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Navigating the Continued Politicization of Sustainability

Addressing Anti-DEI Sentiment

By Chad Spitler, January 2025

As expected, the new U.S. administration has mounted a number of challenges to sustainability efforts since President Trump took office. These efforts sit alongside recent decisions from both the Supreme Court and lower courts that have cleared a path for legal challenges to sustainability programs, like diversity, equity and inclusion (DEI) initiatives, over the last year. DEI is a critical component of sustainability because a diverse range of perspectives are required to solve the world's most complex challenges.

Some companies and investors have already started to reposition their ESG initiatives (like Meta and Target), while others have doubled down on their efforts (like Costco and Apple). The majority of U.S. companies have not issued statements nor made mention of changes to their existing programs.

For companies trying to navigate today's political environment and answer to key stakeholders, we are here to offer some insights on how to both consider the macroeconomic environment and adhere to your own values and goals.

To help companies reflect on their positioning, we've provided an overview of the issues at hand and our thoughts on how to approach navigating these choppy waters. We hope these insights are helpful.

An Overview of Market Events and Impacts to Date

1. The new U.S. Federal Administration has vocally expressed concerns with ESG and DEI programs, citing the following arguments and actions:
    a) ESG is not focused on financial value but instead is an imposition of other people's values, intended to make environmental or societal change.
        I. *Our perspective: ESG is a financial framework to understand how these factors correlate with financial performance.*

b) DEI as a practice is discriminatory, resulting in certain groups being favored over others based on demographics (instead of merit).

i. *Our perspective: DEI is a valuable approach to attract and hire people with different strengths that make organizations more successful.*

c) The primary action to date has been an executive order eliminating DEI positions throughout the Federal government or potentially funded by the government.

2. As a result of these concerns, both sides of the capital markets are fearful of:

a) Losing government contracts or funding
b) Receiving shareholder activism
c) Facing consumer boycotts or losing customers
d) Being sued
e) States implementing regulations in conflict with the federal government

3. To mitigate this fear, we are seeing companies and investors fall into three categories on ESG/DEI:

a) Leaders that believe in ESG/DEI's financial value are standing strong.
b) Companies that are pulling back on ESG/DEI, who may be at risk of losing credibility and alienating stakeholders (these businesses may be consumer-facing and dependent on consumers within Trump-strongholds).
c) Companies that are in the middle on the issue, reframing initiatives as they work to appease both ends of the spectrum and stay out of the fray.

Our Recommendations

Our advice to clients, first and foremost, is to continue reporting but also to reflect upon which category you may fall in and your unique situation. It may be helpful to draw upon your own sustainability governance structures to drive this decision, to ensure that it is considered strategically, and all parties have weighed in and are aware of the outcome.

We expect that many of our clients will either stay the course and publicly reaffirm their commitments or try to stay out of the fray by updating their language and making cosmetic changes. For those who operate in more partisan areas of the country, this may make sense, especially for those selling directly to consumers.

Beyond thinking critically about your own goals, here are a few other concrete actions below that might help your team consider what is best for your business and to avoid being targeted in this environment:

1. Review the language in your ESG, DEI and sustainability-related policies to clarify key nuances like value vs. values, vs. impact. Be precise in your communications and revise your policies (where needed) to ensure that they are aligned with your business strategy and focused on long-term financial value creation.
    a) Craft new narratives reframing terms and acronyms to more accurately describe their objectives. Distribute these narratives through communication channels like websites, annual reports, proxies, sustainability reports, and internal communications.
2. Evaluate ESG, DEI, and sustainability initiatives, procedures, and programs to ensure they meet the objective of financial value creation, driving long-term financial resilience and performance.
    a) Draw upon materiality assessments to reinforce that your sustainability priorities are aligned with stakeholder views.
3. Assess what your competitors are doing and integrate that into your decision-making.
4. Continue to identify potential impacts and innovations on the business model from macro-trends like DEI and climate; understand how these trends may have implications for long-term strategy and financial value creation.

A Final Note

Our last piece of advice for clients is to continue reporting, with an even sharper focus on communicating the topics that are critical to your investors. It will be more important than ever to make the link between your approach to ESG and long-term value creation.

For those who decide to reposition your commitments – it's essential to have a communication strategy in place to avoid backlash from other stakeholder groups. It would be short-sighted to appease one stakeholder group while alienating another.

No matter what your company decides, staying connected and being transparent in times of change is crucial for maintaining stakeholder trust, confidence, and credibility. Clear and concise disclosures help investors understand your long-term strategy, risk management, and plans for financial returns through business cycles. These messages, though they may be slightly adapted, should remain core to your corporate governance communication strategy.

Sustainability is an essential framework for driving long-term financial performance through risk mitigation and innovation. We expect sustainability efforts to continue to become integrated into core business strategies far beyond today's headlines

If we can be helpful as you consider how these insights will affect your business, please don't hesitate to reach out to your Third Economy team.

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