

# YOUNG ACADEMICS

Betriebswirtschafts  
lehre  
6

Ferdinand Schwarzer

## Recalibrating Environmental Social Governance (ESG)

Reflections on its Current State  
and Expansion Through a Drucker-  
and Paschek-esque Lens

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With a Foreword by Peter Paschek

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## Introductory Remarks

Since half a century Corporate Social Responsibility (CSR) is a central issue of my work. It all started in 1973 during my studies of the social sciences, when I found interest in the ‘Sozialbilanzen,’ which at that time were popular for many companies in Germany, documenting their social responsibilities beyond their economic performance.

By the end of the late 1980ties an article titled ‘*Das Scheitern einer gescheiterten Idee*’ sounded the bell for the end of the ‘Sozialbilanzen’ as CSR manifesto. At the same time, the ‘*Triple Bottom Line*’ of sustainable corporate management took over this role.

There is no doubt that the sustainability concept has not failed but has proven successful to this day. However, despite this success, all measures for CSR, including sustainability management, exhibit one significant shortcoming. They all excluded what Peter Drucker emphasized — that the corporation, as a social institution, is not only an economic tool but also a political tool. Drucker made this crystal clear already in 1980: “*In a political arena overcrowded by ‘true believers’ in ‘sacred causes,’ the manager of institutions must establish himself as the representative of the common good (...) he can no longer depend on the political process to be the integrating force, he himself has to become the integrator. And this means that the manager of any institution (but particularly of business) has to think through what the policy should be in the general interest and provide social cohesion.*”

In the light of that perception, it is not a surprise, that I took over mentoring and supervising of Ferdinand Schwarzer's Master Thesis on ESG with great interest and joy.

Prior to his thesis, Ferdinand captured my attention with an ESG seminar paper. Both works were written with the highest scientific diligence and precision. Ferdinand carved out all aspects of the ESG concept with accuracy, elaborating on its advantages compared with former CSR schemes and manifestos, such as sustainability management. Last but not least, it was a great benefit for me to read an appraisal of ESG according to Peter Drucker's and my own work on Society and Management.

To cut a long story short, Ferdinand's work is providing deep insights into the ESG concept. Furthermore, it is a significant enrichment of the current literature on that matter, which so far is considerably poor.

May I at the end stress two limitations of ESG:

The first to mention, is that ESG solely uses measurable indicators. To this I only want to quote the introductory line of Oskar Morgenstern's 'On the Accuracy of Economic Observations': *Qui numerare incipit, errare incipit!*

Secondly, I want to discuss the major shortcoming of ESG, to which Ferdinand drew attention in the last chapter of his thesis. ESG is the first scheme attempting to integrate political responsibilities into CSR. This is only a small first step, although an important one because the duty to disclose political financing means transparency in the political lobbying of the business enterprise. However, ESG, along with all other CSR concepts, lacks what I call '*Management Political Responsibility*'. This encompasses economic performance as management's primary social responsibility, **in addition to** addressing environmental, social, and political issues as further social responsibilities.

May I recall what Peter Drucker wrote in 1980 on a political arena overcrowded with '*true believers*' and his understanding of the ethics of responsibility – knowingly not to do harm – in deeds and words. This does not mean the manager has to become a statesman. Instead he has

to take responsibility for the responsible formation of opinion, which means shunning away from cracker barrel talk, while communicating informally to peers, staff members, customers etc.

At the end, I want to quote Peter Drucker again, this time with a demand and a warning he gave in 1973, both of which are still valid. He wrote that there is a new demand for the manager, particularly for business management, to add to its fundamental concern for the quantities of life, i.e., economic goods and services, its concern for the qualities of life, which is *“to make social values and beliefs, create freedom for the individual and create the good society...”* and Drucker’s warning: *“This demand requires new thinking and new action on the part of the manager. It cannot be handled in the traditional manner. It cannot be handled by public relations.”*

Peter Paschek





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