. Where stakeholder theory, as described by Freeman et al. (2021), collides with RBV is the suggestion that a firm should expend resources for the benefit of non-shareholders at the expense of shareholders.

Barney (2018) argues that shareholder value maximization as a goal neglects the fact that stakeholders other than shareholders may be residual claimants. Finance theorists have long argued that the role of management is to maximize shareholder value (Jensen & Meckling, 1976). The logic is that shareholders are residual claimants. That is, they guarantee the implicit and explicit contracts with all other stakeholders and receive the residual, i.e., the remaining profits, if any. Therefore, the goal of the firm is to maximize the expected value of the stream of residuals. To do so, the firm must sustain access to critical resources provided by a variety of stakeholders. Barney (2018) noted that shareholders are not the only residual claimants and, therefore, these non-shareholders residual claimants' interests need to be considered. For example, some employees receive compensation in the form of stock or options, or receive bonuses tied to the stock price or profits. Some providers of technology or marketing resources receive their compensation in whole or part based on the profits they generate for the firm. Entrepreneurs who sell their business often receive some of the purchase price as "earn-outs". Therefore, a more complete view of RBV requires consideration of the interests of these other stakeholders.

While consideration of the interests of non-shareholder residual claimants is critical, it is important to note that they share shareholders' interest in maximizing the present value of the stream of future residuals. As Barney (2018) notes, they may have a higher discount rate for the stream of residuals than shareholders due to their limited diversification. They, however, share shareholders' interest in seeing that resources are not expended to benefit non-residual claimants at the expense of residual claimants. Barney's (2018) discussion of the integration of the RBV and stakeholder theory suggests that investments in ESG must increase the residual cash flows of the firm, sustain superior financial performance, and meet the strategic goals of the firm.

Barney et al. (2010) argue that the investments in CSR can add value by linking the provision of public goods to the sale of private goods (or the cost of providing private goods). According to these authors, "strategic CSR" investments allow the firm to earn a price premium or to access complementary resources necessary for production at a lower cost than competitors. Customers may pay a premium for a product, for example, because the firm providing the product has a reputation, brand identity, or product features reflecting their social, ethical, or political preferences. Investment in ESG initiatives certainly may meet this criterion. A firm with a reputation for producing "green" or "healthy products", investing in the community, supporting political or social causes, reaching out to underserved communities, and treating employees with dignity may all provide motives to pay a premium for a product or service.

Similarly, ESG investments may allow access to resources at a lower cost than competitors. Potential employees may prefer to work for a firm that reflects their values and may do so for a lower salary than for a firm less committed to their shared values. Additionally, they may contribute more of their talent, resourcefulness, and energy to a firm that reflects their values (Barney, 2018). The argument that commitment to ESG goals reduces risk may also provide access to capital at a lower interest rate. Although, as had been mentioned previously, Target is being sued by investors who argue that their commitment to ESG increases firm risks due to the threat of boycotts (*City of Riviera Beach Police Pension Fund v. Target Corporation*, 2025).

Clearly, investments or management practices that advance ESG goals may provide value to stakeholders and other resource providers. According to RBV, however, these investments must meet two requirements to provide sustained improvements in financial performance. First, the value to customers or resource providers must exceed the cost of advancing ESG goals. Second, these investments must be imperfectly imitable for the firm to appropriate some of the value created. A potential employee may be willing to work for a firm at a lower salary or invest more enthusiasm and effort because the firm promotes values they share. If multiple firms also promote those values, they do not have to accept a discount because the price of their services will be bid up by competing firms. The only way a firm can acquire access to resources at a discount through ESG investments is if those investments advance ESG goals in a way that cannot be duplicated or duplicated at a similar cost. If ESG efforts are imitable, then the resource provider will capture the value created rather than the firm.

The first requirement, that ESG investments create more value for stakeholders than the cost, may be difficult to assess. First, not only must the firm make investments that advance ESG goals, but stakeholders must be aware of those investments and have evidence that they advance ESG goals. ESG scores generally do not provide evidence because they may be the result of "greenwashing" or "bureaucratic ESG". Inconsistent and opaque ratings also create ambiguity for stakeholders. More significantly, ESG commitments are not aggregable and may advance certain ESG goals at the expense of others. Windmills reduce carbon emissions and displace wildlife. Whether that provides a net benefit depends on the weight placed on these factors. Assessing the value created by ESG initiatives is also complicated by the heterogeneous preferences of customers and other stakeholders. Target, Disney, Tractor Supply, InBev, and others have experienced costly boycotts from ESG initiatives that may be supported by employees or investment firms, but are offensive to customers.

The second requirement for ESG initiatives to offer the potential to sustain a competitive advantage is that they are imperfectly imitable. ESG investments may have the potential to defend against imitation if they leverage rare, inimitable, and non-substitutable resources, according to RBV (Barney, 1991). Examples of these resources include proprietary information, proprietary and legally protected technologies, monopolistic access to natural resources or real estate, reputation or brand identity developed over time, a unique founder, or socially complex resources such as culture (Barney, 1991; Rumelt, 1984). ESG initiatives that add to the stock of such resources by enhancing brand image, reputation, or culture may also add value.

Imitable investments may increase ESG scores but do not provide a basis for competitive advantage or sustained superior performance. Adding demographic diversity to a board of directors, for example, is imitable and unlikely to be a source of sustained competitive advantage. Reducing carbon emissions by outsourcing manufacturing may also increase ESG scores, but is imitable and does not provide a basis for sustained competitive advantage. Investments in advertising, merchandising, or charity to demonstrate support for various social or political values (whether they support gender issues or disabled veterans) are also generally imitable and typically do not provide a basis for sustained competitive advantage. Even though these types of activities may be valuable to customers, employees, or other resource providers, these stakeholders will not pay a premium for the product or provide resources at a discount if multiple firms provide the same benefits at a similar cost. Only if these initiatives can provide benefits at a lower cost than competitors or benefits that cannot be duplicated will the firm appropriate some of the value of these initiatives.

A firm providing disaster relief benefits using proprietary technology or exploiting an advantageous location may provide social benefits that cannot readily be duplicated. For example, Walmart has a history of leveraging its supply chain logistics to aid in disaster relief, and John Deere has contributed to disaster relief by providing equipment and expertise essential for recovery efforts. Starlink, a satellite internet constellation operated by SpaceX, has played a crucial role in disaster response by providing reliable internet connectivity in areas where traditional infrastructure is compromised. Research has found that companies that contribute during disasters often experience significant benefits, particularly in terms of branding (Bhattacharya et al., 2009), reputation, and customer loyalty.

5. CONCLUSION

Commitment to ESG in the U.S. has dropped dramatically in the last two years. Critics charge ESG advances a particular political and social agenda at the expense of shareholders. The mixed empirical results linking ESG to financial performance, the ambiguity of the definition of ESG, the inconsistency of measurement, and the prevalence of "greenwashing", "bureaucratic ESG", and "borrowed Virtue" have fueled these concerns and sustained the backlash. We contend that much of the backlash is due to firms not generally engaging in ESG initiatives that advance the strategic interests of the firm. This study relies on the RBV to explore the circumstances under which commitment to ESG can provide a sustained competitive advantage and sustained superior financial performance. We argue that for ESG initiatives to be strategically valuable, they must create value for stakeholders above their cost, and they must be imperfectly imitable. Further, we argue that for ESG initiatives to be imperfectly imitable, they must leverage rare, inimitable, and non-substitutable resources that the firm controls.

An implication of this study is that very few firms adopt ESG strategies that have the potential to improve financial performance. An additional implication is that the potential of ESG to add value cannot be captured by a single ESG score that aggregates hundreds of measures. This suggests that efforts to associate ESG scores with positive financial performance are misguided. Future empirical research would benefit from isolating strategically robust ESG investments before assessing the impact on financial performance.

We further conclude that firms would benefit from evaluating ESG programs not as a defensive response to external demands, or an extension of management's personal preferences, but using the same criteria that all strategic investments must meet. Some may argue that firms should pursue ESG goals regardless of whether they lead to sustained superior performance. Investing in ESG goals may, in fact, provide positive externalities even if the firm does not appropriate some of these benefits. Indeed, in Europe, that may be the prevailing view. It is important to note that investing in ESG to the benefit of external stakeholders at the expense of shareholders is the basis for legal challenges and the retreat from commitment to ESG in the U.S.

Future research can assess empirically the prevalence of each of the four categories of ESG we identified. A rigorous analysis of the association between each category of ESG and financial performance would also advance the knowledge in this field. For policymakers, our results suggest that broad mandates focused on ESG reporting may be misguided as they fail to distinguish superficial or misleading initiatives from strategically significant ones. However, we understand that there are limitations to this type of research. Specifically, measuring ESG performance as well as operationalizing "strategic ESG" may be particularly challenging for researchers.

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