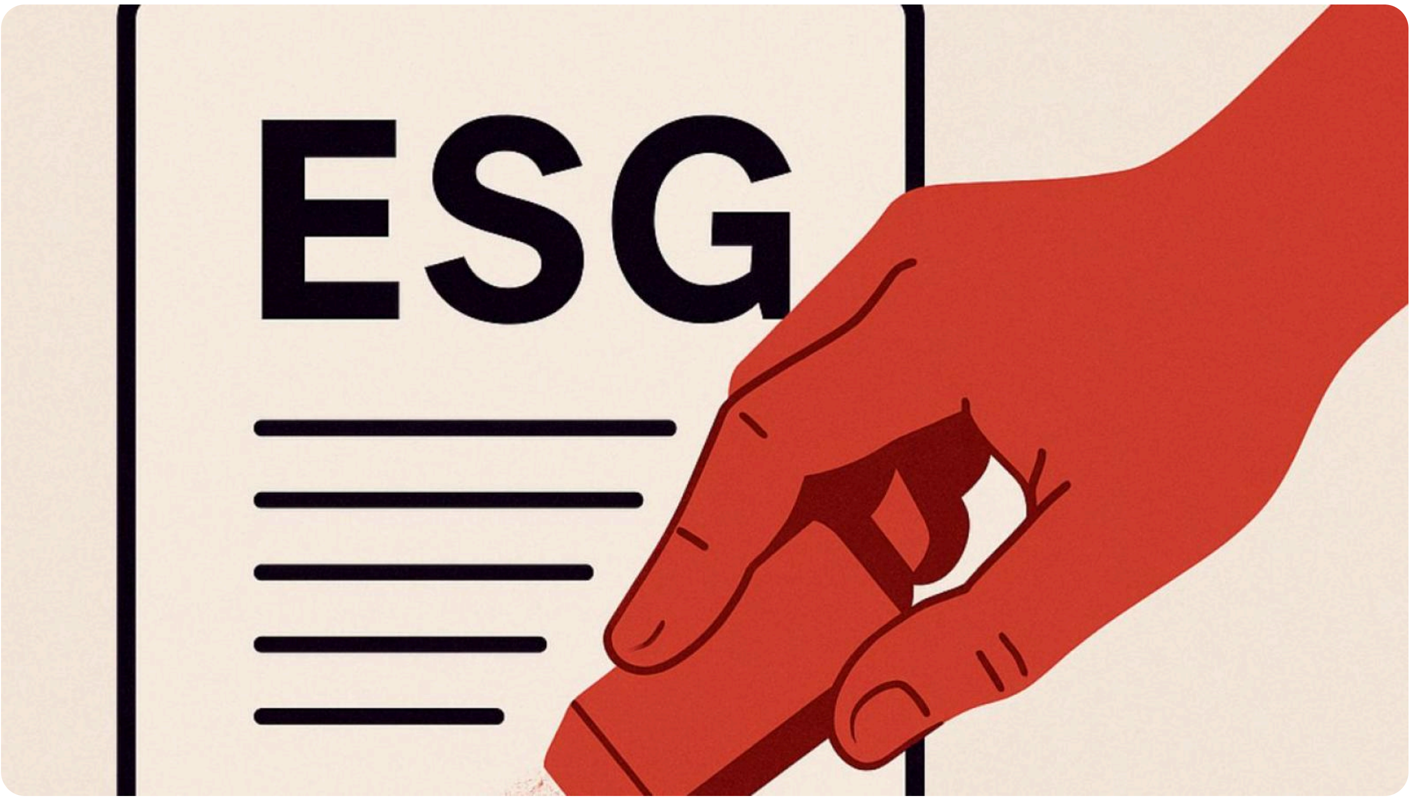

When the State Shapes the Vote


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Reading time: 5 minutes **Date published:** 17 Jun 2025

Supporting ESG proposals in states hostile to "woke capitalism" can invite backlash that affects both the firm and the investor.

Red State Backlash Against ESG

Let's talk about a financial giant, a Southern state, and the clash that says a lot more about American politics than you might expect. On March 27, 2024, Mississippi's Secretary of State made headlines by accusing BlackRock—the world's largest asset manager—of using "fraudulent and deceptive means" to push a political agenda through its ESG (Environmental, Social, and Governance) investment strategy. That's a bold accusation against a firm that manages trillions in assets. But this wasn't just about BlackRock. It was a shot across the bow in a larger war brewing between conservative state governments and institutional investors over the role of social responsibility in corporate America.

States like Florida, Texas, and West Virginia have already taken steps to pull public funds from BlackRock and other asset managers that promote ESG. Behind these efforts lies a deep concern: that socially responsible investing is threatening industries such as oil and gas, which form the economic backbone of many red states. But at a deeper level, this backlash signals something even more consequential—the rising influence of political polarization on how institutional investors operate.

What Our Research Shows

Our research, titled *"The Politicization of Social Responsibility,"* dives into this messy, politically charged terrain. We looked at how institutional investors vote on shareholder proposals related to social and environmental issues—everything from climate disclosures to human rights protections to gender equity policies. What we found is eye-opening: institutional investors are significantly less likely to support these proposals when the companies are headquartered in states with Republican leadership.

On average, SRI (socially responsible investing) proposals receive 4.1 percentage points less support at firms based in red states—a 13% drop from the baseline. That gap grows even wider for bigger firms and more visible investors—the ones more likely to get called out by the media or politicians.

This shift is not just a coincidence. In the U.S., state governments wield real influence over corporate outcomes through tax policies, subsidies, and regulations. That influence makes political alignment a material risk factor. Institutional investors appear to be adjusting their votes to account for these local political dynamics. When a company's home state is likely to punish ESG-friendly initiatives, investors pull back.

The pattern holds even within states over time. When a state switches from a Democratic to a Republican governor, institutional support for SRI proposals at firms in that state falls by nearly 10 percentage points. Proposal passage rates also decline—especially in close-call votes, where the governor's party affiliation often makes the difference.

Why Investors Hold Back

There are two main reasons why institutional investors might shy away from supporting socially responsible investing (SRI) proposals in politically conservative states—and both are rooted in self-interest.

The first is self-preservation. Investors understand Republican officials, particularly those overseeing massive state pension funds, have real power—both financially and rhetorically. By steering clear of controversial ESG initiatives, institutional investors may be trying to avoid becoming political targets. The logic is simple: staying under the radar protects reputations and helps preserve relationships in markets where ESG is often framed as a left-leaning agenda.

The second explanation is fiduciary duty. In red states, ESG proposals may carry real financial risk. Political leaders can—and often do—use their influence to penalize companies they believe are overstepping ideologically. That could mean revoking subsidies, tightening regulations, or otherwise making life difficult for firms perceived to be out of step with local values. For example, after Delta Airlines opposed Georgia's Election Integrity Act in 2021, the state House retaliated by ending a jet fuel tax break. A similar backlash occurred in 2018 when Delta cut an NRA discount after the Parkland shooting. In states where companies rely heavily on government support, these risks are amplified—and investors take notice.

Untangling whether investors are more motivated by fear of political backlash or by concerns for the bottom line isn't easy. It is likely that both factors matter. But our deeper analysis points to fiduciary concerns playing a particularly strong role. We tested this by examining data from the Subsidy Tracker, which details state-level business subsidies. In states led by Republican governors—especially those handing out generous corporate subsidies—we found a consistent pattern: institutional investors were significantly less likely to support SRI proposals. In other words, the more a firm depends on state support, the less likely investors are to risk rocking the boat with ESG votes.

Why This Matters

Our research adds a new layer to the growing body of work on how politics shapes markets. While past studies have shown that individuals and companies behave differently based on their political leanings, our findings show that even institutional shareholders—who are typically thought to act with financial objectivity—aren't immune from political forces. In fact, state-level dynamics can meaningfully shift how they vote.

Navigating ESG today requires more than evaluating environmental or social risks—it demands political savvy. For investors, supporting ESG proposals in states hostile to "woke capitalism" can invite backlash that affects both the firm and the investor. For companies, the message is clear: state politics matter. A sustainability initiative praised in California might spark political pushback in Texas, especially for firms reliant on public subsidies or tied to powerful local stakeholders.

ESG has become a political fault line, not just a matter of ethics or climate risk. As polarization intensifies, institutional investors must balance financial responsibility with rising political pressures—there's no longer a neutral path.

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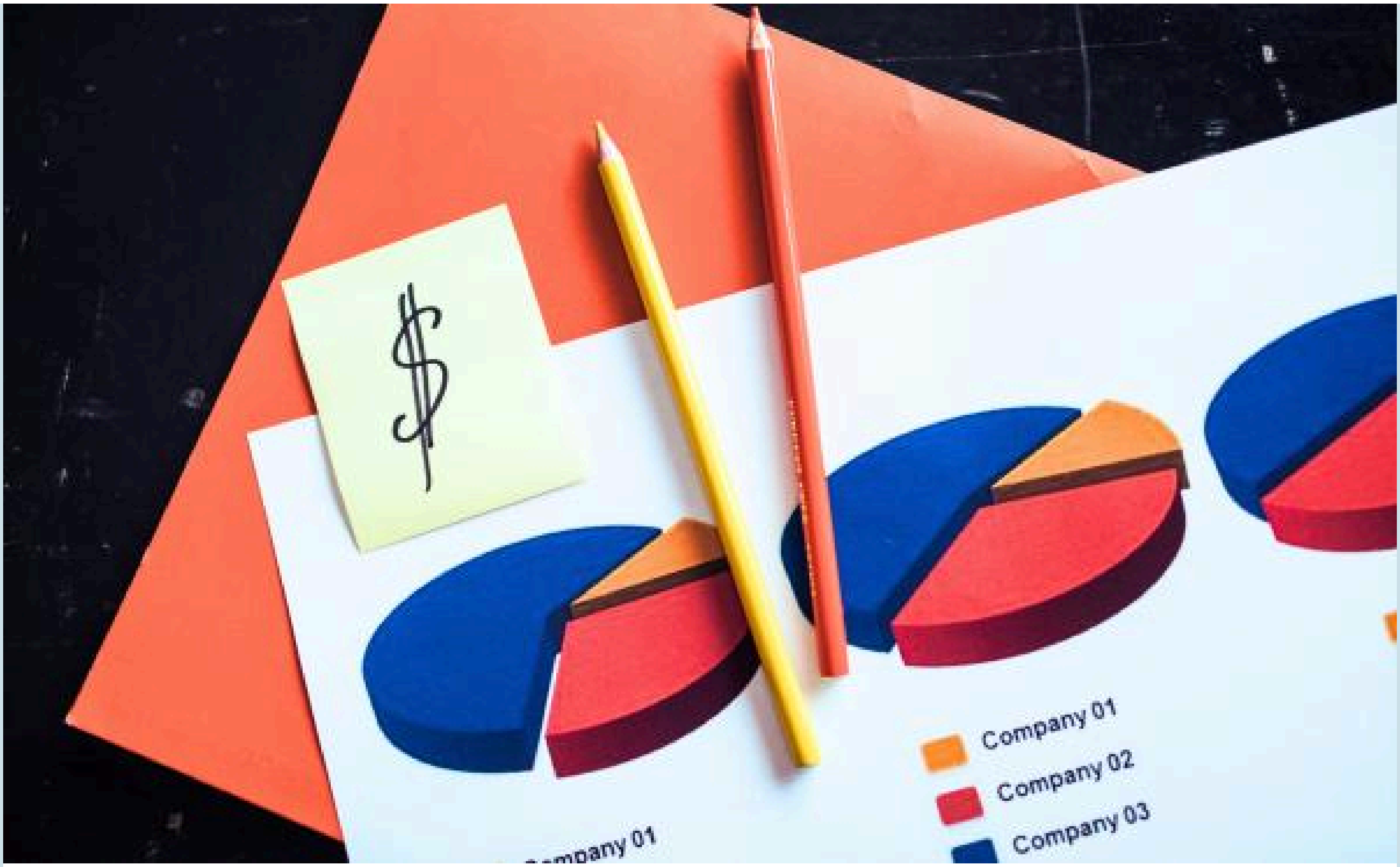

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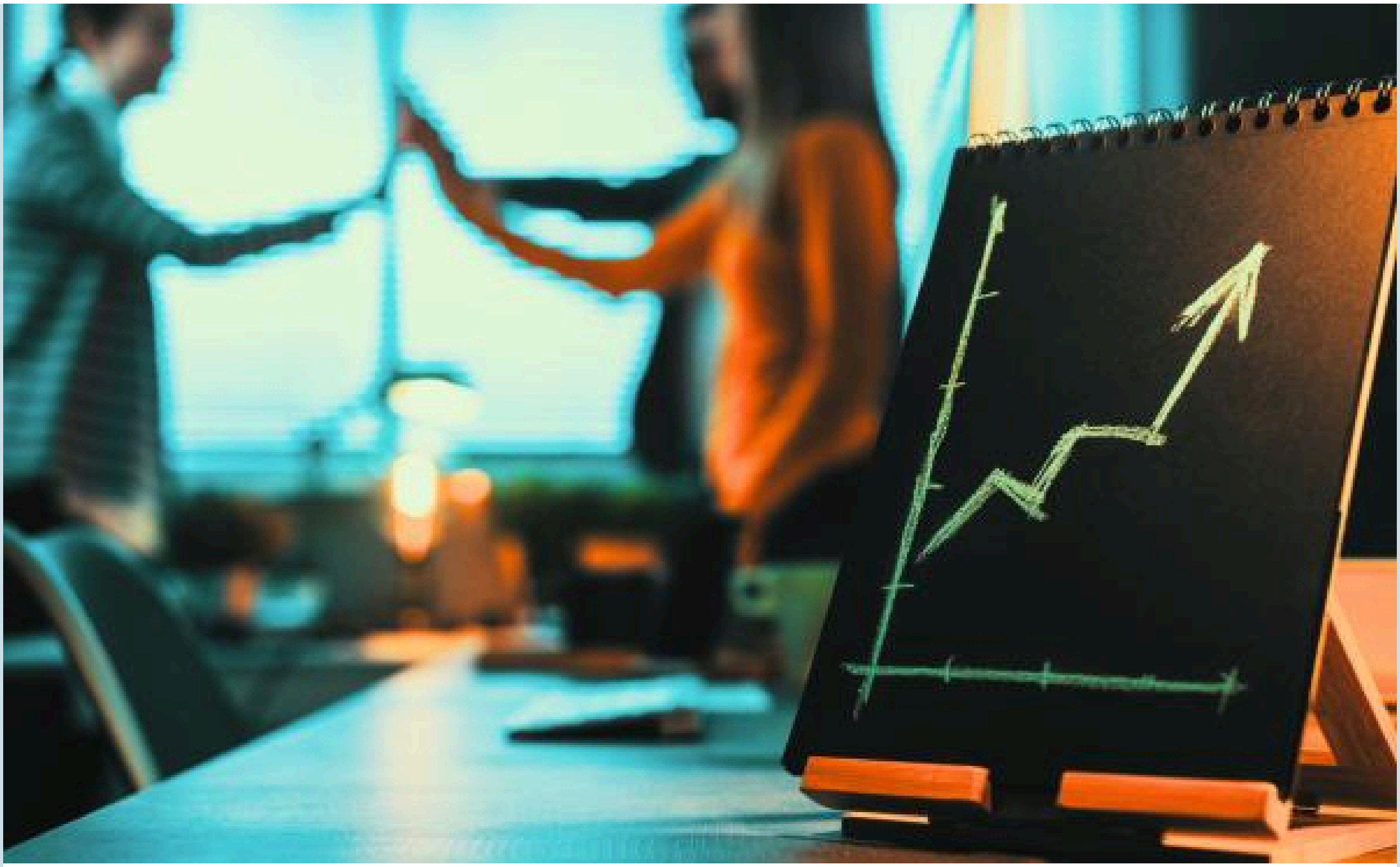

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