

# 1 Introduction

## 1.1 What Is ESG and How Is Peter Drucker Related to It?

*“It is a demand [of society] that the quality of life become the business of business.”*

(Drucker, 1986, p. 223)

*“The older I get, the more skeptical I become about all the promises of redeeming humanity through a society. I think that one of the essential experiences we have had in the last 50 years is that we have become increasingly disillusioned with ‘people’s happiness’ and increasingly convinced that there is no perfect society, only a bearable one.”* (Drucker & Paschek, p. 225)

Fifteen years of cascading crises<sup>1</sup> in the developed world have left its mark. Social cohesion is low, corruption is stagnant, inflation is high and trust in the “good” is vanishing (Edelman, 2023). Hence, it is unsurprising to see modern democracies becoming increasingly porous and their political discourse getting undermined by an uncountable variety of threats, such as populist politicians, fake news and a decreasing quality of political education.

The bottom-line is that *“the Disenchantment with Government”* (Drucker, 1986) is high (Kenny & Luca, 2020; Witt, 2018; Edelman, 2023) and people are – as Drucker (1986, p. 222) foresaw – *“increasingly*

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1 (2008: financial crisis, 2012: Euro/Greece crisis, 2015: refugee crisis in Europe; Ongoing: climate crisis, 2019: Covid-19 pandemic; 2022: Ukraine war).

look[ing] to other leadership groups, other institutions, and, above all, to business, to take on the problems which government should but is not able to solve.” Various reports outline that, particularly, the young members of society have high demands (or expectations) towards wealthy businesses and big corporations to tackle the most pressing issues of our modern society (Bertelsmann Stiftung, 2021; Havas Group, 2021; United Nations, 2022; Edelman, 2023). Such demands entail clear actions towards climate change, reduced inequalities (regarding gender, ethnicity and social class) and good health and well-being<sup>2</sup>.

In stark contrast to these demands, stands the infamous doctrine by Milton Friedman that “*the Social Responsibility Of Business Is to Increase Its Profits*” (title of Friedman’s article in the New York Times, 1970). The article was critical to the ideas that built the basis of business practice, leadership, policy, and business education for many years onwards. It stated: “*There is one and only one social purpose of business (...) to increase its profits so long as it stays within the rules of the game.*” (Friedman, 1970).

However, exactly this notion has been the reason for ever-increasing environmental harm, inequalities, social degradation, and mistrust. Why? Because it propagates that companies should increase profits by minimizing costs and reducing investment even if that involves employing people in precarious jobs, compensating below (or at minimum) living wage, polluting our world, and avoiding tax payments. Because the only restrictions are that companies shall not violate laws and regulations or incur public relation costs that outweigh the profits generated. The Friedman doctrine, and therewith its overarching role of the profit motive (not profitability), can be viewed as one reason why business enterprises are in a “*crisis of legitimacy*” (Paschek, 2008).

Today, in times of ‘Earth Day’, ‘Extinction Rebellion’ and ‘Friday’s for Future’ this mantra appears completely out of place. In fact, even academics from Friedman’s alma mater express that his doctrine ap-

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2 For a holistic overview of the world’s most urgent issues and their respective developments, I recommend to read the sobering, yet necessary, report of the UN on their Sustainable Development Goals (United Nations, 2022).

pears too narrow for the world we live in nowadays<sup>3</sup> (Merrick, 2021). The idea that Friedman's argument might be overly restrictive and too simplistic is not a recent revelation. Notably, Peter Ferdinand Drucker, a prominent management thinker of Friedman's era, offered his response to this perspective firstly in 1973. Drucker asserted that a manager's primary obligation is, in fact, to fulfill the corporation's purpose of generating profits, because “(...) *A bankrupt business is not a desirable employer and is unlikely to be a good neighbor in a community.*” (Drucker, 1986, p. 239). But according to Drucker's idea of social responsibility, economic performance (or profitability) is only the primary, yet imperative, responsibility of a business, but it is not enough. In his later book ‘Managing in a Time of Great Change’ (2009; first published 1995) Drucker states that every organization, for profit and non-profit alike, must assume full responsibility for whomever and whatever it touches and will increasingly be expected to tackle major social ills (Drucker, 2009, p. 61). Although the outline is still rough today on how organizations can be held responsible for “*whatever they touch*”, one fashionable acronym carries the narrative (not necessarily the reality!) to be part of the remedy for society's social and economic problems: E – S – G or in long Environmental, Social and Governance. And this acronym is backed by big money.

Over the last two decades ESG has risen from a niche term in the finance industry to a topic of public debate. Most recently, ESG has been in many crossfires when discussed within the political, financial, corporate and academic sphere. While its opponents accuse ESG to be ‘woke’ and merely a greenwashing exercise (Winston, 2023), its supporters have strong aspirations for ESG and believe that it will lead to a “*better world*” (Martel, 2021; MSCI, 2022; PwC, 2022). Unquestionably, ideas related to ESG have not peaked yet (Perez, Hunt, Samandari, Nuttall & Biniek, 2022). ESG is still in the writing.

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3 The cited article was published in the *Chicago Booth Review* from the University of Chicago Booth School of Business – the university where Milton Friedman taught for over 30 years.

Since the dawn of professional business education, efforts were made to address the potential flaws of capitalism, especially with regard to social factors (Salmans, 1987). Yet, we have encountered countless corporate scandals, financial crises and social shortcomings due to business misconduct. Accordingly, the appeal for more responsible businesses and fairer capitalism has been frequent as well. While similar calls of previous years, differed in names such as ‘Balanced Scorecard’, ‘Triple Bottom Line’, ‘Corporate Social Responsibility’ or ‘Stakeholder Capitalism’, they share one critical similarity: they have (as history proves) not significantly contributed to a truly better world. Thus, the question arises if ESG will be different in this regard?

Where is ESG located in the “*flee-market of conceptual fashions*” (Strasser, 2018)? Can ESG substantially lead towards responsible business practices? Will it fulfill the expectations of investors and regulators? And how could or should they shape it? How can the demands of young people be incorporated into ESG’s current controversy?

As this thesis will show, it is impossible to predict the future of ESG<sup>4</sup>. Instead, it is reasonable to argue that ESG will have a different future than its aforementioned predecessors. Due to an overall heightened sense of urgency, the conjoint efforts by the business and political elite and a generational demand for drastic change, it appears unthinkable for ESG to disappear entirely. However, to turn ESG into an effective change bringer, work is required. Hard work that is demanded by the younger generation, who fear that long-term value creation may end abruptly if actions continue to be taken hesitantly. It becomes evident that incorporating Peter F. Drucker’s body of thought into each of ESG’s pillars is suitable to further develop the acronym’s purpose and mission. Lastly, this thesis makes an argument that the overarching motivation to create a bearable society is one that can be embraced by all stakeholders, including the incumbent decision-makers in the ESG sphere and the future decision-makers of our society, who may still be in college right now.

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4 Predicting the future is futile according to Peter Drucker. “*It is not given to mortal man*” (Drucker, 1959 as cited in Paschek, 2008, p. 206).

## 1.2 Scientific Relevance & Research Goals

While a great deal of ongoing discussions in newspapers and scientific literature about ESG are centered around the standardization of quantifiable and comparable metrics, it is important to realize that there is still no certainty around the true meaning of ESG. Moreover, ESG factors are almost entirely intangibles (Christensen, Serafeim & Sikochi, 2020; Polman & Winston, 2022; Perez et al., 2022). Therefore, it's unclear how 'checking ESG boxes' could actually contribute to a better world, especially if those boxes describe criteria that one would expect to be met anyway. For example, all common ESG frameworks incorporate water pollution as one of their KPIs for the pillar 'E' (MSCI, 2022; S&P Global Ratings, 2022; Perez et al., 2022). Yet, if companies pledge to mitigate water pollution, though their environmental footprint may not grow larger, their efforts don't erase the damage that has already been done. The described caveat is only one exemplary argument fueling the claim that ESG is merely greenwashing and is doomed to fail. In fact, recently, the overall enthusiasm for ESG is waning amongst the finance industry (Braithwaite, 2022) and the conjectures accumulate that ESG is exploited as a business opportunity by the companies, who can find a market for their products (Perez et al., 2022; Schrager, 2022). The demand for ESG consulting and asset management services is skyrocketing, but the sincerity and qualifications of the professionals offering these services are often questionable (Tricks, 2022; Mance, 2023). After all, rating agencies – who assign the, more or less, shiny ESG seals to companies – have sales departments as well.

In stark juxtaposition to the doubtful professionals, are the demands of young people, particularly Generation Z (Gen Z)<sup>5</sup>. Within their various societal roles as customers, (knowledge) workers, investors and students, they call for serious change and ask difficult questions about what a given institution does for the planet or society (Perez et al., 2022; Goldberg, 2022). They are increasingly “*veto-ing the way things*

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5 Studying generations in fixed cohorts can obscure individual motivations making generational theory a tool for societal analysis rather than absolute truth (see p. 36).

*have been*” and demand to rethink the obligation of the corporation to society (Goldberg, 2022). Climate change is unquestionably the biggest threat to the survival of the human race. However, mismanaging ‘Social’ (‘S’) and ‘Governance’ (‘G’) is arguably a bigger threat to the survival of a functioning society, to the triumph of democracies.

In short, the main goal of this thesis is to discuss and evaluate the purpose and mission of ESG and examine in-depth how it could become an effective vehicle towards a bearable society, despite regulatory ambiguity. Hereby, the present text will contrast the common myth that you can’t manage what you can’t measure<sup>6</sup>. Therewith, this thesis can be seen as a divergent approach – a scientific antidote – to the most recent push for a rapid standardization of ESG criteria, as these developments appear to be aimed at efficiency, rather than effectiveness. And as Peter Drucker famously said: “*Efficiency is concerned with doing things right. Effectiveness is doing the right things.*” (Drucker Institute, 2022).

Furthermore, while the amount of scientific literature examining the function and effects of ESG is rapidly growing, it is by no means extensive (Edmans, 2022, p. 10). Alex Edmans – a leading researcher from London Business School in the field of ESG – highlights two necessary implications for academic research regarding ESG: to be broader and to be less quantitative (ibid., p. 10).

The given study is well-suited to fulfill these demands of further inquiry. Therefore, the main scientific goals of the given thesis are to:

- 1) present a comprehensive overview of the trajectory of ESG and its most recent developments, and the demands of young people, in addition
- 2) complement the concept of ESG with Peter Drucker’s ideas, and subsequently

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6 This is a modification of the statement from Dr. W. Edwards Deming. “*It is wrong to suppose that if you can’t measure it, you can’t manage it – a costly myth.*”

- 3) gather insights from consumers and ESG experts regarding their understanding of ESG and the role of the business enterprise in society and lastly
- 4) synthesize an enriched notion of ESG, particularly regarding its purpose and mission and give managerial and research implications.

To examine these four aspects a mixed methods approach is best suited. Chapter 3 further elaborates on the combination of the survey and the semi-guided expert interviews used for this study. Through a mix of quantitative data analysis and qualitative exploration new insights are generated that yield potential for both managerial and research implications. Also, so far ESG has been researched comparatively unilaterally as most of ESG related papers appear exclusively in business or finance journals (Liang & Renneboog, 2020). Thus, to the researcher's best knowledge, this thesis offers a fresh perspective within the evolving realm of ESG research and its societal implications. It embraces a deeper foundation in the social sciences, distinguishing itself from conventional business or management literature.

Business and management (science) is predestined to leverage a wide range of disciplines to find solutions for both raw opportunities and pressing challenges. The comparison of the current developments of ESG with the multi-faceted demands of young people (and their understanding of the role of the business enterprise) can be seen as a novel approach to view and interpret 'long-term value creation', which is one of ESG's most notorious word series.

Lastly, Peter Drucker's ideas act as the anchoring thought structure throughout the entire thesis. While Drucker may have applauded the rise of ESG, he might have wanted to add a few lines to the unfinished manuscript of ESG in accordance to his understanding of the social responsibility of the business enterprise and thereby the potential to approximate the bearable society. Furthermore, Drucker's rare ability to apply common sense understanding to management challenges, while seeing those in a broad historical, social and political context (British Library, 2022), is expected to yield useful lessons for the ambiguous

future of ESG, even beyond the scope of this thesis. Moreover, this focus of perspective is warranted as ESG factors are essentially built on Peter Drucker's philosophy (Drucker Institute, 2023).

In 2009, Michael Hiltzik wrote in the Los Angeles Times that “*business leaders need to relearn his [Drucker's] lessons every few years, and that's why his insights seem perennially fresh.*” As this thesis will show, this holds true for the ESG debate as well.

### 1.3 Thesis Structure

The introductory chapter provides an overview of the thesis, highlighting the relevance of Drucker's body of thought to ESG and outlining the research aims of the given study. Chapter 2 delves into the theoretical background, starting with a comprehensive examination of ESG, including its historical development and its current flexible, if not ambiguous, interpretations. Moreover, it investigates the concept of ESG convergence by making a difference between ESG reporting, ESG investing and ESG strategy and provides a brief overview of key market actors in the ESG ecosystem. It further explores the perspectives of both opponents and proponents of ESG, with specific focus on the influence of young generations, particularly Gen Z. Derived from their demands as consumer, voters and employees, the hypotheses for the conducted survey are presented. In subsequence, the thesis elaborates on Peter Drucker's understanding of social responsibility and his insights on what makes a society bearable. Building upon Drucker's ideas, the thesis suggests areas of expansion for each of ESG's pillars respectively. The chapter on theoretical background culminates in the consolidation of the main- and sub research questions. Chapter 3 delineates the methodology employed, encompassing both quantitative (online survey) and qualitative approaches (semi-guided expert interviews). The thesis then presents and interprets the results (Chapter 4) derived from the survey and interviews separately, firstly covering the role of the business enterprise in society, perceived relevance of environmental, social, and governance factors by consumers and secondly



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the opinions of experts on the aforementioned topics respectively. The subsequent discussion (Chapter 5) critically examines the limitations of the study and highlights implications for theory and practice in the field of ESG. Lastly, Chapter 6 concludes the thesis by summarizing the key insights accompanied by an ending statement.

