5 Discussion

5.1 Limitations of the Study

The first limitation of this study is that there is – to the best of the researcher's knowledge – a lack of academic literature extensively discussing and sharpening the purpose and mission of ESG. Apart from Pollman's (2022) analysis, the majority of the screened research papers tends to take an idiosyncratic perspective on ESG, thereby surprisingly dismissing the scientific agreement that there is no agreement about the purpose of ESG (Larcker et al., 2022a, p. 870). While this thesis aims to somewhat fill this gap, it should be noted that this circumstance made it necessary to heavily consult primary sources such as articles in newspapers or professional magazines next to reports by governments, for-profit and non-profit organizations. Although strong attention was paid to only reference household names in this realm (i.e. Bloomberg, The Wall Street Journal or the Harvard Business Review), sources of this nature are not academically comparable to the scientific rigor peer-reviewed journal articles go through. Accordingly, the theoretical background concerned with the emergence and current dynamics of ESG must be viewed as an evidence-based attempt to extensively discuss the state of ESG's purpose rather than an irrefutable collection of historical (and academic) facts.

Secondly, repeatedly throughout the thesis the importance of liberal democracy for the functioning society is mentioned, without further exploring this crucial interrelation. While it is argued that with the

proposed extensions of ESG, social cohesion – a critical prerequisite for the liberal democracy – may be fostered, it is key to highlight that ESG can at best be one tool to help democracies win their internal peace. While potentially desirable to look for the panacea of all within ESG, it would conceptually overburden both the presented thesis and the already fragile definition of ESG itself. Therefore, it must be explicitly addressed that while the thesis aims to highlight the threat of political corrosion it offers no solutions to it.

Moreover, the methodology used also has notable limitations.

Firstly, the data collection approach for the given survey implies limits for representativeness, which are not negligible. While the sample size was sufficiently large to reasonably conduct the statistical tests presented in the results section, the population of the sample is exceedingly large. However, as the aim of the survey was not to uncover new cause and effect relationships but rather empirically underpin the demands of young people, derived from research reports such as the 'A Gen Z Report' by Oliver Wyman Forum & TNM (2023), with a sample size of over 150.000 participants in ten countries, this limitation can be viewed as tolerable.

Secondly, the scale used to assess the perceived legitimacy of a business merely resulted in a Cronbach's alpha of 0.68. Consequently, it must be inferred that the adapted scale by Alexiou & Wiggins (2019) is not sufficiently suitable to measure the latent construct. Further research may strengthen the reliability of such scales by conducting more rigorous statistical tests such as confirmatory factor analysis (CFA) (Levine, 2005).

Thirdly, the voluntary nature of participation in the survey could have led to a participation bias, as those who were most interested in the topic of 'Business and Society' were more likely to participate. This could have resulted in an overestimation of the actual relevance of the examined constructs in connection with ESG for young people. This skewed perception may be particularly pronounced as past research has found that, broadly speaking, results of survey studies about sustain-

ability are commonly affected by social desirability bias (see e.g. Vesely, & Klöckner, 2020 or Durmaz, Dursun & Kabadayı, 2022).

Another limitation to consider is the survey design. The study was conducted in a virtual setting, so it is not possible to completely control who completed the questionnaire. This means that it is possible that the questionnaire was completed by someone other than the intended participant, or that it was completed in consultation with another person. Both of these limitations diminish the internal validity of the conducted research significantly.

Similarly, it should be addressed that only experts within the ESG ecosystem were interviewed for the study. Although the interview partners were purposefully diverse, it cannot be stated that all perspectives were covered. While this is never the case for qualitative research, it is yet a critical limitation to the exploration of the given topic as today there openly are 'anti-ESG' opinions, which were not granted a voice in this thesis.

Lastly, as mentioned in Chapter 3.3, due to the qualitative nature of the second part of the study, no generally valid conclusions can be presented and, with regard to the researcher singularity, results are expected to be slightly distorted linked to his subjectivity. It should further be noted that the extensions to ESG are novel suggestions to increase the acronyms effectiveness rather than its efficiency, which were evaluated only qualitatively along 11 in-depth semi-guided interviews. Albeit the extensions can be assessed as preliminary valid suggestions, as evidenced by Chapter 4.4, they cannot be viewed as scientifically proven. Moreover, the extensions are relatively open-ended and hence do not provide easily feasible incorporations to ESG. Instead, they offer initial starting points for further avenues of academic exploration and potential managerial implications. Both are discussed in the following chapter.

5.2 Research and Managerial Implications

5.2.1 Research Implications

The presented thesis offers a myriad of topics to further examine through academic research.

Firstly, as mentioned above, it is relevant to better understand the demand for factually sustainable investment opportunities for retail investors. Further studies may be able to help us better understand how extensive the anecdotal willingness to sacrifice profits for the sake of a 'better world' really is.

Secondly, research may explore the presented 'Environmental Score' (p. 130). The initial idea appears to have great potential for effectively limiting overconsumption. Leveraging the insights of behavioral economics, such as the award-winning prospect theory (Tversky & Kahneman, 1986), appears to be a suitable starting point to nudge consumers toward more conscious decisions.

Thirdly, it may be explored through further studies if and how mandatory corporate trainings could include a baseline of education concerned with ESG issues. It is argued that just like data protection trainings, which have become mandatory and top priorities in every company because of enforced legislation like the EU's General Data Protection Regulation (GDPR) or the California Consumer Privacy Act (CCPA), ESG trainings might similarly be added to standard training. This parallels the situation two decades ago when such data security trainings were virtually non-existent. As legislation is anticipated to become more stringent, ESG trainings could become the latest addition to the standard training lineup.

One additional implication for further research is the intertwining of DEI initiatives with the broader social pillar of ESG. Although it is acknowledged that such initiatives have achieved much in creating more equitable workplaces, a comprehensive exploration of the true impact of such initiatives is warranted. Research could investigate both the potential misuse of DEI programs as a way to mitigate shortcomings in other social practices and the true integration of DEI principles

within organizational culture and operations. This entails assessing whether DEI initiatives are authentic and effective drivers of positive social change, or if they are merely adopted as a 'quick win' to enhance ESG ratings. Additionally, a deeper investigation into the effectiveness of the social pillar's practices, including areas like fair pay and supply chain management, could provide valuable insights. Comparative case studies, longitudinal data analyses, and a multi-dimensional examination of societal impacts could shed light on the actual outcomes of these practices, contributing to a more nuanced understanding of their influence on organizational performance and broader well-being. Such research has the potential to offer actionable guidance for organizations seeking to genuinely enhance their social performance and navigate the complexities of integrating DEI principles within their ESG strategies.

Moreover, a deeper investigation into the integration of political stance transparency within the 'G' pillar appears warranted. Comprehensive research could delve into the effects of mandating disclosure requirements for corporate political financing. By examining how heightened transparency results could be incorporated into ESG ratings, and how it influences responsible political engagement, researchers can illuminate pathways to enhance corporate accountability in the realm of politics.

Furthermore, the novel concept of integrating executive-to-median employee pay ratios into ESG assessments introduces a transformative dimension. In-depth research is warranted to explore the practical implementation of this metric within ESG Reporting, ESG Investing and ESG Strategy. This could involve investigating how different pay ratios shape company behavior, influence stakeholder perceptions, and guide investor decisions. Comparative analyses of organizations with varying ratios could yield insights into the intricate relationship between executive compensation structures and employee morale. Lastly, the consideration of clawback provisions as mechanisms to thwart short-term focus in the pursuit of ESG goals opens a realm of research dedicated to governance dynamics to understand their effectiveness in aligning executive conduct with long-term ESG objectives. Through careful in-

vestigation, researchers may shed light on how clawbacks can serve as potent tools in mitigating managerial myopia and fostering sustainable ESG-oriented decision-making.

5.2.2 Managerial Implications

In light of the synthesized insights from expert interviews concerning the role of Environmental, Social, and Governance (ESG) practices in approximating a bearable society, several key managerial implications emerge. These implications aim to guide participants in the ESG ecosystem in their efforts to embrace and enhance sincere ESG practices.

1. Embracing Regulatory Evolution

The current state of ESG, as revealed by the theoretical background of this thesis as well as the expert interviews, indicates that the 'big tent approach' is in fact a major strength – not weakness – of ESG, as it irreversibly solidified ESG beyond the status of a trend and now functions as (complex) prerequisite to iteratively forming the regulatory framework and harmonizing ESG data (Lykkesfeldt & Kjaergaard, 2022, p. 247). Given the advanced nature of ESG legislation in mitigating climate risk, investors and companies are advised to anticipate the expansion of ESG legislation into other areas. Proactive preparation for forthcoming regulatory changes will enable institutions to align their practices with emerging ESG standards, demonstrating a commitment to the broader ESG agenda. It is vital to acknowledge the pivotal role of regulatory bodies in driving the ESG transformation. As highlighted by experts, ESG's evolution stems from a triadic synergy between regulators, investors, and the societal demand for responsible business practices. Therefore, financial institutions and businesses should proactively engage with regulatory agencies, maintaining an awareness of evolving ESG regulations and offering insights for effective implementation.

2. Vigilance Against Greenwashing

The caution raised by experts regarding greenwashing within the ESG ecosystem underscores the importance of vigilance in this matter. Every participant in the ESG ecosystem should rigorously scrutinize their own and other's ESG efforts, ensuring they remain substantiated in the development of sustainable societies as outlined by the 'Who Cares Wins' report (Global Compact, 2004). By proactively identifying and addressing instances of misleading claims from other actors or themselves, institutions can uphold the integrity of their ESG commitments. It is important to look beyond the superficially idealistic narrative of this message. Since ESG is a politically polarized topic, participants of the ESG ecosystem need to become politically competent with it. Every actor in the ESG ecosystem should assume responsibility and thereby assert authority (Drucker, 2003, p. 103) to ensure that the 'ESG Revolution' is indeed aligned with genuine positive change. Establishing an ecosystem that delays such change will backfire. It will backfire for the actors in it, as it "*will breed cynicism in everyone involved*" (Damodaran (2022, p. 33) and it will backfire for humanity as a whole as it may potentially become a dangerous placebo (Honegger, 2023) that inhibits appropriate action taking. It is unquestionable that short-term gains from greenwashing will be outweighed and outlived by the long-term costs of financial value destruction linked to unbearable environmental and social conditions.

3. Extending the Understanding of ESG's Purpose and Mission

Drawing from expert insights and the theoretical background of this thesis, financial institutions and business enterprises may consider adjusting the scope of their ESG efforts in line with the suggested extensions. Incorporating elements such as comprehensible environmental impact assessment to enable even the 'untrained eye' in allocating its capital towards sustainable business, human capital development in the age of AI, and radical political transparency can enrich the ESG framework overall. Exploring these avenues could contribute to a more

holistic ESG strategy that addresses multifaceted societal challenges in today's polycrisis (Homer-Dixon & Röckstrom, 2022)

4. Integrating ESG into Corporate Strategy: A Competitive Imperative

Lastly, implementing an ESG strategy appears necessary for virtually all companies. Even if a company could get away with staying on the ESG sidelines from a legal perspective, it may have trouble attracting and retaining employees and customers, especially younger ones. As we globally embark on a transformation to save the planet, companies who integrate ESG in their overall corporate strategy are predictively going to have a competitive advantage. Many companies are currently working towards improving their ESG performance. However, it is unlikely that a culture of continuous improvement will take root in a company unless ESG is not only taken seriously, but also integrated into the core business and linked to the corporate mission. Forward-thinking companies are advised to take a rigorous, evidence-based, and thoughtful approach to ESG. They shall increasingly incorporate ESG considerations into their business model, making their operations more sustainable and thereby helping to make ESG a practiced reality. ESG can and should be rigorously managed by companies and investors, even if it cannot yet be perfectly measured. This will give them a competitive advantage for the short, mid and long run as it is beneficial to attract and maintain young talents (see Chapter 2.3.3), win over customers who are increasingly demanding responsible business practices and sustainable products, and mitigate the impact of impeding stricter ESG legislation.

Ultimately, businesses are advised to (finally) adopt a long-term orientation and thereby follow Drucker's easy message that long-term results cannot be achieved by stacking short-term results upon one another (Drucker, 1993, p. 72). Making the quality of life, particularly the well-being of people and the health of the planet (Schwarzer, 2022), the business of business appears feasible through a rigorous integration

of ESG into corporate strategy and can be viewed as a key way to manage and maintain the oxygen of any business enterprise, namely its social license[59].

59 To attribute some further credibility to this claim, one may read up on the need for ESG strategy implementation in McKinsey's article 'How to make ESG real' that advocates for a *"full integration of ESG into strategy and operations"* (Pérez et al., 2022).