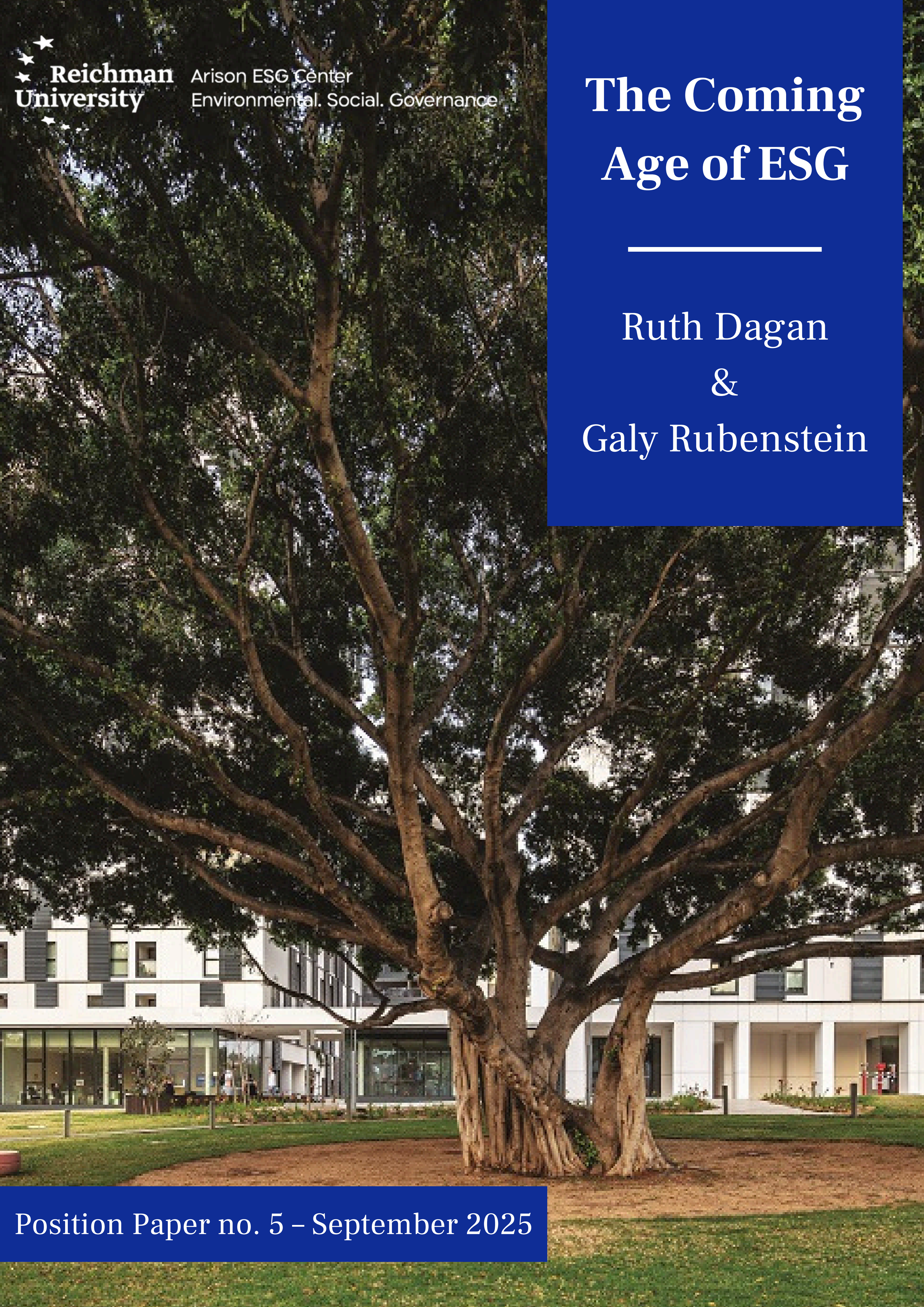

Reichman University
Arison ESG Center
Environmental. Social. Governance

The Coming Age of ESG

Ruth Dagan
&
Galy Rubenstein

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Dr. Ruth Dagan

Reichman University

Head of Climate Change and International Collaborations, Arison ESG Center.

Galy Rubenstein

Reichman University

Research Assistant, Arison ESG Center.

Abstract

It is undeniable that Environmental, Social, and Governance (ESG) policy frameworks have been experiencing significant headwinds across both the United States (US) and the European Union (EU). At first glance, it appears that governments are backtracking on sustainability regulation, corporations are withdrawing from net-zero and diversity, equity & inclusion (DEI) commitments, and decarbonization alliances are dissolving. However, the reality is more nuanced. In fact, many corporations are responding not by retreating, but by embedding ESG principles more deeply and incorporating them as intrinsic elements of their organizational infrastructure and decision-making processes.

This paper examines how corporations across diverse sectors of the economy are finding their way out of the current ESG vortex by effectively integrating ESG principles and practical tools into their internal risk management, capital planning, and regulatory compliance systems, while shedding traditional and, arguably, superficial ESG concepts.

Through a look at corporate greenhushing, shifts in EU disclosure mandates, and evolving C-suite priorities, it becomes evident that ESG is undergoing a strategic realignment toward embedded, substantive organizational practice.

Introduction

Over the past two decades, ESG principles have gradually evolved into a cornerstone of modern corporate strategy and investor priorities (Principles for Responsible Investment, n.d.). However, in recent years, strong criticism of ESG has emerged from within the business and investment sectors themselves, highlighting concerns over inconsistent standards, measurement challenges, and the difficulty of striking the right balance between ESG ambitions and financial performance (Abou-Jaoudé, 2023; Reuters, 2022).

Amid rising scrutiny and regulatory uncertainty in 2024 and early 2025, both the US and the EU have become engulfed in regulatory turbulence that has cast ESG policy frameworks into murky and uncertain waters. In the US, the return of the Trump administration has brought sharp anti-ESG rhetoric and, at times, aggressive deregulation, prompting corporate hesitancy and even instances of explicit backtracking on ESG policies and commitments. Meanwhile, the EU's evolving Omnibus Package raises questions about compliance, scope, and timelines of sustainability reporting obligations, with implications for both EU and non-EU companies (Kenza & Temple-West, 2025; Pankov & Ölmez, 2025).

A prominent illustration of the turbulence ESG is experiencing globally can be found in the downsizing of the Glasgow Financial Alliance for Net Zero (GFANZ), a coalition launched in 2021 to align the financial sector with net-zero emissions by 2050. By 2025, in the lead-up to Donald Trump's return to the US presidency, several of the largest US and Canadian banks, including JPMorgan Chase, Bank of America, Goldman Sachs, Citi, and Morgan Stanley, withdrew from the alliance. Their departure was soon followed by five of the six Japanese members and Australia's infrastructure financier, Macquarie (Goldhaber, 2025; Scott, 2025; UNEPFI). In July 2025, HSBC became the first major UK bank to exit the alliance, underscoring the increasing polarization around climate action in the financial sector (Simon & Furness, 2025).

Yet this paper argues that, amid this turbulence, the substantive premise of ESG is here to stay. While some financial institutions are retreating from climate alliances, international cooperation continues to advance. This trend is reflected, for example, in the International Maritime Organization (IMO) agreement on a legally binding framework to reduce emissions from global shipping. The plan sets limits on emissions and includes a system for pricing greenhouse gases. It is expected to be officially adopted in October 2025 and to take effect in 2027 (IMO, 2025). Equally significant is the direction taken by Norges Bank Investment Management. In its 2024 Climate and Nature Disclosures Report, Norges Bank affirms that environmental and climate-integrated finance is not a future aspiration but a present operational reality. The fund is applying AI-driven natural capital risk assessments across 96% of its $1.6 trillion portfolio, focusing on real-world environmental outcomes rather than corporate self-reporting. This approach signals a commitment to embedded, data-informed financial practices, underscoring that the essence of ESG is not being abandoned but rather redefined and institutionalized (Norges Bank Investment Management, 2024).

For companies and investors, this evolving ESG landscape means navigating uncertainty while doubling down on resilience, risk management, and long-term value creation. Across industries, senior executives and investors are reaffirming their commitment to ESG, not as a mere compliance exercise, but as a strategic imperative (PwC, 2025). As climate disruption becomes a defining feature of the global economy, investors are increasingly viewing climate-related risks as financial risks and incorporating them into standard investment analysis and fiduciary practices. In this evolving context, corporate ESG considerations continue to develop (Principles for Responsible Investment, n.d.).

This paper contends that ESG is undergoing a strategic decoupling from its branding. While political resistance has made the term itself contentious in several major markets, companies are embedding ESG principles more deeply into enterprise systems, often under different labels, but with greater permanence. In this emerging phase, ESG is less about external signaling and more about operational integration, risk management, governance, and the creation of long-term value.

A Strategic Commitment from the Top

It is apparent from the work of leading academic institutions and industry experts that, despite the mounting backlash over the past several years, ESG steadily remains on the boardroom agenda. A February 2025 report from the Harvard Law School Forum on Corporate Governance reveals that CEOs and senior executives continue to view ESG as a key lever for long-term value creation, not merely as a regulatory obligation. The report highlights a notable shift in tone: ESG is now closely integrated with core business strategy, stakeholder engagement, and organizational resilience planning. For example, decarbonization is increasingly understood not in isolation but as part of a broader strategic response to climate-related physical and transition risks. Accordingly, companies focus on energy technology innovation to integrate decarbonization efforts with cost management, supply chain security, and risk mitigation. From a social perspective, CEOs' considerations for meeting economic demand in the US and globally prioritize the integration of education for workforce development and competitiveness. In contrast, in the EU, labor conditions are prioritized as a top social factor, driven by robust regulation (Tonello, 2025).

The Harvard findings come on the heels of EY's April 2024 CEO Outlook Pulse Survey, which revealed that over half of CEOs globally (54%) view sustainability issues as a higher priority than they did 12 months prior. The survey also highlights that 77% of CEOs agree that sustainability issues will increasingly impact their supply chain and ecosystem partners, underscoring the pervasive influence of ESG factors across business operations. However, the survey does not yet reflect the subsequent debates and critiques that emerged later in the year (Guerzoni, Mirchandani & Perkins, 2024).

Further reinforcing this sentiment is PwC's 2025 State of Decarbonization Report. The report reflects the notion that businesses remain firmly committed to sustainability as a driver of long-term value and growth. This commitment is evident in the data: 37% of companies are increasing their climate ambitions, while only 16% are pulling back. At the same time, 83% are investing in R&D for low-carbon products and services, with sustainability-driven offerings delivering revenue gains of 6% to over 25% compared to standard alternatives. These commitments appear deeply embedded, as companies are maintaining their climate goals even through leadership transitions, signaling that sustainability is now a core, enduring element of corporate strategy. Furthermore, strong governance is emerging as a key factor in climate progress (PwC, 2025).

Together, these developments illustrate that ESG is not retreating; rather, it is evolving into a deeply integrated framework for managing financial, environmental, and social risks. Business leaders are embracing ESG as a practical strategy to enhance competitiveness, resilience, and long-term value creation in an increasingly volatile world.

Greenhushing: Strategic Silence or Subtle Persistence?

One of the more intriguing developments is the rise of "greenhushing," a term describing the deliberate downplaying of corporate sustainability initiatives. Particularly in the US, the enactment of over 40 anti-ESG laws since 2021 has created a complex and sometimes contradictory regulatory environment, making it challenging for companies to communicate their sustainability initiatives without facing potential political or legal repercussions. However, as the scholarly work of Hilton (2025) indicates—and as further supported by the Harvard Law School Forum on Corporate Governance report from July 2025—greenhushing is a corporate response to a complex environment and not an indication of withdrawal from ESG initiatives (Hilton, 2025; Wrobel & Fishman, 2025).

Another indication can be observed in the financial sector, where this silence does not imply a lack of action. As Scientific American reports, central US banks, including JPMorgan Chase and Citigroup, are quietly preparing for potentially catastrophic climate scenarios. These institutions are actively modeling risks, investing in resilience strategies, and conducting detailed climate planning, such as stress testing portfolios against various warming scenarios. These actions indicate that, even without using explicit ESG terminology, banks are incorporating climate considerations into their risk management and strategic planning processes (Hiar, 2025).

This behind-the-scenes activity marks a meaningful shift from external signaling to operational integration. ESG is evolving into a core element of enterprise risk management. Companies are investing in internal sustainability infrastructure, including greenhouse gas tracking, biodiversity assessments, and supply chain due diligence that extends beyond environmental data to include workforce transparency and labor practices. This shift from public signaling to operational integration reflects a broader transformation in how companies engage with ESG. Rather than treating ESG as a compliance requirement, firms are evolving along a continuum of strategic maturity (McGowan, 2025).

The more deeply ESG principles are integrated into corporate finance, governance, and risk systems, the more resilient and future-ready the organization becomes, and the less inclined it is to encapsulate ESG in a separately labeled corporate silo. This observation was made by Ludovic Subran, Group Chief Investment Officer at Allianz, in addressing Allianz's 20 Years of ESG Investing report (Allianz, 2025). EY's Europe Long-Term Value and Corporate Governance Survey, released in May 2025, supports this view, establishing that companies embedding ESG into their strategic decision-making experience higher board effectiveness and greater confidence in their long-term business outlooks. Furthermore, businesses that approach ESG as a cross-functional priority, rather than a mere reporting obligation, demonstrate stronger stakeholder alignment and improved operational performance (EY, 2025).

The Third Partners' Guide to Navigating ESG in 2025 for Mid-Market Companies, from April 2025, reinforces this momentum, noting that even amid political uncertainty, companies are transitioning from questioning whether ESG matters to implementing integrated practices that deliver measurable value and resilience, such as worker safety, energy efficiency, cybersecurity, and talent retention. In particular, they are strengthening the social pillar by focusing on employee well-being, diversity, and workplace safety as key drivers for attracting and retaining top talent in competitive labor markets (Haugen, 2025).

As companies progress along this continuum, ESG becomes less about language and more about embedded capabilities, a shift that signals its institutionalization across all dimensions of business.

The EU Omnibus Package: A Relaxation of Standards or a Strategic Step Forward?

Europe has long set the pace for global sustainability ambitions. Its latest initiative, the EU Omnibus Package, aims to streamline and recalibrate several key ESG-related directives, including the Corporate Sustainability Reporting Directive (CSRD). While some observers view these adjustments as a potential retreat in standards, legal analyses suggest otherwise. A March 2025 review by Harvard Law emphasizes that the revisions are designed to enhance implementation feasibility and legal clarity, rather than weaken the EU's broader sustainability agenda (Sasfai, Bichet & Eastwood, 2025). The strategic direction remains unmistakable: ESG and climate-related considerations are becoming structural features of the European corporate landscape. Notably, the new requirements extend beyond EU-domiciled firms, applying to varying extents to foreign entities operating within the region. As a result, US-based companies with European exposure must align with stringent disclosure and governance expectations, regardless of domestic regulatory sentiment (Tonello, 2025).

Crucially, the Omnibus Package creates space for firms to mature their ESG frameworks. For example, Schneider Electric, a French multinational operating across the US and Asia, has begun realigning its internal reporting infrastructure to comply with the CSRD and the forthcoming European Sustainability Reporting Standards (ESRS). Rather than viewing the Omnibus Package as regulatory softening, the company has framed it as an opportunity to streamline ESG disclosures across jurisdictions and strengthen investor confidence in its long-term sustainability roadmap (Schneider Electric SE, 2025).

Another illustrative example of ESG's enduring strategic relevance can be found in an April 2025 publication by the Harvard Law School Forum on Corporate Governance. It emphasizes the ongoing influence of the Corporate Sustainability Due Diligence Directive (CSDDD), despite the introduction of the EU's Omnibus Package. Adopted in 2024, the CSDDD establishes mandatory human rights and environmental due diligence obligations for large companies operating in the EU, including nearly 900 non-EU firms, many of them US-based multinationals. Although the Omnibus Package did not alter the scope of the directive, it did result in delays to specific reporting deadlines. Nevertheless, the requirements of the directive remain intact, and companies are encouraged to begin preparations early. They should also establish dedicated governance structures within their reporting teams to manage compliance risks effectively (Tonello, 2025).

The following framework outlines three distinct phases of ESG integration that can be identified across industries, based on the resources covered in this paper:

ESG Phase	Key Characteristics	Typical Language Used	Business Implications
Symbolic ESG	Public commitments, marketing focus, loosely connected actions	ESG, sustainability, purpose, values	High reputational risk if exposed as superficial
Compliance ESG	Disclosure-oriented, policy-led, regulation-driven	Materiality, CSRD, net-zero, due diligence	Reactive posture, moderate implementation costs
Embedded ESG	Integrated into strategy, finance, social policy, and risk management	Resilience, transition risk, climate metrics, worker safety, cybersecurity, talent retention	Integrated systems, long-term value creation, risk mitigation, enhanced competitiveness, stronger stakeholder credibility, and a future-oriented strategy

Table 1. Phases of ESG Integration

Conclusion: ESG's Strategic Inflection Point

Despite regulatory headwinds and politicized rhetoric, ESG is not in retreat; rather, it is evolving. Across industries and geographies, businesses are deepening their commitments to embedded, operationalized sustainability strategies.

The emerging trend is clear: ESG is shifting from a compliance-driven descriptor to a systemic component of enterprise architecture; one that underpins long-term corporate resilience, value creation, and the license to operate in a climate-constrained, stakeholder-driven world. We argue that this shift reflects a process of maturation rather than dilution or withdrawal.

Discussion and Future Research

This paper provides a snapshot of how ESG strategies are adapting under pressure; however, further research is needed to track this evolution in real-time. Future investigations could explore:

- **Sectoral variation:** How ESG integration differs across industries (e.g., energy vs. tech vs. finance) under regulatory uncertainty.
- **Language and positioning:** Empirical studies on corporate ESG language shifts (e.g., NLP on earnings calls or sustainability reports).
- **Greenhushing outcomes:** The risks and rewards of ESG silence; especially for investor relations, consumer perception, and regulatory exposure.
- **Performance correlation:** Data-driven studies on whether rebranded ESG strategies (i.e., without the label) deliver superior long-term returns.

As ESG continues to evolve beyond its original framework, understanding its institutional, financial, and communicative dimensions will be critical for corporations and investors navigating this uncertain terrain.

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