YOUNG ACADEMICS

Betriebswirtschaftslehre
6

Ferdinand Schwarzer

Recalibrating Environmental Social Governance (ESG)

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

Tectum

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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 gescheiten 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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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[1] 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*

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[2].

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-

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[3] (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.

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[4]. 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.

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)[5]. 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*

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[6]. 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

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 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.

2 Theoretical Background

2.1 What is ESG? Revolution or Repetition?

> *"Environmental, social and governance (ESG) investing is a strategy you can use to put your money to work with companies that strive to make the world a better place."* (Napoletano & Curry, 2022)
>
> *"Environment, Social and Governance (ESG)—incorporates financial considerations such as investment returns, fees, risk and tax matters alongside environmental impact and matters related to workers' well-being, the diversity of corporate leadership and corporate social responsibility more generally."* (Mottola, Valdes & Ganem; 2022)
>
> *"Environmental, social, and governance (ESG) investing refers to a set of standards for a company's behavior used by socially conscious investors to screen potential investments.*" (Investopedia, 2023)
>
> *"ESG means 'environmental, social and governance,' and represents a more stakeholder-centric approach to doing business. ESG is set on the principle that the environment is only one factor in determining an organization's commitment to sustainability."* (Diligent, 2023).
>
> *"ESG overall, gauges the risk the world poses to a company, not the other way around. (…) I would even say many portfolio managers don't totally grasp that. Remember, they get paid. They're fiduciaries, you know. They're not as concerned about the risk to the world."* (Fernandez as cited in Simpson, Rathi & Kishan, 2021).

> *"ESG isn't 'sustainable', 'green' or making an 'impact'."* (Samuelrich as cited in Kishan & Schwartzkopff, 2022).

What these definitions unanimously show is that there is currently no clear definition regarding ESG. Consequently, neither academics, nor professionals can agree on the purpose and mission of ESG. At least in that regard there is agreement: Larcker, Tayan and Watts state that indeed one of the biggest myths in ESG is that *"we agree on the purpose of ESG"*[7] (2022a, p. 870). Similarly, Martin Lipton – professor of Law at Harvard University – argues that *"uncertainty also abounds as to what ESG truly means"* (2022).

Evidently, ESG is surrounded by acute ambiguity. Apart from the philological questions this poses, it implies a multitude of business challenges. However, one uniting aspect of ESG is the persistent attention from society's major leadership groups[8], such as political elites, business elites (finance and corporate side) and academic elites, despite distracting affairs such as the war in Ukraine or the (now-fading) energy crisis of 2022 (Agnew, Klasa & Mundy, 2022). Particularly, the European Union can be regarded as an exemplary driver of the 'ESG Revolution' (Christ & Gassmann, 2022), as it has launched and implemented various regulations that make ESG integration mandatory for thousands of businesses. One reason for both the ambiguity and sustained attention is the historical development of the term ESG. Chapter 2.1.2 delves further into the origination of ESG and thereby examines how the terminological vagueness arose and when and why ESG gained serious momentum.

Before the history of ESG is examined though, it is important to note that considerations of the relationships a business enterprise has with the environment, stakeholders, communities and society at

7 This thesis defines the purpose of something (e.g. business enterprises, governance agencies or movements) as its raison d'être, the reason for which something is done, made or allowed to happen (Cambridge Dictionary, 2023). The mission of something is hence defined as the actions and tasks necessary to achieve this purpose.

8 Drucker would call them *"those with ressources"*, *"the business elite"* or one of *"society's major leadership groups"*.

large have a long history (Lykkesfeldt & Kjaergaard, 2022, p. 245). For instance, in 1915, the Harvard Business School already offered a class titled 'Social Factors in Business Enterprise' (Salmans, 1987). Similarly, in 1917, Walther Rathenau expressed his skepticism about the power of speculative shareholders in Germany (Brandt & Konstantinos, 2016, p. 9) and their influence on the national economy (ibid., p. 13). Naturally, these early efforts were heavily disrupted by the two world wars, yet as early as 1953, the term 'Corporate Social Responsibility' was coined by Howard Bowen (Lee, 2008, p. 57)[9]. Since the questions regarding the role of corporations in society and their accountability for the impacts they create have surfaced, the discussion has encountered numerous twists and turns[10]. One prominent example of the past century is the 'Triple Bottom Line', coined by John Elkington in 1994. Yet, in 2018, Elkington himself writes in the Harvard Business Review that the once highly applauded idea of *"balancing people, planet & profit"* has become either completely forgotten or reduced to a mere accounting tool, instead of actually doing things differently (Elkington, 2018). As history shows, this is not a rare case when it comes to rethinking capitalism. In a collection of essays by the Fraser Institute called 'ESG: Myths & Realities', Steven Globerman explains:

> *"The call for a new set of guiding principles for private sector organizations has taken various identities over time, including socially responsible business behavior, stakeholder capitalism, sustainable capitalism, socially responsible investing, sustainable investing and, most recently, ESG. While there are differences across the varied calls for reforming capitalism, for example whether the main focus is on managers of operating companies or on wealth managers, they all call for a new form of capitalism."* (Globerman, 2022, p. 1)

9 For a comprehensive overview of the development of CSR see Agudelo et al. (2019).

10 Throughout his books and articles, Peter Drucker was continually concerned with this question too (Drucker, 1993, p. 71). Starting from Chapter 2.5, this thesis will more closely integrate Drucker's perspective.

Now, the question that arises is if ESG will be any different in this regard? This thesis makes an argument that it most likely will be, due to a multitude of factors, which are subsequently explained throughout the theory part of this thesis. These factors entail the initial emergence of ESG, the co-development of ESG by the political and business elite, sustained momentum in times of crises (partly because of them) and the generational demand for change that continues to grow louder. However, at the same time, enthusiasm for ESG is at an infliction point. To turn it into a real change bringer, instead of merely another repetition of an attempt to change capitalism, ESG's purpose and mission must be re-examined.

2.1.2 The Emergence and Development of the Term ESG

For the initial upcoming of the term 'ESG', the United Nations (UN) and its former Secretary General Kofi Annan[11] played a critical role. The fall of the iron curtain in November 1989 paved the way for a new wave of globalization. However, during the 1980s, economists were already concerned with unchecked globalization increasingly causing poverty and inequalities in some regions of the world, while leading to great wealth in others (Dollar, 2005).

In 1998, Annan stated that *"there is a great potential for the goals of the United Nations – promoting peace and development – and the goals of business – creating wealth and prosperity – to be mutually supportive."* (United Nations, 1998). Subsequently, the UN started to set up a myriad of public-private partnerships during this period, reflecting a shift toward understanding business as part of the solution for advancing its goals (Pollman, 2022).

Notably, Annan co-founded the 'Global Compact', a voluntary initiative between the UN and nongovernmental financial bodies to advance human rights, labor rights, anti-corruption efforts, corporate governance and environmental practices across the world or in short

11 Kofi Annan was the 7th General Secretary of the UN from 1997 to 2006.

to promote actions globally that are in line with their declared ten principles (see Appendix 1). Within its first years of existence, the Global Compact attracted more than 1,000 members to join. Particularly, the Enron scandal in 2001 and WorldCom scandal in 2002 greatly fueled the rapid growth of the initiative (Agnew et al., 2022). Today, the Global Compact consists of over 22,000 signatories and, according to its' website, is now *"the world's biggest corporate sustainability initiative"* (Global Compact, 2023). In 2004, the Global Compact published its landmark report 'Who Cares Wins', which is broadly acknowledged to be the originator of the acronym ESG (Pollman, 2022; Billio et al., 2020, p. 1427; Larcker et al., 2022b, p. 8). 'Who Cares Wins' was co-written by the UN and 18 major financial institutions, including some of the world's biggest banks and insurances[12] (Global Compact, 2004).

According to Pollman (2022), the wording of the 'Who Cares Wins' report was purposefully chosen to be open-ended, and therefore crucial for the parallel development of multiple understandings of ESG.

For instance, the report explicitly states that the endorsing organizations are convinced that a better consideration of environmental, social and governance factors will not only lead to stronger and more resilient investment markets, but contribute to the **sustainable development of societies** [author's emphasis] as well (Global Compact, 2004). Moreover, for the first time, the contributors argued that in a more globalized and interconnected world, a company's competitiveness is increasingly dependent on the management quality of ESG issues, especially because these issues can have a strong impact on the reputation and brand of a company, which are factors likely to represent two-thirds of the value of a listed company (ibid., p. 9)[13].

12 The 'Who Cares Wins' report is publicly available. Complete list of contributors: ABN Armo, Aviva, AXA Group, Banco do Brasil, BNP Parisbas, Calvert Group, CNP Assurances, Credit Suisse Group, Deutsche Bank, Goldman Sachs, Henderson Global Investors, HSBC, ISIS Assest Management, KLP Insurance, Morgan Stanley, RCM, UBS, Westpac.

13 In recent years, numerous instances have highlighted the detrimental consequences of inadequate ESG management on the valuation of publicly listed companies. Notable examples include BP (2010), Volkswagen (2015), and Facebook (2016). Recognizing ESG issues as critical factors influencing a company's reputation and

Pollman (2022, p. 12ff.) meticulously describes three aspects that stand out most about the language used in the report. All of these aspects below have considerably sparked discussions in the ESG sphere.

Firstly, the report tried to contrast the use of the term ESG deliberately to existing terms. In the introduction of the report it reads:

> *"Throughout this report we have refrained from using terms such as sustainability, corporate citizenship, etc., in order to avoid misunderstandings deriving from different interpretations of these terms. We have preferred to spell out the environmental, social and governance issues which are the topic of this report."* (Global Compact, 2004, p. 1f).

Secondly, in 'Who Cares Wins', the authors shed light on the rationale behind including 'G' in the ESG framework, a notion that remains contested today (Larcker et al., 2022a, p. 875). The report states:

> *"Sound corporate governance and risk management systems are crucial prerequisites to successfully implementing policies and measures to address environmental and social challenges. This is why we have chosen to use the term 'environmental, social and governance issues' throughout this report, as a way of highlighting the fact that these three areas are closely interlinked."* (Global Compact, 2004, p. 2)

Thirdly, and most importantly, the report describes how ESG factors are financially material and therefore should be in embedded into every financial analyst's normal work (ibid., 38):

> *"This report focuses on issues which have or could have a material impact on investment value. It uses a broader definition of materiality than commonly used — one that includes longer time- horizons (10 years and beyond) and intangible aspects impacting company value. Using this broader definition of materiality, aspects relating to generally accepted principles and ethical guidelines (e.g. the universal*

brand is intricately linked to the concept of social legitimacy/social license, which will be explored further in the subsequent section of this thesis.

principles underlying the Global Compact) can have a material impact on investment value." (Global Compact, 2004, p. 2)

Throughout the report, these three aspects framed the term ESG with an 'investment rationale', but one that was not constricting itself to traditional or narrow notions of (financial) materiality.

The institutions responsible for the report declared a firm commitment to actively pursue the implementation of the recommendations presented therein. Their dedication extended further as they expressed their intentions to foster a comprehensive understanding of ESG. They aimed to achieve this through the engagement with relevant accounting standard-setting bodies, professional organizations, investors, consultancies, stock exchanges, NGOs and government bodies (Global Compact, 2004, p. 40). Lastly, they pleaded to more extensively integrate ESG issues in both their investment research and offerings and to share recommendations and best practices in order to increase knowledge and implementation amongst each other (ibid., 2004).

So, the term ESG was officially brought into existence. In the following years, the UN made several strategic efforts to further develop ESG, the essence of the 'Who Cares Wins' report (Pollman, 2022, p. 14–18). One notable example is yet another initiative, namely the 'Principles for Responsible Investment' (PRI) that blue stamped ESG as an umbrella term to enhance Corporate Social Responsibility encompassing various frameworks (Lykkesfeldt & Kjaergaard, 2022, p. 48).

Still, ESG had not really caught on in broader circles until three critical milestones happened, causing a 'Ketchup-Effect'[14] that catapulted ESG from a position of a niche technical term into the midst of business, politics, academia and media (ibid.).

Firstly, in 2015, both the Paris Agreement and the UN Sustainable Developments Goals (SDGs) were signed by almost all members of the United Nations, which lifted the consideration of ESG issues to a new level of public exposure. In the following years, the European Union

14 Ketchup effect: First nothing happens – but after some shaking – everything spills out at once.

emerged as the leader regarding ESG integration. Particularly, the Corporate Sustainability Reporting Directive (CSRD) can be viewed as **the** landmark ESG legislation. Since January 5th, 2023, over 50,000 companies in the EU must report their ESG performance according to the European Sustainability Reporting Standards (ESRS), for which ironically only drafts exist thus far [State: June 2023] (European Commission, 2023a).

Secondly, Larry Fink[15], CEO of BlackRock, the largest asset management firm in the world, addressed ESG for the first time in his annual letter to shareholders in 2017. He stated that BlackRock views ESG factors as *"essential insights into management effectiveness and thus a company's long-term prospects"* (Fink, 2017 as cited in Pollman, 2022, p. 18). Considering BlackRock's massive holdings (with voting rights) in most of the world's big publicly-listed corporations, Fink's letter was a gateway to mainstream ESG.

The third milestone for the 'meteoric' rise of ESG is not one singular moment, but an array of impactful political, social and economic events. Next to a cascade of crises such as the Euro-crisis in 2012, the refugee-crisis in 2015, the ongoing climate crisis and the Covid-19 pandemic, the developed world has also been disrupted by powerful social movements like #MeToo, Black Lives Matter and Friday's for Future (as well as similar movements throughout countries around the globe).

Today, numerous elite business schools are majorly updating their curricula to include ESG, which can be viewed as a testimony to ESG's establishment. In her New York Times article 'Have the Anticapitalists Reached Harvard Business School?', Emma Goldberg (2022) states that:

> *"Top-ranked business schools are stepping into the political arena. Harvard started its Institute for the Study of Business in Global Society last month. Nearly half of the Yale School of Management's*

15 Larry Fink is a ubiquitous personality within the ESG debate, who often tied numerous buzzwords such as 'coporate purpose', 'sustainability' and 'stakeholder capitalism' to ESG.

> *core curriculum is devoted to E.S.G. Next fall, the Wharton School of the University of Pennsylvania will start offering M.B.A. majors in diversity, equity and inclusion and in environmental, social and governance factors for business"* (Goldberg, 2022)

While these implementations appear somewhat hasty as ESG is still in the field phase of corporate realities (Samans & Nelson, 2022, p. 6), they are unlikely to be reversed (Keegan, 2022).

Naturally, the financial industry knew how to respond to ESG's rise as well. Next to BlackRock, other big asset management firms such as Vanguard or State Street followed suit and, despite ambiguity about the real meaning of ESG, it quickly became a standard practice to offer ESG investing products (ibid.). Clearly, the market was here for it. In 2015, there were only around 500 billion USD of ESG labeled assets under management (AUM) globally (European Central Bank, 2020), as opposed to the staggering number of 18.4 trillion USD of ESG AUM in 2021 (PwC, 2022). Similarly, MSCI reports that between 2015 and 2020 the global ESG ETF AUM has multiplied by the factor of 25 (MSCI, 2020, p. 2). At the same time, the supply of consulting or asset management services regarding the trendy acronym are skyrocketing. Although the demand is there, the sincerity and qualification of the respective professionals are often questionable (Tricks, 2022; Mance, 2023). With so much money on the table, one question must be asked: How is it possible that there is still no common definition of ESG? And why, despite this, did people 'buy into' the idea of ESG?

2.1.3 More Definitions Than Letters: Flexibility, Ambiguity and Confusion Around ESG

As far back as 2004, attempts were made to be particular about the meaning of ESG and to simultaneously to be distinct from other related terms. However, without great success. As mentioned above, to this day we have no absolute certainty about what ESG truly means. The table below presents an overview of various ESG definitions provided by multiple researchers who have explicitly addressed the diverse meanings associated with ESG[16].

Table 1: The Different Definitions of ESG

ESG can be viewed as…	**As evidenced by…**	**Summarizing Narrative**
Factors of Investment Analysis	Pollman (2022, p. 21); Larcker et al. (2022a, p. 870); Clément et al. (2023, p. 11)	"The business case of ESG for long-term shareholder value"; "ESG is protection against society"
Risk Management Tool	Pollman (2022, p. 23); Clément et al. (2023, p. 11)	"ESG is an attempt by companies to self-regulate their conduct."
Operationalization of CSR	Pollman (2022, p. 24); Larcker et al. (2022a, p. 871); Clément et al. (2023, p. 9)	"ESG as a measurement of the actual implementation of CSR strategies"
Factors to Implement Stakeholder Capitalism	Samans & Nelson (2022, p. 3), Larcker et al. (2022a, p. 871)	"ESG as a tool to avoid catastrophic impacts on people and planet"; "ESG is doing good."
Ideological Preference	Pollman (2022, p. 25); Larcker et al. (2022a, p. 871)	"ESG as tool for expressing a preference or virtue signaling"

Although none of the authors explicitly express that ESG is indeed a value-laden concept, their tone leads towards such an interpretation. Again, Pollman (2022, p. 18) describes that especially in the early years following the 'Who Cares Wins' report, a purposeful attempt was made to shift the conversation away from personal ethics and more towards material issues, that the investment and financial industry understood (ibid.), inter alia to "*protect*" ESG from "*lobbyists uncomfortable with anything which challenged the Milton Friedman doctrine*" (ibid.).

Euphemistically speaking, the presented flexibility of the term ESG spurs discussion and vibrant thinking amongst business, political and

16 This table shall not be seen as an extensive meta-analysis, but rather as a mean to provide anecdotal insights that the scientific community has put in efforts to decipher the true definition of ESG.

academic leaders. On the other hand, it is also the root cause of a phenomenon that Peter Paschek would probably describe as followed:

> "*Vague terms unsettle both mind and emotion and are a major obstacle to civilized and responsible public discourse.*" (Paschek, 2020, p. 88[17] [direct translation german-english])

Chapter 2.2 extensively shows how this unsettling of mind and emotion spurred heated debates between ESG's proponents and opponents, while it simultaneously enabled an army of white-collar workers to work in the 'ESG Ecosystem' and thereby not only make a living, but turn a profit around an acronym that could not be more ambiguous. But how can ESG be interpreted in so many, and partly contradicting, ways?

Pollman (2022, p. 29) makes the convincing argument that the chosen language used in the 'Who Cares Win' report and thereby the coining of ESG remained open from the very beginning due to the absence of a specific definition and clear conceptual foundation. Although ESG was initially instated to broaden the issues that the financial industry should consider in investment analysis, it became linked to the idea of proactive involvement in addressing environmental and social concerns and generate sustainable long-term value. Additionally, it became associated with the goals of the United Nations and the principles of the 'Global Compact', which aimed to promote social benefits, security, and sustainable development on a wider scale and longer time horizons than those usually focused on by proponents of the shareholder primacy. As the term gained popularity over the next decade, it turned into a "*big tent*" that acquired diverse connotations (see table above) and interpretations from a broad variety of market actors that hold significantly different views about the purpose and mission of ESG. However, while the explosive diffusion of ESG has attracted trillions of investment dollars and fueled regulatory reform,

17 "*Vage Begriffe verstören Verstand wie Gefühl und sind ein großes Hindernis für einen zivilisierten und verantwortlich geführten öffentlichen Diskurs.*"

it also is heavily critiqued due to its lack of common theorization and publicized ambiguity.

George Serafeim – a highly regarded ESG researcher from Harvard Business School – states that although the rise of ESG was necessary, the term has rapidly "*become a household name leading to both confusion about what it means and creating unrealistic expectations about its effects*" (Serafeim, 2021, p. 1).

In accordance to the meta-analyses by Clément et al. (2023), Dathe et al. (2022, p. 117) or Mayor (2019), this thesis cautiously adopts the definition that ESG is the operationalization of Corporate Social Responsibility. Caution is warranted however as CSR – one of the preceding acronyms to ESG – suffered from a potentially even broader range of various understandings accompanied by a colorful selection of buzzwords such as Socially Responsible Investing, Corporate Citizenship or the aforementioned Triple Bottom Line that ultimately rendered it (almost) ineffective apart from select philanthropic donations and countless whitepapers by big corporations. All of these concepts found their place of relevance, but none have significantly changed the world for the better, nor have they made the quality of life the business of business. As Chapter 2.2 will show, some voices project a similar journey for ESG as well.

2.1.4 The Different 'Kinds of ESG'

After an extensive analysis of ESG's origin and how it fueled both the broad acceptance by a variety of market actors and the multiple understandings of its purpose, the question arises what are commonly agreed upon ESG criteria? The following table provides a brief overview:

Table 2: Overview ESG criteria

Environmental	**Social**	**Governance**
Addresses impact on the physical environment and the risk of a company and its suppliers/partners from climate events	Addresses social impact and associated risk from societal actions, employees, customers and the communities where it operates	Assesses timing and quality of decision making, governance structure and the rights and responsibilities of different stakeholders, in service of positive societal impact and risk mitigation
Examples: – Greenhouse gas emissions – Raw material sourcing – **Waste and pollution management** – Land use, biodiversity and ecosystems; rehabilitation – Environmental opportunities (green building, clean tech & renewable energy)	Examples: – Labor management, (health and safety, supply chain standards) – **Human capital development** – Community engagement (diversity and inclusion, local economic contribution – Customer engagement – Product and service attributes (customer engagement, product safety)	Examples: – Business ethics – Data security – Capital allocations (e.g. executive pay) – Tax transparency and financial reporting – **Position and advocacy** – Structure and oversight (Board, Ownership & Control Rights)

This table is built on suggested ESG factors from MSCI, S&P and McKinsey & Company. (MSCI, 2022; S&P Global Ratings, 2022; Perez, et al., 2022). While it is not exhaustive, it provides an overview of the ESG criteria that can be agreed upon to be relevant for most companies in most industries.

Although the methodological nuances of ESG ratings are not deeply analyzed in the presented thesis[18], it is imperative to mention that different ESG issues do not carry the same materiality weight for all companies and thus influence ESG scores differently. For instance, for an oil company, almost the entire environmental pillar is of utmost importance, while the social pillar – which includes aspects such as

18 For a rigorous analysis see 'Aggregate Confusion: The Divergence of ESG Ratings' (Berg et al., 2022).

customer engagement or human capital development may play a less significant role. Deep water horizon could have hardly been avoided by the implementation of a Diversity, Equity and Inclusion (DEI) initiative or market research about the amenities at gas stations. On the other hand, for professional services companies, particularly within the financial industry, the governance pillar carries greater relevance. While banks typically do not – at least not directly – affect biodiversity, they can be put under scrutiny for mismanaging their governance pillar. Unquestionably, it is financially material when a bank has to pay a two billion USD fine due to money laundering, as was the case for the Danske Bank in 2014 (Reuters, 2022). Although all of the above criteria are important to get a holistic view of environmental, social and governance factors of a company, only the highlighted aspects (in bold above) will be discussed more extensively in later parts of this thesis in order to stay within a reasonable scope.

Lastly, it is critical to mention that ratings from different providers diverge significantly. For instance, Berg, Kölbel & Rigobon (2022) found that while the credit ratings of household agencies like MSCI, S&P Global and Moody’s correlate 99%, their ESG ratings only show a very moderate correlation of 0.54 on average.

2.1.5 The ESG Ecosystem

ESG ratings and their respective agencies represent only a small share of the ESG cottage industry (Edmans, 2023) which has grown so big over the past decade, that it has now a self-sustaining power, commonly referred to as the ESG ecosystem (Clements & Cunningham, 2023). Generally, every market participant in the ESG ecosystem is, in some way, concerned with, and would probably consider themselves to be drivers of, the ‘ESG Revolution’ (Christ & Gassmann, 2022).

Or less hyperbolically speaking, they are working towards the broad integration of ESG aspects in business and investing.

However, the extent to which they are genuinely concerned with the development of sustainable societies, as originally intended by the

'Who Cares Wins' report from 2004, is questionable in some cases. The ESG integration is a vast field that can be structured in ESG reporting, ESG investing and ESG strategy. These three 'kinds of ESG' are closely intertwined and co-developed by the actors in the ESG ecosystem. The descriptions below depict the most relevant market activities in the ecosystem.

ESG reporting refers to the practice of disclosing transparent and standardized non-financial information and data on a company's environmental, social, and governance performance. It aims at assessing the company's impact along the three pillars. Here, it is key to note that although the Global Reporting Initiative (GRI) or Sustainability Accounting Standards Board (SASB) already provide such reporting standards (Letta, 2022), they are not completely finalized or accepted by a majority of market participants. The lack of broadly adhered to ESG reporting standards is viewed by many as the greatest hindrance to ESG integration, as current practices are highly incongruent and therefore inefficient (Christensen et al., 2020; Eccles & Mirchandani, 2022; McDaniel et al., 2022). As a result, current efforts in ESG reporting are focused on improving transparency and comparability.

Given the diverse interpretations of ESG, **ESG investing** encompasses a broad spectrum of seemingly contradictory investment strategies. At least an outsider might get the impression. For instance, JP Morgen (2022) lists six and MSCI (2023) ten different approaches to ESG Investing, of which some are openly induced with normative values, while others are not. True for all ESG investment strategies is that they are investment approaches that consider environmental, social, and governance factors alongside typical financial considerations. Therewith, all approaches recognize that ESG issues have financial materiality and hence should at least be integrated into the investment analysis. The baseline approach of ESG investing is limited to merely accepting the financial materiality and is called 'Bottom-up ESG integration'. A common approach, located in the middle of the ESG investing spectrum, is 'blacklisting' or the exclusion of certain industries, e.g. big oil. The most value-laden ESG investment approach is impact investing, which pursues measurable and positive social and environmental benefits as its primary goal, potentially with suboptimal financial returns at sake.

ESG strategy refers to a company's plan and approach to integrating environmental, social, and governance considerations into its overall business operations and decision-making. An ESG strategy outlines the company's goals, policies, and initiatives related to topics as sustainability, responsible business practices, and stakeholder engagement. It involves identifying and managing ESG risks and opportunities, setting targets and metrics for ESG performance, and aligning the organization's long-term strategy with sustainable development goals. Many companies are currently struggling to find their ESG strategy, despite their urgent need for one (Whelan, 2022).

Figure 1: ESG Convergence (own illustration)

Clearly, the ‘ESG Revolution’ is a complex and dynamic field. But thankfully, this earth – unlike with other resources – has no shortage of consultants, advisors and experts.

In an **ideal world**, the market participants of the ESG ecosystem would collaborate as outlined below in the joint pursuit to maximize the Convergence of ESG (‘C’) in the illustration above. The following abstract briefly explains the (ideal) role of every participant in the ESG ecosystem and highlights their respective demand and supply side as well as their core activities for ESG integration.

1) **Companies**: Companies are at the center of the ESG ecosystem as they are responsible to implement an ESG strategy, due to regulatory changes and societal demand. This is (as of now) particularly true for companies within the European Union.

Supply: Companies report on their ESG performance and thereby demonstrate transparency and accountability towards their investors, governments, consumers and society.
Demand: Companies demand ESG frameworks, guidelines and transparent ESG data from rating agencies for benchmarking purposes. Moreover, they often demand support from consultants and advisors to implement their ESG strategy.
Core activities: ESG strategy, ESG reporting

2) **Investors:** Investors consider ESG factors in their investment decision, for one of the narratives outlined in Table 1. Institutional investors may engage with companies on ESG issues and exercise voting rights.
Supply: Allocate capital (based on ESG performance).
Demand: Accurate and reliable ESG data from both companies and ESG rating agencies.
Core Activities: ESG investing, ESG strategy

3) **ESG Rating Agencies:** ESG rating agencies assess companies' ESG performance based on unique methodologies and along various criteria, depending on the company and industry.
Supply: ESG ratings or ESG scores and further analysis for investors and companies.
Demand: Rating agencies demand comprehensive and accurate ESG data from companies to generate reliable ratings.
Core Activities: ESG investing, ESG reporting

4) **Stock Exchanges:** Stock exchanges are increasingly encouraging ESG considerations for their listed companies, e.g. Nasdaq or Deutsche Börse.
Supply: Trading platform for ESG-focused products, next to other financial products.
Demand: ESG disclosure, transparency and compliance from listed companies to meet investors' expectations. However, this is (still) often on a voluntary basis for companies.
Core Activities: ESG investing, ESG reporting

5) **Regulatory/Standard Setting Bodies:** Regulatory bodies, such as the International Sustainability Standards Board (ISSB), Global Reporting Initative (GRI) and Sustainability Accounting Standards Board (SASB), establish standards and guidelines for ESG reporting. They collaborate with companies, investors, and other stakeholders to develop consistent frameworks, ensuring meaningful and comparable ESG disclosures.
Supply: Regulatory bodies supply ESG regulations, standards, and reporting frameworks to companies, investors, and society. They aim at ensuring consistency and accountability.
Demand: Regulatory bodies demand ESG reporting, compliance, and disclosure from companies and support from industry associations, NGOs and/or governments.
Core Activities: ESG reporting

6) **NGOs and Activist Groups:** Non-governmental organizations (NGOs) and activist groups advocate for sustainable practices and hold companies accountable for their environmental and social impacts. They raise awareness, conduct research, and engage in dialogues with companies, governments, and other stakeholders to drive positive change.
Supply: Advocacy and influence of public opinion regarding practices and transparency of all market participants regarding ESG issues.
Demand: NGOs and activist groups demand transparency, accountability, and responsible practices from companies, governments, and industry associations.
Core Activities: ESG strategy, ESG reporting

7) **Governments:** Governments play a crucial role in shaping the ESG landscape. They enforce regulations and policies to address societal and environmental challenges. Furthermore, governments may mandate ESG reporting, introduce tax incentives for sustainable investments, or set emissions reduction targets. Governments also collaborate with international bodies to develop global sustainability frameworks.

Supply: Governments supply regulations, policies, and incentives to drive sustainable development and enforce ESG reporting requirements, ultimately to protect society.
Demand: Governments demand ESG reporting, compliance, and transparency from companies, support from NGOs, and responsible behavior from investors in order to develop policies, address societal and environmental challenges, while also protecting investor interests.
Core Activities: ESG reporting

8) **Industry Associations:** Industry Associations (e.g. Global Compact or PRI), bring together companies, investors, and other stakeholders depending on the sector. They promote ESG best practices, facilitate knowledge sharing, and encourage collaboration to advance sustainability goals (such as the UN SDGs) within industries.
Supply: Industry associations supply guidance, best practices, and collaboration platforms to companies, standard setting bodies and governments.
Demand: Willingness to collaborate and truthful sharing of shortcomings in ESG practices to further develop best practices.
Core Activities: ESG reporting, ESG strategy

9) **Consultants and Advisers:** Consultants and advisers specialize in providing ESG-related services to companies and investors. They help companies develop ESG strategies, conduct assessments, improve ESG performance, and advise investors on sustainable investment options. Examples of such firms are: PwC, KPMG, McKinsey & Company, Deloitte and many more.
Supply: Expertise to navigate the complex ESG landscape. They help to integrate ESG and optimize ESG practices.
Demand: Money for their expertise.
Core Activities: ESG strategy, ESG reporting

10) **Consumer & Society:** Consumers and society shape the ESG ecosystem only indirectly by driving companies to adopt sustainability practices through their preferences, demands, and concerns.

They increasingly support sustainable products and services, while advocating for responsible business conduct to influence companies, investors, and governments to prioritize ESG.
Supply: Market force, ability to shape and influence trends.
Demand: Consumers and society demand sustainable products/services, transparency, and ethical behavior from companies, influencing their business decisions and practices.
Core Activities: ESG Investing, ESG Strategy

Evidently, the ESG ecosystem consists of a multitude of stakeholders. Explaining all of the nuanced interrelations of the presented stakeholders would go beyond the scope of this thesis, even for a hypothetical ideal world[19]. It is sufficient to conclude that they generally all aim to work towards increasing the convergence of ESG in the business world. However, the world is not ideal and there are two major issues with the assumption of such a world:

Once again, there is no clear definition of what ESG truly means. Hence, it is hard to find common ground for participants in the ESG ecosystem to increase the convergence of ESG, especially as ESG is not only politicized, but increasingly polarized (Edmans, 2023).

Secondly, the ecosystem consists of a mix of for-profit (e.g. rating agencies), non-profit (e.g. industry associations) and passive actors (consumer & society). This poses the question of who truly benefits from the 'ESG Revolution', especially in a moment in time, where ambiguity about ESG persists?

2.1.6 Who Is in the Business of ESG?

Aswath Damodaran, professor at NYU's Stern Business School, expresses a dire response to the questions above, as he calls ESG the latest "*new and revolutionary*", yet elusive idea, marketed as the solution to all of the problems in business decision making (Damodaran,

19 Apart from the ten market actors outlined here, one could argue that academia and media also play a significant role in shaping the ESG landscape.

2022, p. 2). He states that similar to concepts decades before, ESG is characterized by a healthy dose of marketing and selling, usually by consultants and bankers and predicts that the appeal for ESG will quickly fade, once its limitations broadly surface (ibid.). Next to other accusations of how ESG is merely a marketing tactic, Damodaran makes the convincing argument that ESG services (such as rating agencies or consultancies) *"seem to have little sense of what exactly they are measuring with ESG, swerving from goodness to risk, when it suits them"* (ibid., p. 5). Indeed, it has been documented that the financial incentive for an ESG rating (e.g. collecting money from investors) is often enough for a company to adopt it, without regard to its quality (Larcker et al., 2022b, p. 7). As it seems, professional service companies embrace the definitional flexibility of the term ESG.

However, this comes at a two-fold cost for investors, especially retail investors, who often purchase ESG funds in order to ensure their investments reflect certain societal values or environmental standards (Larcker et al., 2022b, p. 8) and essentially embrace the view that ESG is *"doing good"* (ibid., p. 2). Firstly, investors swayed by 'better world'-marketing often incur opportunity costs as ESG rating providers predominately adopt an opposing view about the meaning of ESG. For instance, in the case of MSCI, Simpson et al. (2021) state in their Bloomberg article:

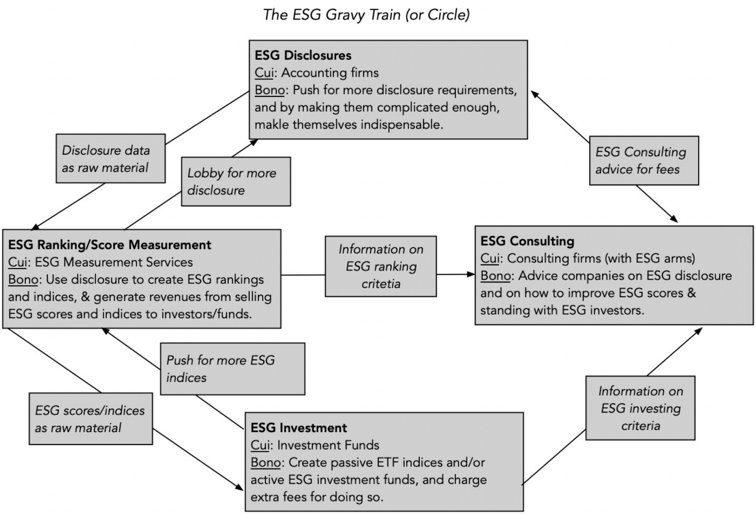
> *"There's virtually no connection between MSCI's 'better world' marketing and its methodology. That's because the ratings don't measure a company's impact on the Earth and society. In fact, they gauge the opposite: the potential impact of the world on the company and its shareholders."* (ibid.)

Secondly, Kessler (2022) argues in his article in the Wall Street Journal that *"slapping"* an ESG tag onto an ETF enables asset managers to charge 5–15 times more compared to standard index funds, despite the fact that their different weightings are neglectable and often perform worse than the regular index funds.

So, if ESG (in its current state) does not necessarily serve the consumer, society nor the socially conscious investor, who does it serve?

Damodaran argues that next to big asset management companies, three key players of the previously described ESG ecosystem – namely ESG measurement service companies (rating agencies and data providers), consulting firms and accounting firms – benefit substantially from the 'ESG revolution'. For the sake of completeness of the list of beneficiaries, one should include big law firms as well (see Runyon, 2022). The illustration below explains the question why ESG is still being sold by answering the most necessary question in business: Cui Bono?

Figure 2: The ESG Gravy Train (or Circle) (Damodaran, 2022).



The notion that mostly the for-profit actors in the ESG ecosystem benefit (at least so far) is not a rare one. Quinson (2021) outlines how banks, and Ferazzi and Tueske (2022, p. 4) describe how 'Big 4' accounting firms, *"cash in"* on ESG. Both articles insinuate that the line between turning a societal need into a business opportunity and simply using one's brand or title to make a profit is thin.

Damodaran, concludes his lecture that the ESG movement has done a great disservice by fostering the belief that individuals caught between morality and money can have both simultaneously (Damodaran, 2022, p. 33). Deceitfully, this notion suggests to companies that embracing ethical practices will automatically increase their value, convinces investors that incorporating moral considerations into their investments will yield higher returns, and leads young job seekers to believe they can receive lucrative compensation while engaging in humanitarian work, akin to being paid as bankers. Such notions, however, are delusional (Mackintosh, 2022). At last, Damodaran (2022, p. 33) predicts that an attempt to resist the true nature of this delusion, *"will breed cynicism in everyone involved"* (ibid.).

Acknowledging the sentiment connected to 'ESG's Gravy Train' with the backdrop of the acronym's overall vagueness is a critical prerequisite to better understand the current dynamics of ESG.

2.2 Current Dynamics of ESG: Between 'Better World' and Deceptive Greenwashing

It has been discussed extensively now that the term ESG has seen a rapid rise over the past decade. Overall, ESG has already had significant impact on the work of important decision makers in business enterprises, investment firms and law makers. At the same time, regardless of the view one ultimately assumes about the purpose and mission of ESG, there is a looming notion that some of the players in the ESG ecosystem are using it for profits rather than progress. That is why ESG has recently experienced somewhat of a *"stall"* as it is increasingly politically polarized (Clements & Cunningham, 2023). While this is exponentially truer for the United States, where billionaire founder Elon Musk called ESG a scam, that *"has been weaponized by phony social justice warriors"* (Barry, 2022) or where 15 states effectively introduced anti-ESG laws (Gombar, 2023) it can also be observed in the EU. An inflection point that led to the bursting of the ESG hype was the forthcoming of Desiree Fixler[20] about the malpractices at Deutsche Bank's asset management arm, DWS. In an interview with Lorenz Honegger from the Neue Züricher Zeitung in 2022 she states [quote directly translated from German to English]:

> *"We have watered down ESG to a meaningless concept. I hope recent criticism of ESG and resurgent climate activism, along with calls for more regulation and more reporting standards, will get us back on track."* (ibid.)

Coupled with geo-political uncertainty in Ukraine as a *"caesura of the ESG transformation"* (Betz, 2022), inflows into ESG investments have been declining starkly since mid 2022 and were the lowest in the beginning of 2023 (Foster, 2023).

Interestingly though, the same is true for the few anti-ESG funds in the United States. While they attracted some money in late 2022, they now see fewer new capital as most investors believe that investing against ESG principles is also too restrictive (Kerber, 2023). Moreover, it has been proven that although the supporters of the anti-ESG movement receive plenty of media coverage, they don't get a lot of *"big wins"* (Goth, 2023).

On the one hand, as Peter Drucker might have described it, the anti-ESG movement resembles a minority of single-minded "*true believers*" that is concerned only with nullifying (Drucker, 2011, p. 215f., first published in 1980). But on the other hand, contrary to Drucker's respective idea from 1980[21], the great majority of moderates is shrinking across the globe as political polarization – towards both ends of the spectrum – is increasing worldwide (Schedler, 2023, p. 14). Furthermore, especially the younger generations of today's nations are

20 Desiree Fixler gained prominence in the ESG arena, because she spoke out about the greenwashing of financial ESG products at her former employer DWS (by Deutsche Bank). First, it cost her the position at the company, but less than a year later DWS was raided by German police and the CEO resigned.

21 Drucker describes that the single-minded minority has the power to block issues and ideas, mostly because of *"the lethargy of the great majority of 'moderate', who do not show up at meetings, do not vote, and do not greatly care."* (Drucker, 2011, p. 216).

not characterized by lethargy, but instead they are participating in various forms of (often digital) engagement. Needless to say, globally, the range of such engagement is fairly wide as it entails inter alia the dissemination of propaganda, conspiracy theories and environmental activism at the same time. All of the developments above, characterize and perpetuate the current discourse around ESG.

Overall, despite advances, ESG remains hardly defined and inadequately regulated, which makes it confusing for both investors and companies to understand (Kishan & Schwartzkopff, 2022). This poses a multitude of challenges for both private and public sector organizations as there must be – and there are – quite a few charlatans, and many more who preach ESG only because it is the fashionable thing to do[22]. As Peter Paschek described it for the *"mega-trendy"* term of sustainability and Corporate Social Responsibility, ESG is under threat to be used inflationary and thereby to be undermined and degenerated to an empty shell of a word (Paschek, 2019). Right now, as ESG remains definitionally vague and is simultaneously accompanied by great attention from a multitude of ideologically diverse members of society's major leadership groups, it is unsurprising that the current perception of the acronym is multi-faceted. Therefore, the following part of this thesis is concerned with analyzing the views of both, opponents and proponents of ESG, before it delves into the demands of young people and their relation to ESG issues.

2.2.1 The Opponents of ESG

Criticism towards ESG is not new. In fact, research articles as early as 2005 (Derwall et al.) or 2008 (Kempf & Osthof) show, that the academic community has been discussing ESG controversially for a long time. To stay within a reasonable scope, the following passage provides

22 This statement is an adaptation of Peter Drucker's statement, who wrote in 1986 the following: "*There must be—and there are—quite a few charlatans, and many more who preach management development only because it is the fashionable thing to do.*"

an overview of the main arguments against ESG that are brought up today.

ESG is Distraction

The most prominent criticism is that ESG is a distraction for both investors and companies. Since the coining of the term ESG, critics have claimed that considering ESG issues for investments is a distraction for investors because it violates their fiduciary duty towards their clients. As Pollman (2022) explains, this critique has been invalidated by the 'Freshfields Report'[23] in 2005. However, it is still brought up in recent debates regarding ESG (McGowan, 2022; Rubenfeld & Barr, 2022). For companies, opponents state, ESG is a distraction because it gets in the way of what businesses are supposed to do: *"make as much money as possible while conforming to the basic rules of the society,"* as the infamous Friedman Doctrine stated in 1970. From this vantage point, ESG assumes the guise of a mere diversion—a public relations maneuver or a cunning exploitation of customers', investors', or employees' loftier aspirations. ESG becomes an instrument to bolster the brand's image rather than an integral component of corporate strategy. It is viewed as supplemental and sporadic in nature. Given this perspective, some argue that ESG is a virtue signal and merely a marketing tool *"that lends itself to greenwashing"* (Pollman, 2022, p. 26), without adding any real value. This notion has primarily led to the political polarization of ESG, deepening the *"culture wars"* in the United States (Winston, 2023), where (republican) critics claims that ESG threatens the economic freedom of people by putting social causes before their will (Kishan & Schwartzkopff, 2022) or where former Vice President Mike Pence accuses ESG to be a pernicious strategy that *"allows the left to accomplish what it could never hope to achieve at the ballot box or through competition in the free market."* (Pence, 2022 as cited in Pollman, 2022, p. 27). At the most basic level, this point of

23 The Freshfields report is seen as the leading resource, stating that integrating ESG into investment analysis is permissible and potentially required globally.

view denounces ESG to being 'woke', which has become a trigger word, weaponized by the right (Rose, 2020), to signal abnormalisation for the proper development of our societies (Cammaerts, 2022).

ESG is Impossible

A second argument against ESG is that it is intrinsically too difficult to be feasible (Perez et al., 2022). Finding the right balance to implement ESG in a way that satisfies various stakeholders is extremely challenging for companies. While pursuing (only) financial returns has the straightforward and highly influential objective of "*maximizing shareholder value*" (Jensen & Murphy, 1990), a broader ESG focus introduces greater complexity in order to identify and measure the best-balanced interest of various stakeholders. Addressing the needs of multiple stakeholders involves making difficult trade-offs and may even seem impossible (Perez et al., 2022). When allocating additional resources towards ESG initiatives, who should a manager prioritize? Should it be directed towards customers through lower prices? Should it benefit employees with improved benefits or higher wages? Should it go towards suppliers? Or should it be dedicated to environmental concerns, such as implementing an internal carbon tax? Determining the optimal choice is often unclear. As a result, companies often act hesitantly (ibid.).

ESG is Box-Ticking

This hesitation of companies however is juxtaposed to the vast spread of ESG ratings and ESG investment products, which are both characterized by – as has been examined above – a stark disconnect between their marketing and their methodologies for ESG scoring or their inclusion criteria for financial products. Generally speaking, the supply side of ESG products[24] radiates around the 'protecting against society'-narrative, while the demand side of ESG products, willingly (or unwillingly due to marketing) is looking for something within ESG that follows the 'doing good'-narrative.

This leads to an important caveat: for many, ESG ratings elicit the impression that companies are given false credit for meeting criteria that one would expect to be met anyway. A simplified example: the fact that a company does not pollute scarce drinking water, ensures that their products are safe and is transparent towards the public where it pays taxes and how much revenue it generated does not warrant the impression that it makes our world better or improves our quality of life – it simply does not make it worse. At the very best, from this perspective, ESG scores can be viewed as a box-ticking exercise, where metrics protect against ESG-risk, but not as scores that indicate that a company contributes something meaningful towards the betterment of our today's social and environmental problems. This very notion perpetuates and eventually breeds the first argument that ESG is a grossly inflated 'buzz' with not much behind it but deceptive (and for investors even costly) 'woke-washing'.

ESG Can't Be Measured

Moreover, critics justifiably argue that ESG performance is not measurable, at least not to a practical degree (Perez et al., 2022). Larcker et al. (2022a, p. 877) conclude their argument that ESG ratings do not accurately measure ESG quality with the following statement:

> *"The number of input variables is daunting. Rigorous measurement of each dimension constitutes a significant research challenge. Measuring all of them accurately and combining them into an overall*

24 This thesis defines ESG products as ESG Data, ESG Ratings, ESG Consulting and ESG Investment Products. Hence, in this context ESG products are revenue-generating activities by for-profit organizations.

composite ESG score that is predictive of outcomes is likely not possible." (ibid.)

As outlined above, the lack of broadly adhered to ESG reporting standards, is a recognized obstacle for the 'ESG revolution'. Hereby, it is essential to acknowledge that standard setting organizations like the GRI and SASB have distinct approaches to measuring the same aspects. Consequently, it is unsurprising that different rating and scoring providers, who, on top of standards, incorporate their own analyses and weighting methodologies, would yield contrasting scores. As Berg et al. (2022) have shown this is currently the case, as the ESG ratings of major rating agencies hardly corelate with each other. However, for some, this diversity of 'perspectives' on ESG is currently a great hindrance to fully unlock its potential, as different agencies may rank the same company very differently on the ESG spectrum, with the result of limited comparability (Christensen, et al., 2020; Berg et al., 2022). For a few examples of rating divergence see Appendix 2.

Additionally, major investors have developed their own exclusive approaches to assess the ESG performance of a company that rely on a range of factors, including – but not limited to – ESG scores from external providers. These methodologies have been refined and perfected by investors over time, however with a lack of external transparency. Lastly, as every company (that commenced its ESG journey) goes through thorough ESG materiality assessments, often with the help of consultants or advisors, ESG performance of companies becomes even less comparable, especially between industries. For instance, only for ESG insiders, it can appear rational that the consumer goods behemoth Unilever receives an 'AAA-rating' from MSCI, signaling ESG excellence and at the same time is assessed with 'Medium Risk' by Sustainalytics. Conversely, MSCI rates Exxon Mobil with 'BBB', indicating ESG midfield within the industry, while Sustainalytics's rating for Exxon Mobil indicates 'Severe Risk'.

There Is No ESG Alpha

At last, opponents of ESG investing in particular state that even if ESG could be measured and reported correctly, there is no connection to financial performance (Perez et al., 2022; Billio et al., 2020). This argument is highly debated. Some authors claim that ESG funds overperform (e.g. Paulman & Winston, 2022), while other claim that they underperform (e.g. Johnson, 2021).

Notes on the Opposing Views

It is imperative to mention that all of the arguments above are focused on the fact that ESG criteria are almost entirely intangibles (Christensen et al., 2020; Polman & Winston, 2022). Here, one negative and intuitive conclusion comes to mind: *"If you can't measure it, you can't manage it"*. Although Peter Drucker is commonly associated with this quote, he never actually said it (Zak, 2013)[25]. His approach to measurement was more nuanced and explicitly included the case of intangibles. Drucker wrote (1986, p. 102):

> *"But the starting point for effective work is a definition of the purpose and mission of the institution, which is almost always intangible."*

Drucker further explains that in subsequence the manager has to define explicit, clearly defined targets from which in turn priorities, deadlines and accountabilities can be derived (ibid., p. 102). Although in the realm of ESG there are no crystal-clear targets yet, it can be argued that the industry will inevitably get there. While it might still take some time, it surely will be quicker than the formation of our initial corporate accounting customs, which took decades after the Great Depression to standardize (Eccles & Mirchandani, 2022).

25 In fact, this quote originates from Dr. W. Edwards Deming, but is also a misleading reduction of his original quote with quite the opposite meaning: *"It is wrong to suppose that if you can't measure it, you can't manage it – a costly myth."*

Therefore, this thesis postulates that, instead of focusing on finding the right KPIs and measurement methods, the primary focus should be on ESG's *purpose* and *mission*. This intangible term of *mission* and *purpose* for ESG has to be rethought. Urgently, it needs to be re-directed from its course to a 'watered-down' concept, towards a course of a change bringer. Furthermore, the thesis defines the purpose of ESG as its the raison d'être, which is argued to be the actualization of environmentally and socially responsible business practices, or as Clément et al. (2023) describe it, the operationalization of Corporate Social Responsibility. The mission of ESG is hence defined as the actions and tasks to achieve this purpose.

However, the current rendering of ESG will by no means help to cure environmental or social ills, but at best not increase them. If one only focuses on the standardization of ESG, one outcome is likely to be produced: ESG will hit target, but miss the point.

2.2.2 The Proponents of ESG

Done Is Better Than Perfect – Also in ESG

Admittedly, the favorable voices of ESG may prematurely state that "*ESG has completely changed the game*" (Kishan & Schwartzkopff). But even with an imperfect system, ESG has already achieved substantial change. Proponents therefore argue, that despite imperfections it is worth to pursue ESG (Larcker et al., 2022a, p. 878). Of course, depending on the nature of the endorsers within the ESG Ecosystem (for-profit vs. non-profit) and their respective understanding of the mission and purpose of ESG, the motivations for driving the 'ESG Revolution' may be different. However, even with opposing definitions of what ESG truly means, supporters of ESG are in it for the following common denominators.

Climate Crisis Demands the Shift to Long-Term Thinking

Firstly, amongst ESG supporters, it is universally agreed upon that 1) the human-made climate crisis requires increasingly urgent action (e.g. Climate change and human behavior, 2022; Prabhakar, 2023)[26], and that 2) social cohesion is an important prerequisite for a functioning society (e.g. Bourdier, et al., 2021; PRI, 2017). Thereby, being anti-ESG is intrinsically illogical for any investor or manager, who wants to achieve sustainable long-term value.

> *"(…) it seems crazy to title an article "The end of ESG." But this title intends not to signal ESG's death, but ESG's evolution from a niche subfield into a mainstream practice. The biggest driver of this ascent is the recognition that ESG factors are critical to a company's long-term (financial) value. But then all executives and investors should take them seriously, not just those with "sustainability" in their job title."* (Edmans, 2022, p. 2)

This statement hints at the fact that the global business world may have finally eclipsed shareholder primacy, especially for the short term (LoPucki, 2022). This is in line with both, Drucker's understanding from 1993 that maximizing shareholder value would lead to suboptimal outcomes as *"long-term results cannot be achieved by piling short-term results on short-term results"* (p. 72) and the 'Who Cares Wins' report that clearly states that when considering ESG factors, the new time horizon should be ten years or longer (Global Compact, p. 2). To put it pungently: while being on the ESG sideline may still be practical (today) from a business perspective, being against ESG appears nonsensical if one truly aims at developing sustainable societies (Global Compact, 2004).

26 The cited articles stem from *Science* and *Nature*, the world's most renowned scientific journals. It's worth to highlighting, just in case this thesis ever falls into the hands of a denier of climate change.

Accounting Profit for the "Cost of What"

Secondly, the aforementioned argument is perpetuated by the fact that in our interconnected world, the actions undertaken by big companies often bear significant impact for individuals who may not have direct involvement with the company itself. This impact manifests as externalities, encompassing various aspects such as the greenhouse gas emissions generated by the company, its impact on labor markets, and the implications for supplier health and safety. For a long time, hidden behind and legitimized by the well-known Coase Theorem (1960), companies were able to operate with no real regard to their externalities whatsoever (Johnston, Amaeshi & Adegbite, 2021). In short, the theorem suggests that the solution to negative externalities from the creator (companies) is either instrumental regulation (through a governor) or bargaining between the creator and the victim (uninvolved individuals) of the externalities (ibid., p. 39). The latter is called Coasian bargaining and represents the approach that has been opted for in the past by regulators across the globe – especially for the case of social (ibid.) and environmental externalities (Gills, 2015) – as long as the creators of externalities *"stayed within the rules of the game"* in Friedman's manner.

However, as pressure regarding the ineffectiveness of holding big corporations accountable for externalities piled up in the second decade of the 21st century, a lasting shift away from the traditional understanding of the business enterprise's role in society began to emerge. For instance, in 2019, the Business Roundtable redefined the purpose of corporations, placing corporate responsibility and stakeholder capitalism at the center of this redefinition. Regulatory bodies have also taken notice of this development, although with varying degrees of urgency and assertiveness across different countries, local governments, and agencies. Many ESG advocates argue that, for the first time, ESG offers a structured approach to internalizing such externalities across a (potentially too) broad spectrum of applicable metrics (Samans & Nelson, 2022; Perez et al., 2022).

Diversified Standardization Is Valuable for ESG

The third common denominator of ESG supporters is that there is a great potential for standardization in ESG reporting. As discussed extensively above, many participants in the ESG ecosystem are concerned with proposing, discussing and implementing such standards. Again, especially for the for-profit participants in the ecosystem, this may be a win-win situation, as the current state of ESG allows them to not only significantly benefit from it financially but they can also call themselves drivers of the 'revolution' at the same time. Many researchers agree that the standardization of metrics will come eventually (Eccles & Mirchandani, 2022), probably within this decade (Lykkesfeldt & Kjaergaard, 2022). Lykkesfeldt & Kjaergaard (2022) argue that the 2020s *"will likely be remembered for implementing the regulatory framework and harmonizing ESG data."* (p. 247).[27] It is important to consider that financial accounting, similar to ESG reporting, developed over time in response to stakeholder demands rather than spontaneous regulatory initiatives. Although ESG measurements are still in progress, there have been notable advancements in this area. ESG measurements are continuously improving and undergoing changes, including a constant effort towards the consolidation of reporting and disclosure frameworks. For instance, on June 26th the ISSB released their inaugural global sustainability disclosure standards, which have received adamant feedback from participants in the ESG ecosystem (IFRS, 2023)

The 'Big Tent Approach' Covers Many Interest Groups

Eccles[28] and colleagues from BCG state that although the bare acronym has suffered a reputational loss, there is great potential for ESG ahead, especially when it is driven by the top of the business elite (Eccles et al.,

27 Most recently, on June 26th 2023, the ISSB released their inaugural global sustainability disclosure standards, which have received adamant feedback from participants in the ESG ecosystem.

28 Robert Eccles received his PhD from Harvard University and is currently a chairman of KKR & Co. Inc. Arguably, he is part of *"society's major leadership group"*. He

2022). Pollman (2022) concludes her essay that while the *"big tent approach"* of ESG's history has led to great challenges, critiques and disagreements, it was also uniquely successful as it facilitated vast buy-in from a wide range of stakeholders, diverse in their views about more things that just the definition of ESG. Perez et al. (2022) argue that the differences in ESG, highlight the significance of these matters to stakeholders and do not at all weaken the case for rigorous reporting: if anything, they underscore its importance. Similarly, Edmans (2022) states that another word for disagreement is diversity, when it comes to ESG. He further explains that many of the controversies surrounding ESG become *"moot"* when viewing ESG as a set of long-term factors (ibid.)

> *"We don't need to get into angry fights between ESG believers and deniers, because reasonable people can disagree on how relevant a characteristic is for a company's long-term success."* (Edmans, 2022, p. 3)

It is worth mentioning one set of investors, who (claim to) know best what characteristics are relevant for a company's success: private equity companies.

Private equity (PE) companies globally have over 11.7 trillion USD in AUM (McKinsey & Company, 2023a) and their business model[29] gives them an advantageous position to push an ESG agenda in their portfolio companies. While the increasing importance of 'E' is accompanied by many new signatories to the PRI[30], PE must actively increase diversity within their holdings and their own companies ('S') and spread the wealth generated by the PE industry more evenly ('G').

is also a leading expert on the integration of ESG factors, particularly for the private equity industry. For more insights see Harvard Business Review, 100(4).

29 PE companies commonly have one their employees on the board of directors of their portfolio companies.

30 The number of PRI signatories has quadrupled over to past 5 years. However, as Gibson et al. (2021) show the new signatories in the USA do not follow through on their responsible investment commitment.

Eccles et al. (2022) summarize their article in the Harvard Business Review cautiously (p. 92):

> "*To be successful in the future, PE leaders must speak openly and often about the importance of sustainable value creation. They must recruit people who care about it in the broadest sense and aren't joining the industry just because it can be very lucrative. We foresee three consequences if the industry fails to fully embrace ESG: Its* ***social legitimacy*** [author's emphasis] *will increasingly come under attack. It will no longer be able to deliver its historically high returns. And it will fail to fulfill its potential to help solve, rather than exacerbate, environmental, social, and governance problems.*"

Social License is Corporate Oxygen

This leads to the last and all-encompassing argument in favor of ESG: "*Social license is corporate oxygen*" (Perez et al., 2022, p. 8), for all business enterprises, not only for private equity companies. It is impossible for any business enterprise to survive without it. Consequently, it should not be taken for granted.

A wait-and-see approach is unlikely to be sufficient. Rather, companies are advised to demonstrate that they *"benefit multiple stakeholders and the broader public"* (ibid.). As Chapter 2.5 will show, this again, has been advocated for by Peter Drucker a long time ago.

To sum up: what this chapter showed is that ESG is controversial. While the business interest seems unstoppable, skepticism (even from activists) is also on the rise. What makes ESG's current state unique is its simultaneous criticism from conservatives and climate or social justice activists. The former accuse it of being 'woke', while the latter view it as a dangerous placebo that merely delays real action (Honegger, 2023). Today, ESG is somewhere in the middle between being the bridge to a 'better world' and deceptive greenwashing. Defining the best-fitting metrics for measurement is critical, but primarily the intangibles – the *purpose* and *mission* – of ESG must be re-considered.

The presented thesis is not alone with this perspective as some financial institutions are already pitching 'ESG 2.0', which should help to realign capitalism for the benefit of broader society (UBS, 2023) or more meticulously integrate the concept of double materiality[31] (Fidelity, 2023). At the same time, other ESG advocates propose to scrape the acronym ESG altogether as it has become overly polarized (Edmans, 2023; Fink, 2023 as cited in Binnie, 2023; Eccles, 2022 as cited in Kishan & Schwartzkopff, 2022).

Henceforth, one forgone conclusion can be presented here: if executives ignore that ESG is not yet ripe but still take any ESG-seal they can get, they could soon be faced with the social legitimacy question of their own business, even if they have received a pleasant score in regard to the discussed acronym.

2.2.3 Long-Term Value for Who?

When combining the social license argument with the true merit of sustainable long-term value creation of ESG, one thing becomes evident: social license needs to be gained and retained from those who are increasingly questioning it: young(er) people. Within the next two decades, the '20-somethings' of today (and tomorrow) will move into positions of greater power and wealth and therewith drastically shape the (business) world from all of its angles. Unquestionably, there will still be some confident shareholder value maximizers or exploiters of social inequalities. However, the vast majority of younger people, especially those who experience the privilege of higher education are increasingly demanding change and ask tough questions about what a given institution does for the planet or society (Hunt et al., 2022; Goldberg, 2022). As professionals from Oliver Wyman Forum and The News Movement (TNM) explain, after gathering insights from over

31 Double materiality states that a company's financial success is influenced by its effects on the environment and society, and these effects can also affect its long-term financial viability.

150,000 participants in ten countries, young people are unlikely to "*become their parents*" (and adopt their values) as they move through life because of their unique upbringing, which has been riddled by economic and social turbulences (Oliver Wyman Forum & TNM, 2023, p. 7[32]). While their extensive report, reveals many insights about the notorious Gen Z (born between 1996–2010), this is not news. In fact, throughout modern human history, young people have always shaped their distinct attitudes, beliefs and values based on shared formative events, that have in subsequence largely influenced social and political change. This phenomenon was firstly coined "*Das Problem der Generationen*" by Karl Mannheim in 1928 and is one of the few canonical theories of sociology (Caballerro & Baigorri, p. 337). In this context, one summarizing thought by Peter Drucker from the prologue of his book 'A Functioning Society' comes to mind:

> "*Finally, it should be understood that legitimacy is a purely functional concept. There is no absolute legitimacy. Legitimate is a power when it is justified by an ethical or metaphysical principle that has been accepted by the society. Whether this principle is good or bad ethically, true or false metaphysically, has nothing to do with legitimacy, which is as indifferent ethically and metaphysically as any other formal criterion.*" (Drucker, 2003, p. xxii).

Was it ethical for past generations to exploit the planet to such an extensive degree that we are now fighting for humanity's survival? Probably not. But – amongst other things – the Friedman Doctrine and shareholder primacy legitimized it. Will these paradigms still function as convincing arguments for sustainable long-term value today? Again, probably not. The following pages will therefore more closely elaborate how this generational demand manifests with regard to ESG and thereby give testimony to Drucker's statement from 2003 that "*In the next society the biggest challenge for the large company, especially for*

32 The report of Oliver Wyman Forum and TNM focuses on the cohort of young people that was between 18 to 25 years old in 2022 and is thereby greatly aligned with the age group most closely examined in the survey of this study.

the multinational, may be its social legitimacy." (Drucker, 2003, p. 230). One critical insight should be presented as a primer: value will be increasingly generated through values.

2.3 Young Generations and ESG: Legitimacy Under Threat

While the generational gap in attitudes is not new, the size of Gen Z is. For the last century, there was not a single generation as big as Gen Z is (Oliver Wyman Forum & TNM, 2023, p. 5). This alone is reason enough to study their opinions and could fill many theses. It is imperative to mention that studying generations in fixed cohorts (such as Gen Z or Baby Boomer) can obscure individual motivations and has recently become questioned by academics in the field (Elliot, 2021). Generational theory always comes with this caveat. Hence for this thesis, the classification of generational cohorts is used as a tool of thinking about society rather than an assertion of absolute truths for a certain age group. For the given research, it is of special interest to examine what young people (roughly aged between 18–30 years)[33] think about the role of the business enterprise in our society and how this is connected to ESG respectively. Of course, Gen Z did not invent the movements, ideas or demands outlined below. Yet, researchers agree that opposed to their predecessors – Millennials – they are keener to take real action and thereby turn theoretical idealism of previous generations into practical activism (Oliver Wyman Forum & TNM, 2023). Accordingly, there will be a brief discussion on how they are expected to shape society through their various societal roles as consumers, voters, and employees. Finally, the hypotheses for the given thesis are presented in Chapter 2.4, which are analyzed along the collected data in Chapter 4.1.

33 The terms 'Gen Z' and 'young people' are used interchangeably in this thesis.

2.3.1 Consumer Demands

From a consumer standpoint, sustainability emerges as a paramount concern for young individuals. Numerous recent reports affirm that the purchasing decisions of young people consistently revolve around the environmental impacts of products and services. To the extent that they are willing to pay a premium for items or offerings, provided they are assured of their minimal detrimental effects on the planet (Deloitte, 2023, p. 30; PwC, 2020, p. 17). One other consequence is the emergence of upcycling, re-use and do-it-yourself approaches which all aim at reducing overall consumption whatsoever or contributing to the circular economy (Euromonitor International, 2023, p. 20–24).

Gen Z has real 'climate anxiety', which can be described as the heightened sense of urgency to turn climate change around. According to McKinsey & Company, Gen Z widely report to think about the fate of the planet on a daily basis (2023b, p. 3). They feel a strong sense of responsibility to mitigate the damage caused to our earth and show a clear preference for companies that proactively prioritize their environmental impact. Accordingly, Gen Z exhibits a positive inclination towards businesses that demonstrate a genuine societal purpose that transcends mere business operations and profit-making. In their view, the business of business should not only be business, but the quality of life. They hold the belief that it is the responsibility of big institutions to act with regard to today's problems. They think that businesses need to "*raise their game*" and they "*back it up with their wallets*" (Oliver Wyman Forum & TNM, 2023, p. 5; McKinsey & Company, 2023b). This holds to be true for their capital allocations as well: 82 % of Gen Z investors have exposure to ESG investments (Versace & Abssy, 2022). More notably, according to a Stanford survey more than 80% of Gen Z and Millennial investors think that their investment firm should influence companies' environmental, social, or governance policies or practices even if doing so decreases the value of their investment (Gelfand, 2022). Hence, many believe ESG can and should truly serve their values.

Yet, their tech-savviness equips them well to sniff out green-or purpose-washing (Oliver Wyman Forum & TNM, 2023, p. 5). Companies that merely talk the talk, but don't walk the walk are quickly 'shit-stormed' or 'buycotted'[34]. Commonly, these uproars go beyond environmental accusations and companies are put in the pillory for nontransparent corporate behavior, the lack of diversity and inclusion efforts or simply unethical business practices, as young people no longer form their opinion of a company solely based on the quality of their products or services but now on their ethics, practices and social impact (Deloitte, 2018). Such upheavals quickly gain a respectable momentum thanks to modern technology and Gen Z's tendency to be *"always on"* (McKinsey & Company, 2023b, p. 2). Following this overall notion, Georg Kell, founder of the Global Compact that produced the repeatedly mentioned 'Who Cares Wins' report denies the question if ESG will fade away again with three "*irreversible structure altering forces*". Firstly, he states, the constantly emerging technology will only lead to more opportunities for measurements and transparency in ESG and will hence be sought after. Secondly, there is no doubt that earth is heating up and that companies must *"get a grip"* on their externalities. And thirdly, the intergenerational factor will be the single most important driving force behind ESG. According to Kell, "*younger people are – rightfully – pushing for answers. If one disregards their shift in preferences and does not offer sustainable products and services, one has no chance*" (Kell, 2022 as cited in Christ & Gassmann, 2022, p. 96f. [quote directly translated from German to English])

The Shakespeare-inspired proverb that heavy is the head that wears the crown can be related to Gen Z. From social injustices to climate change, they could be the generation that has the last word on the future of society and humankind (Oliver Wyman Forum & TNM, 2023, p. 4).

34 'Buycotting' is a form of negative purchasing behavior characterized as a type of protest aimed at a company with dubious ethical standards in which consumers purposefully buy the products of another company (Collins, 2023).

2.3.2 (Corporate) Political Demands

In line with the consumer demands, it is unsurprising to observe that the political demands of young people are comparably drastic. They are upset about the slow pace of climate policies and are not afraid to speak up. In fact, currently, the most famous climate advocate is a member of Gen Z herself – Greta Thunberg. Her 'Fridays for Future' movement has disseminated across borders rapidly. Within just 5 years, it grew into a truly global movement with protests being organized in more than 7.500 cities on all continents (Fridays For Future, 2023). Evidently, young people's perceived obligation to do something about our climate transcends the one of a 'keyboard warrior' and is instead backed by real world activism. According to Jean Guerrero, columnist at the LA Times, this is what sets them apart from Millennials, their preceding generational cohort (2023). All around the world, Gen Z is on the streets and at the forefront of climate protests. Next to Greta Thunberg's organization, many young people rally for activism, such as die 'Letzte Generation' in Germany, 'Extinction Rebellion' in the UK or the 'Sunrise Movement' in the United States, all of which are sizable climate organizations spearheaded by young people. While it is debatable if these protests have a tendency towards radicalism or not, they certainly achieve one thing: the climate crisis is on the agenda for every member of society – for better or worse[35].

Overall, Gen Z does not feel heard by politics, but at the same time is characterized by a coherent self-image of a generation that will bring change (Vodafone Stiftung Deutschland, 2022, p. 2). They are strong advocates for social justice and demand clear efforts to reduce inequalities within our modern societies (Carnegie, 2022). This includes efforts against racism, affordable education for everyone and a narrowing of the wealth gap. More and more young people, cannot

35 Potentially, this could be even 'worse' or rather divisive, as some of their methods are highly polarizing compared to climate scientists' recommendations. The 'Klima-Kleber' in Germany, who protest by blocking major roads in cities, face critique from a diverse range of socio-economic groups in the country.

shake the feeling of being behind in life despite their willingness to work hard and attempts to succeed. College graduates in the US are increasingly living paycheck to paycheck (Cachero, 2022) and owning their own apartment/house one day appears totally out of reach for most young professionals in both Germany and America (Lembke, 2019; Huddleston, 2022). It is an undeniable fact that if they don't come from money, they are much less likely to achieve considerable wealth in comparison to prior generations. Even traditionally well-situated Gen Z-ers from typical middle-class families are falling victim to the ever-growing global wealth-gap. Here one statement from Peter Drucker comes to mind that relates to their frustration during a phase of what some call *"late-stage capitalism"*[36] (Espinoza, 2022).

> *"In particular, the poverty that is most offensive to us today, that is, poverty in the midst of affluence, was then taken for granted."* (Drucker, 1986, p. 221).

Contrary to the context of Drucker's statement, the current working generation did not take poverty for granted, but wealth and (relative) stability. While the post-world war II time was surely anything but easy, it was yet characterized by a) stable economic growth (for the developed societies at least) and b) a time where democracies won the peace. But as Homer-Dixon and Rockström state, things have gone fundamentally awry in the past ten years (2022). Rising global hunger, accelerating climate crisis, increasing level of political authoritarianism and a frequent occurrence of violent demonstrations and ongoing conflicts are the topics that flood news agencies nowadays (ibid.). Homer-Dixon and Rockström describe *"today's mess"* as a *"polycrisis"*, where the risks of individual crises are causally interlinked, though these links

36 Late-stage capitalism refers to a critical view of the advanced phase of capitalist economic systems, characterized by increased wealth inequality, corporate influence in politics, and a focus on profit maximization, often at the expense of social and environmental concerns.

have not been extensively explored due to deeply specialized and siloed knowledge of the risk-evaluating experts[37].

> *"So, for example, while specialists in climate change's economic impacts know something about how climate heating aggravates economic inequality within and between societies, they know very little about how it impacts ideological extremism. And they give virtually no attention to the possibility that causation might operate in the reverse direction, too — that inequality and extremism might worsen climate heating."* (Homer-Dixon & Röckstrom, 2022)

We can already observe this becoming our reality, as >30 % of Americans believe that climate change is not real (The Economist, 2021) and the German right-leaning party 'Alternative für Deutschland' (AfD) has reached a staggering 20% in national polls, despite their negating statements regarding climate change (Berliner Zeitung, 2023).

Therefore, Gen Z's fight for our planet is also concerned with the fostering of social cohesion. Next to climate change this is often strongly linked to the demand of fair pay (Edelman, 2023, p. 68; Oliver Wyman Forum & TNM, 2023, p. 9) and stronger support for underrepresented groups in our societies (ibid.). While the disenchantment with governments is high globally (Edelman, 2023, p. 9), people nowadays, believe that businesses have to take a more central role in tackling our today's most pressing environmental and social challenges (ibid., p. 29). Young people in particular want companies that contribute to the greater good, and therefore closely tie the legitimacy of a business enterprise to such efforts. For Gen Z (and Millennials) Corporate Social Responsibility plays a critical role and it is important to them that the company they buy from or work for makes a meaningful difference in their community (European Commission, 2023b). Gen Z demands a contribution from companies towards the 'better world' and

37 *"There is no Queen of Knowledges"* (Drucker, 1993, p. 198). For more background on the importance of interdisciplinary work and how Peter Drucker called for it, again, decades ago see: Optimizing for The Health of the Planet and the Well-Being of People (Schwarzer, 2023) – available upon request.

believe that governments have the obligation to provide the appropriate regulatory nudges (Hernandez et al., 2022). They want to see their true values represented in politics and in the workplace.

2.3.3 Employee Demands

Consequently, young people are not shy to evaluate potential or current employers according their values. 75 out of 100 Gen Z-ers state that they would not work for a company that misaligns with their personal beliefs (Oliver Wyman Forum & TNM, 2023, p. 49). This is drastically different from previous generations, where most emphasis was put on career outlook, compensation and benefits, perceived prestige or to do whatever it takes to "*climb the corporate ladder*" (ibid., p. 10). While young individuals still desire a career and fair compensation, their aspiration is to cultivate a purpose-driven path. Such purpose entails clear growth opportunities, continuous learning opportunities, corporate transparency, and most importantly, a job that fulfills them in the sense that it produces tangible positive outcomes for society and/or the environment. In other words, a job that has a greater purpose than paying the bills (Merriman, 2022, p. 22). All of this, of course, with a constant backdrop of mental health awareness (Oliver Wyman Forum & TNM, 2023). Young people do not want to jeopardize their well-being and "*tough it out*" for a generation of mid-fifties or older bosses, who exploited the planet for economic growth. These demands are often spitefully commented by older cohorts of the workforce, who accuse Gen Z to be a bunch of "*snowflakes*", who demand a lot, but deliver little (Jewell, 2022). While it is hard to ultimately assess whose arguments are more valid, one thing is certain: young people are not lethargic bystanders. As extensively outlined above, many Gen Z individuals are passionate about social and environmental issues. Thus, they seek out employers who demonstrate not only a commitment, but real action towards sustainability, Corporate Social Responsibility, and ethical practices (Deloitte, 2023, p. 7). Companies that traditionally do not serve either, are increasingly struggling to attain an retain talent

(Alexander, 2023). Christ & Gassmann state that any employee value proposition directed at young people must include Corporate Social Responsibility.

> *"Unlike previous generations, college graduates and apprentices today demand that not only they apply for a job, but also that companies explicitly state why one should join them and how they fulfill their social responsibility."* (Christ & Gassmann, 2022, p. 12)

2.4 Legitimacy Under Threat – Survey Hypotheses

In summary to this short elaboration on young people and their relation to ESG topics, it can be stated that most Gen Z individuals are very aware of their calling to meaningfully contribute to a better – or at least bearable – world. Environmental anxiety, persisting social injustices and a new outlook on what their job should do and be for them, transforms them into prospective change-bringers, that should be taken seriously by society's major leadership groups. Social legitimacy is always a contemporary concept. And as younger people inevitably acquire more wealth and decision-making power within their multiple societal roles as consumers, voters and employees, business leaders and politicians alike would be well-advised to consider the preferences of this generational cohort today. This is because – apart from a moral obligation to help tackle today's ills – young people are likely to continue to re-interpret the notion of long-term value creation and the role of the corporation in our society, that many professionals or politicians hold today. Additionally, they are unlikely to change their perspective, even as they grow older (Oliver Wyman Forum & TNM, 2023, p. 7). True long-term value creation is ultimately tied to the support of people. And for young people, value is created through values. Hence, derived from the contents of Chapter 2.3, this thesis postulates the following hypotheses[38]:

38 For the presented hypotheses, one note is necessary: the formulation and testing of these hypotheses is not intended to reveal novel ideas, but rather to further empiri-

H1: Young people **do not** agree that the only social responsibility of the business enterprise is to generate profits.

H2: Young people **do** agree that every organization must assume full responsibility for whomever and whatever it touches.

H3: Young people's understanding of social legitimacy for the business enterprise is deeply value-driven.

H4a: Young people care about how companies handle environmental issues.
H4b: Young people care about how companies handle social issues.
H4c: Young people care about how companies handle (corporate) governance issues.

H5: Young people simultaneously care about how companies handle, environmental, social and governance issues.

Of course, not only the young generation is affected by the turbulent times of today. But they are the most important to consider from the 'long-term value' perspective of ESG, as they will for the long-term a) live with the consequences of the political, economic, social and environmental developments of today and b) shape the political, economic, social and (to the best of their ability) environmental sphere of tomorrow. Overall, (young) people today, pressure for what Peter Drucker predicted to be an important requirement in order to maintain its social license as a business enterprise in the 1970s: to be a socially responsible organization. Therefore, his notion of the social responsibility of a business enterprise will be the topic of the following chapter, before the conditions of a bearable society are briefly discussed.

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cally examine the perceptions of young people and their relation to ESG topics, as outlined in Chapter 2.3. The hypotheses will be tested in a descriptive fashion and are not aimed at the discovery of causal links (see Chapter 2.4). Conversely, while the semi-structured interviews are developed based on the theoretical background of this thesis, their goal was to produce new insights, through an exploratory approach (see Chapter 3.3).

2.5 Peter Drucker's Understanding of Social Responsibility

The 50-Year-Old New Responsibility of Businesses

Globally, the disenchantment with politics and simultaneously the pillarization between governments and business enterprises is unprecedently advanced (Edelman, 2023). With ongoing wars, constant natural disasters, historically high inflation and political polarization, humanity undoubtedly finds itself in turbulent times and society becomes increasingly less bearable. For instance, the World Economic Forum (WEF, 2023) lists erosion of social cohesion and societal polarization alongside various environmental aspects[39] as some of the most pressing global risks for both the short term (2 years) and long term (10 years). At the same time, Edelman's extensive global study shows that people trust business enterprises much more than governments (2023, p. 8f.). In fact, businesses are perceived as the only organization which can be ethical and effective simultaneously (ibid., p. 26). Hence, the call for more societal engagement of business enterprises is steadily increasing, not only from the young generation (ibid., p. 29). Peter Drucker, foresaw decades ago, that the more our society transforms, the higher the demand for socially responsible business organizations will be well. Why?

> *"The most popular and most obvious explanation is the wrong one. It is not hostility to business that explains the surge of demands for social responsibility. On the contrary, it is the success of the business system which leads to new and, in many cases, exaggerated expectations. The demand for social responsibility is, in large measure, the price of success."* (Drucker, 1986, p. 221)

Alongside the rise of ESG, the demand for societal engagement is generally on the upswing. However, so are the exaggerated expectations regarding the abilities and competencies of business enterprises to drive

39 Such environmental aspects include e.g.: failure to mitigate climate change, failure of climate-change adaptation, natural disasters and extreme weather events & biodiversity loss and ecosystem collapse. For more see WEF Report (2023).

such transformative change (Serafeim, 2021). Nevertheless, it can be inferred that due to the continuous momentum of ESG (despite its current ambiguity), the acceptance of Milton Friedman's understanding of social responsibility is becoming brittle. In 1970, Friedman wrote in the New York Times:

> "*(…) there is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception fraud.*" (Friedman, 1970).

Today, only focusing on shareholders by maximizing profits within the rules of the game, is increasingly perceived as corporate ignorance (Merrick, 2021; Williamson, 2022).

Then again, the end of shareholder primacy has been announced for years now (some examples: Freeman, 1994; Stout, 2013 or Spence, 2019). In fact, the idea that Friedman's argument may be too narrow and simple is not at all a modern development. Friedman's contemporary, the also–highly–influential management thinker, Peter Drucker, wrote as a response in his 1973 book 'Management: Tasks, Responsibilities, Practices.' that a manager's first duty is, indeed, to fulfill the purpose of the corporation—making money:

> "*Performance of its function is the institution's first social responsibility. Unless it discharges its performance responsibly, it cannot discharge anything else.*" (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…

> "*(…) because no organ can survive the body of which it serves; and the enterprise is an organ of society and community. Therefore, mismanaging social impacts and social problems eventually will destroy society's support for the enterprise and with it the enterprise as well.* (ibid., p. 34).

"The social dimension is a survival dimension. The enterprise exists in society and economy. Within an institution one always tends to assume that the institution exists by itself in a vacuum. And managers inevitably look at their business from the inside. But the business enterprise is a creature of society and economy. Society or the economy can put any business out of existence overnight." (ibid., p. 83)

Ignoring the threat of fragile social legitimacy was always dangerous according to Drucker. While it is questionable if society could have truly put any business out of existence overnight in the 1970s (ibid.), it is certainly true today[40]. In his self-curated collection of insights of writing on community, society and polity, Peter Drucker concisely expresses his understanding of the social responsibility of a business enterprise and what limits it[41]:

"It is futile to argue, as Milton Friedman, the American economist and Nobel laureate does, that a business has only one responsibility: economic performance. Economic performance is the first responsibility of a business. Indeed, a business that does not show a profit at least equal to its cost of capital is irresponsible; it wastes society's resources. Economic performance is the base without which a business cannot discharge any other responsibilities, cannot be a good employee, a good citizen, a good neighbor. But economic performance is not the only responsibility of a business any more than educational performance is the only responsibility of a school or health care the only responsibility of a hospital.
Unless power is balanced by responsibility, it becomes tyranny. Furthermore, without responsibility, power always degenerates into nonperformance, and organizations must perform. So, the demand for socially responsible organizations will not go away; rather, it will widen.

40 A recent example, is the popular beer brand 'Bud Light'. Due to a series of poorly coordinated missteps revolving around the endorsement of the beer by a transgender person, both liberals and conservatives felt betrayed by the brand. This led to its dethroning as America's most popular beer (Manager Magazin, 2023).

41 For his central elaboration on this topic see Drucker, 1986, p. 219–244.

Fortunately, we also know, if only in rough outline, how to answer the problem of social responsibility. Every organization must assume full responsibility for its impact on employees, the environment, customers, and whomever and whatever it touches. That is its social responsibility. But we also know that society will increasingly look to major organizations, for-profit and nonprofit alike, to tackle major social ills. And there we had better be watchful, because good intentions are not always socially responsible. It is irresponsible for an organization to accept—let alone to pursue—responsibilities that would impede its capacity to perform its main task and mission or to act where it has no competence." (Drucker, 2003, p. 117)

Application to ESG

As Chapter 2.1 showed, the conventional wisdom that good intentions are rarely predictive for positive outcomes holds true for ESG as well. So how should businesses, investors or any other organization act in the nebulous ESG landscape? Of course, complying with the ESG regulations, which are coming into force slowly, is the first step – but is it enough?

The Drucker Institute writes that ESG factors are essentially built on his body of thought (Drucker Institute, 2023). Similarly, S&P Global states that Peter Drucker's philosophy is foundational to ESG considerations (S&P Global, 2019). Consequently, it is fitting to consider his perspective to re-examine ESG's purpose and mission.

In essence, Peter Drucker's forward-thinking stance on corporate responsibility lays the groundwork for the principles that underpin ESG's purpose and mission as intended by the 'Who Cares Wins' report. As illustrated by the statements above, Drucker anticipated the evolving role of businesses in society, including the extension of responsibility beyond mere financial performance. His call for organizations to consider their impacts on employees, society, and the environment resonates deeply with the pillars of ESG: Environmental, Social, and Governance. Throughout the following pages, this section briefly discusses three Druckerian aspects of social responsibility and how they relate to current ESG renderings.

First of all, according to Drucker, the first principle of social responsibility is to limit impacts on people as much as possible (Drucker, 2003, p. 103). For Drucker, *"not knowingly do harm"* was the basic rule of professional ethics, and thereby the basic rule of any ethics of public responsibility, applicable to both individuals and organizations (Drucker, 1986, p. 256).

The 'E' dimension of ESG encapsulates the environmental consciousness that Drucker urged businesses to adopt. His warning about the consequences of ignoring impacts aligns with ESG's focus on sustainable practices, resource efficiency, and responsible resource management. Overall, ESG acknowledges that businesses must consider their ecological footprint, echoing Drucker's sentiment about organizations as integral components of the broader societal ecosystem.

Moreover, according to Drucker, next to not knowingly do harm, each institution or individual **should** [author's emphasis] also look out for the common good, while focusing on their primary task (Maciariello, 2005, p. 30).

> *"Free enterprise is defensible only to the extent that it is good for society."* (ibid.)

Of course, as we know now, voluntary limitations, though often praised by public relations, were not effective. And under the broadly shared impression that focusing on maximizing shareholder value is genuinely good for society, even the most ruthless business strategies became defensible. As discussed above, legitimacy has little to do with good or bad ethics, but rather with broad acceptance. Here again, Drucker's stance on governance reflects the 'G' aspect of ESG. He cautioned against power without responsibility, emphasizing the need for effective governance structures. ESG's (theoretical) emphasis on transparent governance, business ethics, and accountability in decision processes mirrors Drucker's call for organizations to maintain a balance between private power and public responsibility.

In this regard, ESG, in all of its varying definitions, can already be viewed as an achievement. The heightened emphasis and thereby acceptance of the importance of ESG has forced virtually all companies to deal with the originally unpopular and in some cases even risky disclosure of environmental, social and governance aspects of their business operations. As we are on the brink of extensive mandatory disclosures of ESG aspects, no one has to wait for voluntarily action and even the *"stupid, greedy and shortsighted"* (Drucker, 2003, p. 105) market participants will be forced to take – to some degree – responsibility for whomever and whatever they touch. The caveat here is that regulations are (still) imperfect. Fortunately, as discussed above, improvements are likely. However, the problem of hitting target but missing the point remains.

The second principle of social responsibility, which is more significant in Drucker's view, is the obligation to foresee the societal ramifications resulting from an organization's actions (Drucker, 2003, p. 104).

> *"It is the job of the organization to look ahead and to think through which of its impacts are likely to become social problems. And then it is the duty of the organization to try to prevent these undesirable side results"* (ibid.)

Through this lens, defining ESG as the operationalization of Corporate Social Responsibility, appears suitable, because it entails the analysis of corporate actions not only in terms of financial materiality, but also social materiality, without necessarily limiting itself to actions that only 'do good'. Here, the 'S' component of ESG closely aligns with Drucker's vision of businesses as societal actors responsible for fostering well-being. Drucker's emphasis on organizations' obligations to address societal challenges and collaborate with stakeholders is – in theory – reflected in ESG's ambition on tackling social issues such as fostering diversity and inclusion engaging in community development, improve labor conditions along the value chain and ensure high product safety standards.

The importance of this can be exemplified by the case of the Swiss food and drink behemoth Nestle. Their production and *"rampant ma-*

nipulative" marketing of breastmilk substitutes – commonly referred to as formula – has had tangible adverse effects on infants across the globe, particularly in poorer countries (Boyd, 2012, p. 285). There is no scientific doubt that breastmilk from mothers is better suited to feed infants (Soguel, 2023), especially if its substitute – which is often the case in poorer countries – is prepared with contaminated water or too little powder. Formula (willingly distributed in such a way) is a product that cannot be characterized as anything other than blind and greedy profit seeking. It is not a 'Genussmittel' (a German euphemism for 'pleasure product') like alcohol, candy, or tobacco, which have all been subject to severe marketing restrictions due to their detrimental health effects. Although Nestle's breastmilk imitates have been controversially discussed for over 50 years now[42] and were accompanied by serious accusations from regulatory bodies such as the WHO (ibid.), their practices have had limited legal repercussions and clearly turned out positive from a financial materiality point of view, as they still market formula in developing countries and as their share price rose by 8,460% from 1974 till today[43] (Nestle, 2023). Nonetheless, damaging the health of infants can hardly be understood as anything but a social problem. In this lieu "*the rhetoric of profit maximization and profit motive are not only antisocial. They are immoral.*" (Drucker, 1986, p. 546).

Therefore, the definition of ESG as factors of investment analysis (see Table 1) is not sufficient, as this view would allow the legitimization of corporate behavior that is good only for the business and bad for the rest of us.

On the other hand, for instance, the production of medicine, which is beneficial for us but potentially harmful to the environment, leads to one last principle in Drucker's understanding of social responsibility: whenever possible, turn social needs and wants into a profitable busi-

42 In 1974, the NGO 'War on Want' publicized the report 'The Baby Killer', which started the formula debate.

43 Of course, Nestle is a highly diversified company, whose growth does not only stem from selling formula. However, opposed to other corporate scandals such as Volkswagen's 'Dieselgate', the controversy around Nestle's formula has not (yet) led to the termination of the respective criticized corporate actions.

ness opportunity (Drucker, 2003, p. 105), especially if those needs and wants arise from one's own impacts.

> *"Organizations, to sum up, do not act 'socially responsible' when they concern themselves with 'social problems' outside of their own sphere of competence and action. They act 'socially responsible' when they satisfy society's needs through concentration on their own specific job. They act the most responsibly when they convert public need into their own achievements."* (ibid., p. 106)

The unprecedently fast development, testing and mass production of Covid-19 vaccines are the most recent prime-example that public need can be turned into a profitable business that has incredible positive societal effects. Naturally, in this case, the positive societal effect of a functioning vaccine outweighed the approximately 8.4 million tons of plastic waste (consisting of e.g. gloves, masks, test kits, etc.) that has been generated to tackle the global pandemic (Laville, 2021).

If it is urgent, it is important. In the case of the deadly pandemic, that was crystal clear. This, however, does not always work the other way around. Too often, importance follows urgency. The most central crises in today's developed societies: the climate crisis and the corrosion of liberal democracy and therewith social cohesion are steadily worsening. Unfortunately, for the longest time, they were characterized by a lack of urgency and made our society's increasingly less bearable (Homer-Dixon & Röckstrom, 2022). In the summer of 2023, Europe experiences the detrimental consequences of this negligence, grappling with political populism in France, Germany, Italy, and Spain, coupled with devastating wildfires in Greece and floods in Italy, all linked to the climate crisis and resulting in loss of lives.

However, as discussed above, we find ourselves at an inflection point (or past it already) as a) stricter ESG regulation is coming into place and b) a generation is coming of age that has not only a heightened sense of urgency for the environmental crisis, but also a perception of collective responsibility for our societies, as they will have to live in them. Before this thesis suggests a few expansions for ESG in order to become a vehicle towards a bearable society, it will briefly discuss what is central to such a society.

2.6 What Makes a Society Bearable?

Of course, this question is very broad and frankly quite philosophical. Therefore, for this thesis, only Drucker's view will be considered. For him, a functioning civil society was the indispensable part to achieve the approximation of a bearable society (Paschek, 2020, p. 189). In short, for a functioning civil society, there are three main prerequisites:

First, the individual needs both function and status in a society.

> *"For the individual without function and status, society is irrational, incalculable and shapeless. The 'rootless' individual, the outcast—for absence of social function and status casts a man from the society of his fellows—sees no society"* (Drucker, 2003, xviii).

This is becoming a serious challenge for knowledge societies worldwide, as the wealth gaps in and between nations expands steadily, thereby diluting the (economic) status of many, which was hard earned through their own work or that of the preceding generation (Piketty, 2017; Robinson, 2022). Simultaneously, the belief is still engrained into people's minds that upward mobility is potentially unlimited (Paschek, 2020, p. 135). This *"culture problem"* of the developed world (ibid.), one could argue, does not help to mitigate the collective frustration of the majority in *"late-stage capitalism"* (Espinoza, 2022), where we have fewer and fewer extraordinary financial winners and increasingly more average economic losers[44]. The fact that capitalism becomes less acceptable the more it succeeds (Drucker, 1986, p. 546) is becoming increasingly visible as a central weakness of today's society and economy.

The second prerequisite for the functioning society is the liberal democracy. Of course, the two interact with each other. One will not follow the other, but they rather are mutually dependent (Drucker, 2009, p. 288). The most important fundaments for this reciprocal rela-

44 Globally, economic prosperity of middle-classes is shrinking (Kochhar, 2021).

tionship are the rule of law and human rights, both of which provide the necessary social and political order which effectively protects the person and the property of citizen against arbitrary interference from above (Drucker, 2009, p. 285). Moreover…

> *"The Neo-Classics are right: without the Free Market there will be no functioning modern economy and, in fact, no economic growth. But the Free Market is in turn dependent on a functioning civil society. Without it, it is impotent."* (ibid.)

Today, one may perceive the attitudes of the younger generation towards work in the 'free markets' as a sign of such impotence (Suchy, 2023). Conversely, the young generation is increasingly skeptical towards the current organization of capitalism, which will, according to Tariq Fancy, a former ESG executive at BlackRock, inevitably cause political instability (Fancy, 2021). Whether or not the free market is truly a *"hoax"*, as he calls it, shall not be discussed here, however one thing is certain: if social problems cannot be turned into profitable business opportunities, they turn into the *"degenerative diseases of society"* (Drucker, 1986, p. 237) and then regulation is required (ibid., p. 233). Because *„if one waits for voluntary action on the part of everyone, no one acts"* (Drucker, 2003, p. 105). Therefore, also when it comes to the 'ESG revolution', it is expectedly true that *"(…) the invisible hand of the market needs the visible hand of the law."* (Homan, n.d. as cited in Paschek, n.d.).

Today, we see a plethora of such degenerative diseases: income equality, poverty, corruption, climate change, prevailing racism, social fragmentation, collective mental health issues, healthcare access disparities, opioid crises, digital divide, erosion of democratic norms and many more. Of course, no business or law will solve these diseases once and for all. Yet, they can be managed, and that management could certainly be better. Delegating the management of the degenerative diseases exclusively to governments is irresponsible of the business world because, as we experience every day, the political system demonstrates limited competency in producing adequate approaches to deal with the social ills of today. Nonetheless, every healthy business, as organ of society, requires a healthy, or at least functioning society (Drucker, 1993, p. 337).

> *"A healthy business, a healthy university, a healthy hospital cannot exist in a sick society. Management has a self-interest in a healthy society, even though the cause of society's sickness is none of management's making."* (Drucker, 1986, p. 229)

Thus, it is of urgent time for business executives to truly become an integrating force of the general will and for the qualities of life. Again, although written more than 40 years ago, Drucker expressed it in great eloquence:

> *„The manager of institutions must establish himself as the representative of the common good, as the spokesman for the ‚general will'. He can no longer depend on the political process to be the integrating force; he himself has to become the integrator. He has to establish himself as the spokesman for the interest of society in producing, in performing, in achieving. 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 to provide social cohesion".* (Drucker, 1980, p. 208–215 as cited in Paschek, 2020, p. 150)

Here, one last note prior to the extensions of ESG, is necessary. Unquestionably, it is true that any member of society can as consumer, as employee and as voter influence our society in both constructive and destructive ways. More than we have ever seen before in human history. This is thanks to economic globalization and worldwide virtual connectivity. Believing otherwise and acting accordingly is the irresponsibility of the individual. For the masses, such irresponsibility may, hopefully, be overcome eventually due to the generational change. However, the elites or society's major leadership groups have outsize influence on the political, environmental and societal developments of our society. Thus, for Peter Drucker "*it is, therefore, only logical that they are expected to take the leadership role and take responsibility for major social problems and major issues.*" (Drucker 1993, p. 319 as cited in Paschek, 2017, p. 75). This is especially important because value-oriented actions by the elites are more likely to justify their existence than wasteful ignorance, which is often displayed on social media today[45]. Consequently, Drucker calls on these elites to act according to certain guiding principles, all of them oriented toward the ideal society to be striven for according to Peter Drucker: a society that is bearable and worth living in for almost all citizens (Paschek, 2020, p. 99). The business elites, or 'those with resources', which are often to be found in the financial sector, are ultimately co-responsible for the outcome of our world. So then, isn't it fortunate for all of us that exactly these elites are driving the 'ESG revolution'?

2.7 The Extensions of ESG

It would be naïve to postulate that ESG will single-handedly change the world for the better and provide social cohesion in its entirety. But, ESG does entail important aspects of today's most pressing challenges and has achieved great attention from society's major leadership groups. Historically, the financial industry (and its high-ranking executives) has had a great impact on the quality of people's life – though mostly the negative peaks are remembered. Social responsibility cannot be a public relations issue any longer, the stakes are too high. To approximate a bearable society, 'big money' needs to own the '50-year-old new responsibility' of the business, that Drucker outlined almost 50 years ago:

> *"This new concept of social responsibility no longer asks what the limitations on business are, or what business should be doing for those under its immediate authority. It demands that business take responsibility for social problems, social issues, social and political goals, and that it become the keeper of society's conscience and the solver of society's problems."* (Drucker, 1986, p. 220)

45 To catch a glimpse of such ignorance, one documentary of the German publicly funded journalistic collective 'STRG_F' is recommended: https://www.youtube.com/watch?v=MbJOQsK42iE&t=893s.

Without a doubt, that is a big, and perhaps an idealistic, ask. However, only the financial elite holds immense potential to leverage both the ambiguity and the momentum of ESG into a truly new set of guiding principles for the corporate world, built on Drucker's understanding of social responsibility. The thesis postulates that through such a course-correction an approximation to the bearable society may be possible.

The ideas below are to be seen as exemplary additions to aspects of current ESG criteria. As mentioned earlier, they shall not be viewed as either exhaustive, nor as a substitution for existing ESG factors. However, they are to be seen as inspirations for how a business could be assessed and, what aspects should be more closely considered when implementing ESG. Convergence in ESG is important for the 'ESG Revolution' to be successful, but the purpose of ESG – to whatever degree measurable – is decisive. The following chapter now expands each pillar of ESG with regard to select aspects built on the current ESG renderings, the generational demand for change, and Peter Drucker's understanding of social responsibility and requirements for an approximation to a bearable society.

2.7.1 Environmental: From Primum Non Nocere to Tertium Sanare

The Latin phrase "*primum non nocere, secundum cavere, tertium sanare*" originates from a doctor called Scribonius Largus (approx. 50 Anno Domini) and means loosely translated: "*Firstly do not harm, secondly be careful, thirdly heal*" (Markwart, 2005). Peter Drucker (1986, p. 256) states that to 'not knowingly do harm' is the basic rule of professional ethics. Furthermore, Weber and Paschek (2017) argue that over the past decades, managers have made successful efforts to avoid destroying our natural environment. Unfortunately for the sake of humanity's survival, not knowingly destroying the environment is no longer sufficient. During his speech on the 27th of July 2023, current UN general secretary, António Guterres, declared the era of global warming to be over. It has now been replaced by the era of global boiling (Niranjan, 2023). Famous for his zero tolerance for greenwashing by companies or their financial enablers, he demands swift actions from all elites (UN News, 2022):

> *"The air is unbreathable, the heat is unbearable, and the level of fossil fuel profits and climate inaction is unacceptable. Leaders must lead. No more hesitancy, no more excuses, no more waiting for others to move first. There is simply no more time for that."* (Guterres, 2023 as cited in Niranjan, 2023).

Hence, actions of all institutions of society (including the business enterprise) should be measured against efforts towards 'tertium sanare' – the **healing** of our earth. If all companies were content with not (further) destroying the planet, just within the 21st century we will experience the catastrophe of rising temperatures, the disappearance of ecosystems, disastrous crop failures, more economic pain and massive loss of life (Ignatius, 2021). Actions to heal our planet commonly include, but are not limited to, technical innovation (ibid., 2021). In fact, a change in the business model can also be healing. The French car manufacturer Renault is an expectational example. At its 'Re-Factory' near Paris, Renault established a successful operation that recycles gearboxes, engines, turbos and injectors from old cars to new cars. Thereby, Renault produces significant environmental benefits. According to the Ellen McArthur Foundation typical savings from the production of a remanufactured car are 80% less energy, 88% less water, 92% less chemical products and 70% less waste. Additionally, 'Re-Factory' saves Renault €500 million Euros (Ellen McArthur Foundation, 2022). Consumers, particularly young ones, are leeching for goods and services produced in a circular economy (Euromonitor International, 2023) and its producers could, after an initial ramp-up, save money on resources and manufacturing. For instance, for the automotive industry, adapting circularity is argued to improve the profitability of each car produced by the factor 1.5 (WEF, 2022).

Back to ESG as a tool for investment assessments, proxy for corporate strategy or reporting metric: a high ESG performance does not contribute to a 'better world' if it merely represents that the company is not destroying our planet any further. Instead, it should reflect the message to an investor that a given company is actively doing something to heal our planet. Of course, it is not to be expected that all companies can immediately fulfil this condition, but it would be more effective to establish a tool that highlights, rather than masks such shortcomings.

For financial products overall, ESG should overcome the common approach of a disinvestment strategy from 'black sheeps' towards an investment strategy in companies that create the quality of life for the generations to come, may that be through technological innovation (e.g. green e-mobility) or a truly environmentally sustainable business model. Given the persistent presence of participants in the finance industry who vehemently resist discontinuing the funding of climate change enablers like major oil corporations, it is imperative that the regulation of reporting, and consequently the methods for attributing ESG scores, becomes exceptionally stringent. This rigor should be such that there is no room for misinterpretation regarding companies such as Shell or ExxonMobil being anything less than significantly impactful on the health of our earth.

A company with an 'AA'-rating is considered a leader in ESG, according to MSCI. Young people who want to put their money where their values lie, might easily be under the impression that they are investing in something climate-friendly. Why should they think otherwise? ESG scores could be a useful tool, but only if companies like Shell do not receive 'AA'-Ratings any longer (see Appendix 2).

Hence, the argument is made that ESG must not only serve as a signal within the ESG ecosystem but also as an expression of genuine Corporate Social Responsibility. It should go beyond merely assessing the societal risk for a given company or engaging in virtue signaling. The message, if one chooses to convey it through a score, must be easily understandable to the 'untrained eye'. Everything else, similar to "*bogus net-zero pledges*", is reprehensible (Guterres, 2022 as cited in UN News, 2022). Guterres comments the fossil fuel expansion of recent years accordingly:

> "*It is rank deception. This toxic cover-up could push our world over the climate cliff. The sham must end.*" (ibid.)

When considering the long-term value argument, it is essential to recognize that if we don't achieve a bearable environment for most of Earth's population, developed societies will come to face less bearable conditions too. Recent years have shown that extreme heats, droughts, wildfires, and other disasters aren't exclusive to the global south. The shareholder value from Silicon Valley (or other hubs) will dwindle as more regions scorch like Death Valley – literally. In the worst-case scenario of temperature rising, a staggering 18% of the global GDP is expected to be wiped out (WEF, 2021).

To sum up: The 'E' in ESG investing, reporting, and strategy should focus on healing the planet, not just on avoiding further damage. This can be achieved through technological innovation, business model innovation, and radical honesty about environmental impact. While this honesty may have to be enforced with regulation, the long-term value argument makes it inevitable. Short-term gains from greenwashing will be outweighed by the long-term costs of financial value destruction linked to unbearable environmental conditions.

2.7.2 Social: Providing for Competence

> *"Encouraging the competence of the poor and promoting their capacity to develop themselves is clearly in the self-interest of the affluent, that is of the democracies. For their stability and social cohesion is increasingly threatened by the anomie, the degradation, the despair of the incompetent and dependent poor."* (Drucker, 2009, p. 276)

People sometimes imagine yesterday's revolutions as planned and carried out by self-conscious revolutionaries, but this has rarely, if ever, been the case. In essence, a revolution starts to form when an initially disconnected group of people experience a state of shared discontent and frustration in their life, and consequently fuse into a critical mass as a more or less stable constellation with the intention to transform the existing institutions of society (Tiruneh, 2014). Throughout history, these discontents were those that perceived themselves as unfairly treated, unfulfilled, poor, under-privileged and ultimately disregarded by society (‘s major leadership groups).

Fortunately, the storm of the capitol on January 6th in 2021 was not successful, but it was irrefutable proof that the United States’ society (the world’s spearheading liberal democracy) is disenchanted, fragmented and abundantly (and dangerously) aware of their constitution’s 2nd amendment (Heinberg, 2022). The situation in Europe is slightly less severe, yet protests are beginning to escalate there too (Reuters, 2023). While, we currently may not be on the verge of another social revolution in the industrialized world yet, we can already observe some alarming symptoms.

For instance, looking at the social ills in the United States or in Germany paints a dire picture. Every fifth employee in Germany is working in a low-wage job (in german: *“Niedriglohnsektor”*) (Statistisches Bundesamt, 2021), in the US it is every third (Luhby, 2022). Jobs that pay their employees that little are usually those that keep the society ‘running’ (e.g. caregivers, kindergarten teachers, security personal, taxi and delivery drivers, hair dressers, garbage men, etc.). Earning less than 12 € (or 15 $) was never (morally) enough, but with today’s soaring inflation is simply too little. ‘The hard workers’ of society are falling behind and frustration is on the rise. Alcohol in Germany and prescription drugs in the US wreak havoc on the poor (Luhby, 2022; Collins, 2016). Moreover, nationalist have become increasingly popular amongst politicians in the free democracies of the western world – Donald Trump, Marine Le Pen, and recently Giorgia Meloni.

The quote at the beginning of this chapter is from Drucker’s essay called ‘Can Democracies Win the Peace?’ (Drucker, 2009), and was first published in the Atlantic Monthly in 1995. Drucker makes the convincing argument that more money is not merely the solution for the poor (ibid., 2009). While his text is more closely related to the welfare dependents[46], one could argue that there is a similarity to today’s service proletariat in the western world (Hainbach, 2020). Those stuck

46 People working in the described job are also often only ‘one step away’ from becoming dependent on the welfare system. One personal tragedy, the bankruptcy

in the low-wage trap often experience cognitive degradation, and a strong sense of unfulfillment due to their self-perceived incompetence (Berger, 2022; Huggins, 2014). Drucker argues that in a bearable society 'man' does not need to be fulfilled to his fullest, perfection in that sense is unrealistic, but fulfilment must be adequate, because:

> *"We deal after all with the social order of men not with that of angels. But there is a point below which the efficiency of social fulfillment may not fall without making society appear despotic, arbitrary, irrational and meaningless. Where this point is we do not know."* (Drucker, 1993, p. 151 as cited in Paschek, 2008, p. 5)

As has been discussed above, it should be the social responsibility of all institutions to ensure that most people do not view their society as despotic and meaningless. As Drucker states, it is hard to identify where that breaking point of low fulfilment lies, but having a fifth of the German workforce and a third of the American workforce tangled up in (potentially) cognitively degrading jobs coupled with a salary that makes them fall behind, is not a good sign.

So how can ESG efforts of companies help? An employee-centered survey conducted by JUST Capital showed that in many cases 'S' issues are prioritized over 'E' issues (Benjamin, Heffetz & Weinstein, 2023). When considering the 'S' pillar, adequate pay instead of mere philanthropic donations, is of course a first step, but more importantly, companies should promote competence – inside or outside of a given organization.

After the *"year of efficiency"* was introduced by Mark Zuckerberg, linked to the anticipated implementation of generative AI in modern jobs, many knowledge workers expressed fearfulness of becoming obsolete in the foreseeable future (Kay, 2023). Of course, reversing the progress in technology is unlikely and not commendable, because AI *"Is Essential for Solving the Climate Crisis"* – as the Boston Consulting Group writes (Maher et al., 2022). According to Tamayo et al. (2023),

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of a local business or physical illness can be triggers for the downgrade. One out of 10 transitions from a low-wage job to unemployment in Germany.

millions of people will have to be re-skilled due to AI within the next decades. Therefore, developing one's employees and teaching them how to work with and not against AI, appears to be a suitable addition to the 'S' of ESG. This ensures that the modern knowledge worker can leverage it and therefore will not have to compete with it – a contest any human is likely to lose. Moreover, a quick adoption of AI – as one can imagine – promises all the of the wonderful things that shareholder maximizers love: automation, cost reduction & efficiency. While these things are admirable and certainly necessary to mitigate our complex environmental challenges, they should be utilized socially responsibly, helping people do their job instead of obliterating it and thereby risking the loss of status and function of thousands of individuals.

One example for providing for competence outside of the organization comes from the world's largest online retailer. In the fall of 2021, Amazon declared a landmark investment in its own people. With a funding of 1.2 billion USD, the online retailer expanded its 'Career Choice Program' and now provides the opportunity for all of its approximately 750.000 US-based operations workers (those working in the fulfillment centers) to get a college education that is fully paid for – 100% upfront (Lake, 2022). Hereby, Amazon facilitates upward social mobility for its less skilled employees, which would otherwise be unattainable without Amazon as their employer. Participants in the 'Career Choice Program' demonstrate elevated job satisfaction, substantial income growth and most notably, an enhanced feeling of self-esteem and value (ibid., 2022).

Of course, not every company can engage in such an extensive upskilling program. However, the intention behind it can be understood by every business enterprise. Again, when considering ESG as mechanism to rate 'investments towards a better world', or to operationalize true CSR in one's company, the 'S' in ESG should not merely reflect that employees of a given company work in a non-hazardous environment or that they have a racially diverse workforce. To be genuinely 'social', a company should develop its communities. That includes paying a wage that (at least) allows the maintenance of one's life and the opportunity to grow and develop competence. Young people demand – rightfully so – a society that is worth living in, not one that's barely possible to survive in. In the pursuit of convergence within ESG, providing for competence must be central in the social pillar to ensure adequate (not perfect) fulfillment, function and status for individuals in the modern employee society.

2.7.3 Governance: Politics and Pay

But what really is competence anyway? Merriam-Webster defines competence as "*the quality or state of having sufficient knowledge, judgement, skill, or strength (as for a particular duty or in a particular respect)*" (Merriam-Webster, 2022). Drucker argues in the Harvard Business Review from 1997 that:

> "*Knowledge constantly makes itself obsolete, with the result that today's advanced knowledge is tomorrow's ignorance.*" (Drucker, 1997)

Without a doubt, this quote has implications for a business to constantly monitor its technological capabilities, understanding of the relevant target groups and general strategy within a market. Disregarding that things are changing will leave anyone inevitably behind. Chapter 2.3 discussed extensively that ignoring the changing demands of younger people will cost social license first, and profits second, as it will be perceived as corporate ignorance.

Today, one area where such ignorance can be particularly dangerous for a company's social legitimacy is political advocacy – or rather the lack thereof (Theobald & Gaiser, 2022). The 'advanced knowledge' about political communication that many business executives have is rooted in their time at colleges and universities, years or even decades ago, which most likely would steer them away from taking a political stance whatsoever. Many executives believe that commenting on political developments may cast an unfavorable light. Companies appear disengaged and careless (ibid., 2022). Yet on the other hand, they are expected to become the political integrator and provider of social cohesion. In an interview with Bethany McLean hosted by the Corporations and Society Initiative at the Stanford Graduate School of Business, Tariq Fancy[47] argues in the context of how 'business leaders can fix the government' that is has to start with the disclosure of political spending.

> *"But how could a company hide their political spending and not get an automatic zero ESG score?"* (Fancy, 2023 as to be seen in Stanford Graduate Business School, 2023, [minute 38:54]).

To foster social cohesion, it is critical to enhance the 'G' pillar in this regard. No enlightened person expects that we live in a perfect system, decades of history have proven otherwise. However, a lack of transparency is damaging to society as it further erodes trust in 'the system', especially of the lesser educated. This could result in devastating effects for today's polycrisis (see p. 42).

Because ESG is a politically polarized topic, participants of the ESG ecosystem need to become politically competent with it. The political sphere and the business sphere both exist in the same society – in the same *"body they serve"* – so why pretend it is not the case? With sincere efforts in the 'G'-pillar, the widening pillarization between business and politics could be narrowed and increased political engagement – maybe accompanied by outrage – might be one consequence. However, maintaining secrecy about a business enterprise's political connection perpetuates the narrative of 'evil elites' or other conspiracy theories, which are then distributed quickly via social media platforms as they openly promote the cultivation of 'alternative truths' and contribute to uncertainty about the relationship between fact and fiction, as well as between honesty and hypocrisy (Bubert, Drews & Krischer, 2023). An important note: this thesis does not argue that elites, by default, hurt democracy or society. In fact, it assigns them a special role in the approximation to a bearable society, as they have the necessary resources

47 Tariq Fancy is a former chief investment officer for sustainable investing at BlackRock who has criticized ESG investing and called for a more radical approach to sustainable investing.

to drive significant change. Nonetheless, their current perception may be detrimental to a functioning society. If the 'G'-pillar in ESG reporting, ESG Investing and ESG strategy focuses on political transparency, ESG can become an enabler of social cohesion.

There is, however, another avenue for businesses to take. So-called 'brand activism' describes a new development that business enterprises (not only their CEO's) increasingly speak about socio-political topics. In well-governed cases of brand activism, companies also act upon their words. For instance, Google has not only been pro-abortion verbally, but also with their actions. After Roe v. Wade was overturned[48], Google announced to update their health insurance so that all employees would be covered for out-of-state medical procedures that are not available where an employee lives or works (Rosenblatt, 2022).

One further aspect needs to be taken into more serious consideration when assessing the ESG score of a company: executive compensation, especially the CEO-to-employee (median) ratio. Drucker argued in the Wall Street Journal in 1977 that explaining excessively large salaries with the need to pay the market price is *"nonsense"* (Drucker, 1977) and further added that a 25-to-1 ratio is desirable enough and within the range what the ordinary employee deemed acceptable. Today, the average CEO-to-employee ratio in the S&P 500 is 299-to-1. That number grew by over 1300 % since 1978 (Richter, 2022). There is no justification for such a ridiculous distribution of wealth and company revenues. Any company that really cares about ESG factors would know that capital can be allocated more effectively than by fueling the hubris of a few select executives. It could also mitigate the anger, frustration or conspiracy against the elites.

One way to improve corporate behavior is to ensure that executives are rewarded for making decisions that are good for the environment and society, and penalized for making decisions that are harmful. This

48 In June 2022, the US Supreme Court overturned Roe v. Wade, the landmark piece of legislation that made access to an abortion a federal right in the United States. The decision dismantled 50 years of legal protection and paved the way for individual states to curtail or outright ban abortion rights.

can be done by tying executive compensation to ESG targets and having a rigid clawback mechanism in place. Overall, researchers concur that connecting executive pay to ESG goals *"makes sense"* for our future (Kiger, 2023) and has already shown to positively impact the ESG outcomes of companies that have adopted such compensation plans for their top managers (Cohen et al., 2023).

All in all, ESG reporting, investing and strategy implementation should firstly assess the transparency of political spending and the balance of brand activism of a company (responding to declining political discourse) and secondly, a reasonable C-Level executive-to-employee pay ratio, that additionally incorporates the fulfilment of ESG targets in remuneration.

2.8 Reflection and Interview Research Questions

Naturally, there are start-ups (or other companies) which are greener, fairer and more transparent than Renault, Amazon or Google. Consciously, this last chapter selected companies that are not necessarily perceived as 'green' by the general public to illustrate towards what *purpose* each pillar of ESG should develop. The examples show that even big companies can take actions that go beyond public relations and a few select philanthropic donations. Indeed, companies that are criticized for their actions with regard to one of ESG's pillars, can be leaders in the context of another pillar. Of course, any ESG score should reflect this respectively. The theoretical background can be summarized with three main conclusions.

Firstly, the main challenge for ESG is not the question: 'How can ESG be measured?' – but rather – 'What to look for in ESG?'. The currently ambiguous purpose and mission of ESG need to be sharpened, in order for ESG Investing, ESG strategy and ESG reporting to converge to a set of measurements for responsible business practices that enable changes towards a bearable society, not the protection against societal change. Otherwise, ESG is likely to turn into something that enables companies and investors alike to hit the target, but miss the point, all while wasting an abundance of society's resources.

Secondly, in order for ESG to become such a transformative tool towards such a world, the emphasis on 'S' and 'G' must become equivalent to 'Environmental'-pillar. Climate change is unquestionably the biggest threat to the survival of the human race. But mismanaging 'Social' and 'Governance' is arguably a bigger threat to the survival of a functioning society, to the triumph of democracies. Neglecting aspects of 'S' and 'G' could exacerbate the urgency of 'E' even further. In this context, managing one's legitimacy, a dynamic concept, is critical. As demonstrated above, both the generational demand and the general disenchantment with elites can be financially material for corporations, particularly in the long-term.

Thirdly, with an updated notion of ESG not all companies may immediately achieve high ESG performance, however it becomes evident why all companies should strive for it. More importantly, it becomes clearer for the general public. Declaring ESG a marketing fad and putting it on a shelve next to the Triple Bottom Line or any other glossy term of Corporate Social Responsibility would be unfair to its current momentum. However, more work is required to turn ESG effective. It is proposed that the finance industry as a whole or in general, 'those with resources'[49], must make a commitment to distill ESG into something that yields the qualities of life for everyone, instead of the quantities of financial returns for themselves and their accomplices on the 'gravy train'. Making ESG efficient does not guarantee its effectiveness.

In short, derived from the generational demand and Peter Drucker's thoughts on social responsibility of the business enterprise and the requirements for a bearable society, the following expansions to ESG are proposed:

'**E**' must focus on healing our planet, rather than not harming it further. How? Mainly, it should no longer be useful to cover-up climate

49 Relevant business players for the transformation of ESG are e.g. Investment Banks, Private Equity Companies, Investment Management Companies and Family Offices.

inaction, but rather make the shortcomings visible to the 'untrained eye' in particular. Companies who indeed contribute to the healing of our planet deserve praise (e.g. through stellar ESG ratings) and accordingly, more funding. People want to invest in the creation of a better world, hence it should be made easy for them. Leaders must lead, not deceive.

In addition to ensuring livable wages to mitigate frustration and social upheaval, which is in the best interests of businesses, **'S'** in ESG should focus more on developing human capital. This is especially important as the era of generative AI begins to unfold its implications for the labor market. Providing for competence is argued to be critical to ensuring adequate (but not perfect) fulfillment, function, and status for individuals in the modern employee society.

The '**G**' pillar of ESG should reflect metrics that promote political transparency and openness, rather than merely box-ticking on compliance issues. It should also consider restrictions on absurdly high executive compensation, as this undermines the support of the majority for the elites who receive such salaries.

It is not lost on the researcher that the proposed extensions to ESG could be perceived as somewhat idealistic. After all, Drucker's teachings on social responsibility have unfortunately borne fruit only to a limited extent. This is quite obvious, otherwise we would not be where we are today. However, it is precisely today's more drastic state of affairs that could provide a promising breeding ground for his teachings, when integrated into the ESG debate. It remains questionable (and masochistically intriguing to see) if the myopia inherent to human's nature[50] can be overcome and if the business elites of our current society can navigate the ambiguity of ESG towards a vehicle that contributes to a bearable society. The semi-guided expert interviews of this study explored this question and the sub research questions in myriad ways:

50 It easy for executives – especially in the private equity industry – to declare that their company will be net-zero by 2050 when they know with all certainty that they will be retired (or dead) by then.

Main Research Question (MRQ): Can ESG become a vehicle towards a bearable society?

Sub Research Questions (SRQs):

- SRQ 1: When considering ESG's current state, what are its' purpose and mission, perceived impact, major shortcomings and obstacles for broad adoption?
- SRQ 2: Who are the drivers and true beneficiaries of the 'ESG Revolution'? Who should they be?
- SRQ 3: What is the role of the business enterprise in our society and what is its social responsibility? Do elites have a special role to play? How is legitimacy affected?
- SRQ 4: How can the 'E' pillar be effective and is it – in this regard – recommendable to focus on healing the planet, instead of not harming it further? Is there a comprehensibility issue?
- SRQ 5: How can the 'S' pillar be effective and is it – in this regard – recommendable to focus on providing for competence, inside and outside of the organization?
- SRQ 6: How can the 'G' pillar be effective and is it – in this regard – recommendable to focus on a company's political stance and executive compensation?

Considering the extensively discussed flexibility of ESG's purpose and mission amongst different participants in the ESG ecosystem, a qualitative approach is best suited to answer these research questions. Next to the prime objects of investigation, a more general assessment of ESG and the idea of a bearable society are examined in order to yield the most comprehensive results possible from the conducted in-depth interviews.

3 Methodology

3.1 Overview and Reasoning for the Methodological Approach

As the research aims of the thesis are multi-facetted and of both exploratory and descriptive nature, a mixed-method approach appeared best suited. To examine the hypotheses posed in Chapter 2.4, an online survey was conducted and the collected data was analyzed quantitatively. An important note: the overarching goal of the survey, was to further empirically examine the opinions (younger) people have on ESG topics. Hereby, their understanding of the role of the business enterprise in society was questioned as well. Henceforth, no experiment was included, meaning that although the statistical analysis of the survey yields correlations and relations of perceptions, it cannot deliver cause and effect explanations. Conversely, to more deeply elaborate on the questions around the current state and future of ESG, as well as to elicit thoughts from knowledgeable participants of the ESG ecosystem about the suggested extensions of ESG as formulated in Chapter 2.7, qualitative semi-guided interviews were conducted with experts working in the ESG ecosystem. The primary goal of the interviews was to gather extensive insights from purposefully diverse experts with regard to the potential of a bearable society through ESG and derive the managerial and research implications from a synthesis of the interviews. The combination of both qualitative and quantitative methods enabled a comprehensive analysis of the topics presented in this thesis.

3.2 Quantitative Part: Online Survey

The survey specifically asked respondents about their views on the statements of two eminent scholars, Milton Friedman and Peter Drucker, and on the purpose and responsibilities of businesses. It also questioned respondents about the significance they attach to environmental, social, and governance factors in evaluating the role of businesses in society. The data gathered was used to statistically test the hypotheses presented in Chapter 2.4. The following paragraphs will in short delve into the recruiting of participants, the construction of the survey, the survey procedure and lastly the analysis strategy of the collected data. The entire survey can be found in Appendix 3.

3.2.1 Recruiting of Survey Respondents

Since the survey's content required neither prior knowledge nor specific cognitive qualifications of the participant, there were few restrictions on obtaining the initial sample. Potential participants received the survey link via email, instant messages from the researcher, or postings on various channels, including social media platforms. Initially, the survey link was shared in three student chat groups, each consisting of more than 200 members. Additionally, the study was promoted through the researcher's personal Instagram and LinkedIn accounts, achieving 322 and 1,011 impressions, respectively. Respondents directly sourced for the study were also asked to share the survey with those they believed would be interested. This aimed to ensure a high probability of survey completion.

This approach aligns with appropriate snowball sampling, where one 'snowball' starts in the researcher's network and another in the directly recruited participants' network (Tenzek, 2017; Brosius, Haas & Koschel, 2012). The recruitment method for the online survey can be described as semi-random (Brosius et al., 2012). Although this significantly limits the representativeness of the findings, it is a common practice for student research and is therefore tolerable (Hanel & Vione, 2016). The inherent problem of self-selection in such surveys can be accepted in favor of advantages, particularly time and cost efficiency (Pürer, 2003, p. 544).

A pre-test involving 11 participants was conducted to optimize question clarity, item understanding, and the overall survey flow before circulating the final version. The survey field phase was conducted from 08.05.2023 to 29.05.2023. A total of 140 people participated during this period, of whom 120 completed all the questions, indicating that they reached the survey's final page. To further refine the sample, control procedures were implemented.

On one hand, an attention check question was included: participants were tested on their knowledge of the meaning of ESG. It could be assumed that even if participants had no prior knowledge of the acronym's meaning, they could derive it from context if attentive to the survey. This restriction excluded nine (9) cases from the final sample size. On the other hand, a hidden timer measured the time respondents spent answering the questionnaire. Previous research suggests that completing a survey significantly faster or slower negatively affects result validity (Greszki et al., 2015; Malhotra, 2008). Therefore, the median completion time (216 seconds) was used as a reference to limit response times between 120 and 720 seconds. Respondents who completed the survey significantly faster (in under 2 minutes) or slower (in over 12 minutes) than expected were excluded from the sample (8 cases). After applying these control measures, the sample size consisted of 103 people. Furthermore, the vast majority of respondents (87.4%) were aged between 18 and 27, defining them as Gen Z. Respondents aged 28 to 40 constituted 8.7% of the sample, while those aged 41 to 59 accounted for 3.8%. As the data analysis aimed to specifically examine the opinions of young people, respondents over 27 years old were excluded. This resulted in a final sample size of 90 people (n=90), with 59% identifying as female, 41% as male, and 0% as diverse.

3.2.2 Survey Construction and Procedure

The survey was conducted using the SoSci Survey application, which is a specialized software for empirical research. This software is freely available for students, allowing young researchers to highly customize their questionnaires and track niche measures like time spent on each survey page (Leiner, 2023).

At the survey's outset, a brief text introduced respondents to its content, with care taken to generate interest without immediately revealing the specific research focus. This approach was crucial for effectively implementing the attention check question (‘Knowledge about ESG’). Subsequently, participants were informed about confidentiality and asked for consent to collect their data for research purposes. To maintain engagement, every survey page displayed the respondents' progress in percent (%).

The first substantive question concerned Milton Friedman's statement on social responsibility: *"There is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game"* (M = 2.92; SD = 1.04). Respondents ranked their agreement on a 5-point Likert scale[51]. With close consideration to the goals of the analysis, namely to test for either indifference or significant interest in the respective aspects of the questionnaire, a scale with a neutral value was chosen.

Following a consistent structure, the second question addressed Peter Drucker's statement: *"Every organization must assume full responsibility for its impact on employees, the environment, customers, and whomever and whatever it touches. That is its social responsibility"* (M = 4.57; SD = 0.7).

The subsequent question focused on legitimacy perception towards business enterprises, using a 5-point Likert scale. To measure the latent construct of legitimacy, a scale adapted from Alexiou & Wiggins (2019)

51 Likert scale used for all questions throughout the survey: 1 = strongly disagree; 2 = disagree; 3 = neither agree or disagree; 4 = agree; 5 = strongly agree.

with five distinct and randomized items was used, and an index was calculated (M = 4.17; SD = 0.53; Chronbach's α = 0.68).

Next, participants were tested on their knowledge of the acronym ESG. As mentioned above, those who failed this test were excluded from the data analysis. Therefore, it is not necessary to further elaborate on this question.

The last, and longest, survey question evaluated the perceived importance of environmental, social, and governance factors for business enterprises. For each pillar, an index similar to the legitimacy question was computed (environmental: M = 4.51; SD = 0.58; Chronbach's α = 0.85; social: M = 4.39; SD = 0.67; Chronbach's α = 0.81; governance: M = 4.34; SD = 0.61; Chronbach's α = 0.77). These questions were adapted from Turker's scale to measure CSR (2009), PwC's study on ESG (2021), and Aksoy & Woodall's report (2022) on consumer sentiment towards ESG. Finally, a comprehensive ESG index was computed from these three indices (M = 4.41; SD = 0.56; α = 0.90).

3.2.3 Quantitative Survey: Analysis Strategy

The collected data was cleaned and analyzed using the free software 'JASP' (Jasp, 2023). In addition to index creation, their reliability was tested (reported above as Cronbach's alpha values). While the constructs exhibited high reliability, the Shapiro-Wilk test revealed that the data did not adhere to a normal distribution. The test returned a p-value of < 0.001 for all relevant constructs, indicating a significant deviation from normality. Yet, this outcome is not surprising and aligns with the considerations outlined in Chapter 2.3.

Due to the sample size ($n = 90$) exceeding 30, normality was not a prerequisite for conducting two-tailed one-sample t-tests (Soetewey, 2022; Winkel, 2023). One-sample t-tests were the primary method of analysis and were used to assess all hypotheses in this thesis (refer to Chapter 2.4). Additionally, descriptive statistics and simple linear correlations were performed to achieve the quantitative survey's research goals.

Furthermore, given the sufficiently large sample size (n =90), two sets of independent t-tests were conducted, using gender (female vs. male) and nationality (Germany vs. USA) as grouping variables. These tests were supplementary analyses; hence, only the t-test results are discussed in the survey results section, with answer frequencies and descriptive statistics for individual items omitted. Before delving into the discussion of the study's findings in Chapter 4.1, the following pages will elaborate on the second research method utilized.

3.3 Qualitative Part: Semi-structured Expert Interviews

The interviews for this thesis were conducted from end of May until the beginning of July 2023. Purposefully, a diverse set of experts within the ESG ecosystem was selected to achieve a multitude of perspectives about the topics in question. For every interview the guidelines (see Appendix 4) were used, but not restrictively adhered to. Particularly, since the experts were almost all from different areas of the ESG sphere, some conversations deviated more from the originally derived questions than others. However, all conversations were valuable to better gauge the current state of, and outlook for ESG. Moreover, Peter Drucker's thoughts on social responsibility were closely integrated in every conversation, while maintaining the continuous conversational framework to the question of approximating the bearable society.

3.3.1 Advantages of Qualitative In-depth Interviews

First, because this study suggests a novel conceptual extension to ESG, there is a need for evaluation to fulfill the requirements of self-reflexive science (Meyen, Löblich, Pfaff- Rüdinger & Riesmeyer, 2011). Second, while the body of research on ESG has been growing rapidly, the definition of ESG remains ambiguous. This is somewhat contradictory to the fact that most of the reviewed research has taken a quantitative approach. The given reasons led to the decision to examine this topic additionally with in-depth semi-guided interviews in order to fill the *“data with life”* and thereby achieve new perceptions and insights (Meyen. et al., 2011). The biggest advantage of qualitative research is its ability to identify cross-links and action motifs that may not have been anticipated by the researcher. This is crucial for the present thesis, as it aims to better evaluate the extensions of ESG through a myriad of expert insights and thereby derive managerial and research implications. Only the qualitative approach allows the researcher to holistically understand the reason and psychological meaning of the respondent’s actions and behaviors (ibid.). In juxtaposition to a prefabricated quantitative survey aiming at statistical results, this method allows the respondents to speak freely, while simultaneously enabling the researcher to inquire further at all times and dive more deeply into the topic or other emerging strains of thought. Thereby, new ideas or findings can be embedded into the research process ‘like a spiral’. In fact, according to Meyen et al. (2011), this is a desirable effect and a proper way to answer a given research question.

3.3.2 Recruiting of Interviewees

Generally, the principal of theoretical sampling was applied to recruit respondents that match the criteria derived from theory and the research interest (Meyen et al., 2011). Above all, interviewees were required to work in the ESG ecosystem for at least one year and they had to agree to talk to the researcher without compensation. As in-depth interviews are a reactive method, where social desirability could quickly distort the results, close attention was paid to not recruit respondents out of the researcher’s social circle (Meyen et al., 2011). Consequently, none of the interviewees were known to the researcher before and all respondents were recruited through a third party, mostly through the social networking site LinkedIn. After the initial connection was made, a brief e-mail was sent to the potential respondents explaining the personality of the researcher and the general goal of the study. Hereby, an information sheet was attached that provided more information about the conditions of the interview process, the confidentiality and anonymization of the recorded conversations and disclosure about the possibility for respondents to cancel the interview without explaining further reasons. Prior to any interview, respondents had to either sign a declaration of consent (see Appendix 5) or consent verbally during the beginning of the interview. To achieve broader results, the sample was adequately diverse regarding years of professional experience, gender, educational background and most importantly, profession within the ESG ecosystem. The final sample consisted of 11 participants, 7 males and 4 females. Two participants were from the United Sates, and the rest was living and working in Germany. Fictional names are assigned to the participants to ensure the agreed-upon factual anonymization and increase further readability of the study (Overview: Table 13).

3.3.3 Development of Interview Guidelines and Interview Procedure

Before going into the field, one pretest interview was conducted to improve the interview guidelines by eliminating ambiguous or suggestive questions. The final guidelines included the questions that were tested to elicit the most elaborate answers from the respondent in the pilot interview. Generally, the interview questions were operationalized based on the theoretical considerations of this study. Moreover, Peter Drucker's body of thought was continuously embedded into the conversations, particularly through the integration of two key statements (see Appendix 4, Topic Area III). Soon after entering the field phase, it became evident that ESG is a topic that the questioned experts have a strong, yet differentiating, opinion about. In all interviews, particular attention was paid to asking relevant follow-up questions, especially regarding topics that were not originally included in the guideline but promised relevant insights.

The interviews were conducted between 17th of May and 7th of July 2023. Apart from two interviews (Simon Larsson & Ben Ferris), all interviews were conducted via common video-conferencing applications, such as Zoom or Microsoft Teams. This circumstance sometimes affected the flow of the interview as random shutdowns or poor internet connection could not be eliminated. The average interview length was 50 minutes (min: 30 minutes; max: 61 minutes). The interview guidelines consisted of mostly open questions. However, to ensure that all topics relevant to the research questions were covered some follow-up questions were posed in a closed question manner. This enabled the respondents to elaborate freely, yet purposefully. To facilitate dialogue, the interview guideline was applied without strict adherence to the order of questions. This resulted in authentic answers and a natural flow of speech.

The interview guideline is split up into eight main parts: Salutation and Introduction (I), General Questions on ESG / Current State of ESG (II), Social Responsibility, Legitimacy and Peter Drucker's Bearable Society (III), Environment Pillar (IV) Social Pillar (V), Governance Pillar (VI), Outlook for ESG (VII) and Ending (VIII). Section I briefly explains the purpose of the interview and the circumstances of factual anonymous data collection. Next, section II first includes questions referring to the current state of ESG and delves into the perception of the acronym's impact. Subsequently, the question is asked, who currently truly benefits from ESG and if ESG is viewed rather as a risk, an opportunity or both in the expert's niche. The second part of section II, investigates the primary bottleneck of ESG adoption, the weightage of the three pillars within ESG and the reasoning behind an ESG reporting mandate. In the following section (III), interviewees are exposed to the two Peter Drucker statements (see Appendix 4). In some cases, the researcher read the statements out loud, while in others, participants preferred to read them by themselves as they were posted in the chat of the video conferencing application as well. The statements are concerned with Drucker's understanding of social responsibility of the business enterprise and his call directed at society's major leadership groups ('elites' in the interview guidelines) to aim at creating a bearable society. Here, in each interview, extensive follow-up questions were asked regarding the expert's opinion on these statements, their understanding of the social responsibility of companies and the role of the ‘profit rhetoric’. In many interviews, the statement regarding the role of the elites enabled a smooth transition to the inquiries about the demands of younger people. Hereby, it was of particular interest to understand if – according to the expert’s opinion – young people will become disappointed by ESG. Next, section IV focuses on the environmental pillar of ESG and asks about alternatives to the ‘not further damaging earth’-approach and if net zero strategies actually add any value. Throughout most interviews, questions concerning the social pillar (Section V) were embedded more freely, as they organically came up in the conversations. Here, the central questions were if companies have a responsibility to develop their own workforce and if one wouldn’t expect most metrics listed under the social pillar to be met anyways. Accordingly, section VI covered the suggested extension of the governance pillar and therefore asked experts about their perspectives on e.g. the importance of a political stance for a company, executive compensation or the effectiveness of ESG in preventing managerial myopia. Lastly, section VII of the interview guideline, is concerned with the expectations about ESG’s future. It was of special interest to gauge the expert’s opinion if ESG will have a different trajectory from its predecessors, such as CSR or the Triple Bottom Line. At the end, in section VIII respondents were asked if they want to mention anything else concerned with ESG, that has significant importance to them but has not come up during the interview. Moreover, they were asked to add further thoughts regarding the achievement of the bearable society. Each interview was recorded and fully transcribed (see Appendix). The interviews were analyzed using the MAXQDA2020 software.

3.3.4 Qualitative Interviews: Analysis Strategy

In alignment with the explorative character of the present thesis, the material was analyzed using both deductive categories based on theoretical considerations and inductive categories developed from the interviews. The latter approach was used when reoccurring statements were not sufficiently represented through the pre-existing categories derived from theory (Mayring, 2000). After the interviews were initially coded, the category system was reworked again to integrate missing categories, split up equivocal or broad categories, merge overlapping categories or delete infrequent ones. To investigate the suggested extensions of ESG, the material was analyzed in accordance to the propositions but also in deviation from it to discover links, relations or challenges that were not anticipated previously. Within MAXQDA 2022, the primary methods of coding were manual coding, based on the category system and the auto-coding function based on specific text inputs. Subsequently the data was analyzed within MAXQDA, mostly using the complex segment search function.

4 Results and Interpretation

4.1 Online Survey

The following chapter presents the results of the quantitative online survey conducted between 08.05.2023 – 29.05.2023. The results primarily focus on descriptive analysis to empirically support the generational demand outlined in Chapter 2.3. After data cleaning and transformation, the final sample consisted of only valid cases, resulting in no missing values reported below. The question regarding respondents' knowledge of the acronym ESG (see Appendix 3) is excluded, as only those familiar with ESG were included in the final sample (n=90). The table below provides a summary of the socio-demographic characteristics of the survey respondents.

Table 3: Overview Socio-Demographic Data of Survey Sample (n=90)

Variable	Frequency	Percent	Valid Percent	Cumulative Percent
Frequencies of Gender				
female	53	58.89	58.89	58.89
male	37	41.11	41.11	100.00
Frequencies of Nationality				
No Answer	2	2.22	2.22	2.22
Germany	51	56.67	56.67	58.89
Italy	4	4.44	4.44	63.33
Switzerland	1	1.11	1.11	64.44

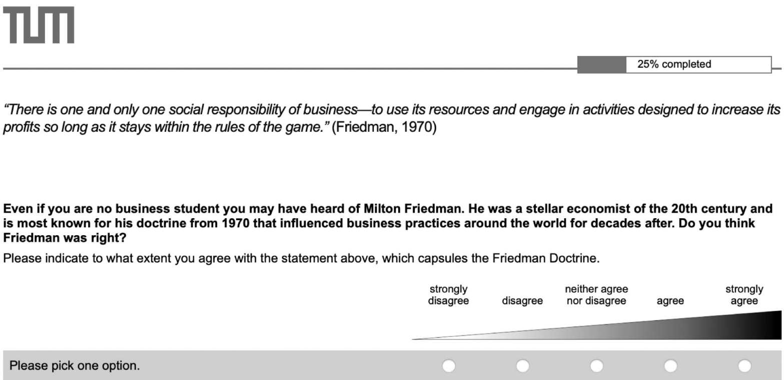
Turkey	1	1.11	1.11	65.56
United Kingdom	1	1.11	1.11	66.67
United States	30	33.33	33.33	100.000
Frequencies for Highest Education				
High school	19	21.11	21.11	21.11
Assosciate's Degree / Apprenticeship	3	3.33	3.33	24.44
Bachelor degree	49	54.44	54.44	78.89
Master degree / Diploma	17	18.89	18.89	97.78
PhD	1	1.11	1.11	98.89
Other school-leaving qualification:	1	1.11	1.11	100.00
Frequencies for Employment Status				
Pupil/in school	3	3.33	3.33	3.33
Training/apprenticeship	2	2.22	2.22	5.56
University student	35	38.89	38.89	44.44
Employee	48	53.33	53.33	97.78
Self-employed	1	1.11	1.11	98.89
Unemployed/seeking employment	1	1.11	1.11	100.00
Frequencies for Age				
18 to 27 years old	90	100.00	100.00	100.000

As can be observed, the sample was relatively diverse across gender, nationality, and educational background, with the exception of age. The 33% representation of respondents from the United States can be attributed to the researcher's deliberate recruitment of participants from that country, followed by snowball sampling to facilitate further participant engagement. Moreover, it is notable that 92% of respondents between 18–27 years old, have specified that they are either currently enrolled at a university or already employed. Thus, it can be inferred that the sampling method was effective in recruiting the people who were intended to be researched.

4.1.1 General Findings: Opinions on Friedman, Drucker & Social Legitimacy

After respondents agreed to participate in the survey and gave their consent with regard to data confidentiality, they were asked to what degree they agree with the Friedman statement. The figure below depicts the manner in which this, and similarly every subsequent, question was presented to the respondent.

Figure 3: Survey Interface; Example Opinion on Friedman Statement



As the main analytical approach is consistent for each question in the given survey, it will be explained once alongside the example of the Friedman Statement. The null hypothesis (H0) posits that the mean score of young people, measured on a scale from '1' to '5' indicating their agreement with the statement *"There is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits, as long as it adheres to the rules of the game"*, is equal to '3'. Conversely, the alternative hypothesis (H1) asserts that the average mean of all respondents is not equal to '3'. This hypothesis will be assessed using a two-sided one-sample t-test, a parametric test employed to compare the mean of a sample against a known population mean.

In this case, the known population mean is '3', which represents the midpoint of the scale. This midpoint conveys neutrality or indifference toward the given statement (Brosius et al., 2012, p. 85; Chyung et al., p. 2). In both instances, this analysis yields valuable insights for the research endeavor. The t-test results will ascertain whether the mean score of young people significantly differs from '3'. If the p-value of the t-test falls below the significance level ($\alpha = 0.01$), the null hypothesis will be rejected, and the alternative hypothesis will be accepted. Thus, for every question of interest in the survey, the null hypothesis posits that respondents are neutral or indifferent on the matter (H0: $\mu = 3$), while the alternative hypothesis (H1) suggests that respondents' opinions on the topic significantly deviate from neutrality or indifference (H1: $\mu \neq 3$).

Hypotheses 1 states: "*Young people do not agree that the only social responsibility of the business enterprise is to generate profits*". A notable deviation from '3' was hypothesized but not found (M = 2.922; SD = 1.041). Although, the mean leans towards disagreement, the results of the t-test were not significant ($t = -0.79$; $df = 89$; $p = 0.48$). The vast majority of respondents (49%) indicated that they neither agree or disagree with Friedman's statement. Hence, H0 is not rejected and it can be inferred that young people are neutral about the notion that the only social responsibility of the business enterprise is to increase its profits – as long as it stays within the rules of the game. The table below depicts the frequency of each answer.

Table 4: Answer Frequencies for the Friedman Statement

Friedman Statement	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	6	6.67	6.67	6.67
Disagree	23	25.56	25.56	32.22
Netiher agree or disagree	44	48.89	48.89	81.11
Agree	6	6.67	6.67	87.78
Stronlgy agree	11	12.22	12.22	100.00
Missing	0	0.00		
Total	90	100.00		

Hypotheses 2 states: *"Young people do agree that every organization must assume full responsibility for whomever and whatever it touches".* Again, a deviation from '3' was expected and in this case found (M = 4.567; SD = 0.704). The one sample t-test yielded significant results (t = 21.114; df = 89; p < 0.001; Cohen's d = 2.226). Here, H0 is rejected and it can be observed that young people do believe that social responsibility should entail impacts on employees, the environment, customers, and whomever or whatever the business enterprise touches. This effect size was found to be very large with a Cohen's d[52] of 2.226. The table below depicts the frequency of each answer about the agreeableness for Peter Drucker's statement.

Table 5: Answer Frequencies for the Drucker Statement

Drucker Statement	Frequency	Percent	Valid Percent	Cumulative Percent
Disagree	2	2.22	2.22	2.22
Netiher agree or disagree	5	5.56	5.56	7.78
Agree	23	25.56	25.56	33.33
Stronlgy agree	60	66.67	66.67	100.000
Missing	0	0.00		
Total	90	100.00		

For Hypothesis 3 – namely – "*Young people's understanding of social legitimacy for the business enterprise is deeply value-driven.*", the central testing construct was the calculated legitimacy index (M = 4.17; SD = 0.53; Chronbach's α = 0.68). The same t-test as above was conducted and its results were highly significant (t = 21.06; df = 89; p < 0.001; Cohen's d = 2.22). Therefore, H3 can be accepted. Overall, the respondents clearly tied the legitimacy of a business enterprise to the values discussed in Chapter 2.3. Because the calculation of the index resulted in more than ten distinct values, frequencies for each item are not

52 For Cohen's d, values under 0.2 are considered a small effect size, values around 0.5 medium and every value above 0.8 is considered a large effect size.

reported. The table below provides the descriptive statistics of the individual items.

Table 6: Descriptive Statistics Legitimacy Index

Items of the Legitimacy Index	**n**	**Mean**	**SD**
I believe companies should operate in a way that creates value for all its stakeholders.	90	3.31	0.93
I believe companies should aim to operate in a way that promotes the common good.	90	4.49	0.64
I value companies more if they provide an essential function to society.	90	4.41	0.69
If a company claims to do good, but does not live up to its claims, I consider buying from a different company in the future.	90	4.40	0.75
Companies that ignore their externalities (impacts on environment and society) should not exist.	90	4.24	0.94

Note: the items were randomized in the survey

4.1.2 Perceived Relevance of 'Environmental', 'Social' & 'Governance'

After assessing if participants were knowledgeable about the meaning of the acronym ESG, they were presented with the last content question of the survey. It consisted of a battery of 15 items, 5 for each of the pillars of ESG. For every participant, the items were automatically randomized to minimize order bias and improve overall internal validity.

Hypothesis 4a stated "*Young people care about how companies handle environmental issues.*". Similar to Hypothesis 3, the central testing construct was the environmental index ($M = 4.51$; $SD = 0.58$; Chronbach's $\alpha = 0.85$). The one sample t-test showed a highly significant result and a very large effect size ($t = 24.52$; $df = 89$; $p < 0.001$; Cohen's $d = 2.56$). H4a is accepted and it is hence inferred that the surveyed participants greatly care about the management of environmental affairs by business enterprises. Similar to above, only the descriptive statistic of the individual items are reported, not the frequency of individual values within the index.

Table 7: Descriptive Statistics Environmental Index

Items of the Environmental Index	**n**	**Mean**	**SD**
I am more likely to buy from a company that stands up for environmental issues such as climate change and pollution.	90	4.40	0.87
I am more likely to work for a company that stands up for environmental issues.	90	4.36	0.86
I believe that companies have a responsibility to reduce their environmental impact.	90	4.54	0.75
I believe that protecting the environment is important for our future.	90	4.73	0.49
I am more likely to buy from a company that stands up for social issues, e.g. consumer protection and access to health care.	90	4.51	0.71

Note: the items were randomized in the survey

Accordingly, hypothesis 4b states: "*Young people care about how companies handle social issues.*". The one sample t-test of the 'Social Index' (M = 4.39; SD = 0.67; Chronbach's α = 0.81) yielded significant results (t = 19.76; df = 89; p < 0.001; Cohen's d = 2.08). Therefore, H4b is accepted as well, indicating that the young survey participants viewed the management of social issues as a top priority. The descriptive statistics of the individual items of the 'Social Index' are presented in the table below:

Table 8: Descriptive Statistics Social Index

Items of the Social Index	**n**	**Mean**	**SD**
I am more likely to buy from a company that stands up for social issues, e.g. consumer protection and access to health care.	90	4.44	0.86
I am more likely to work for a company that stands up for social issues.	90	4.38	0.86
I believe that companies have a responsibility to support their local communities.	90	4.27	0.98

Companies that prioritize fair labor practices, e.g. no child labor, are more attractive to me than companies that don't.	90	4.59	0.65
I think that companies should prioritize diversity and inclusion in their hiring practices.	90	4.27	1.03

Note: the items were randomized in the survey

Next, hypothesis 4c has been strongly supported by the data, indicating that young people indeed care about how companies handle corporate governance issues. The significant results obtained from the one sample t-test, utilizing the 'Governance Index' ($M = 4.34$; $SD = 0.61$; Cronbach's $\alpha = 0.77$), provide robust evidence of the relationship. The effect size (Cohen's $d = 2.21$) underscores the practical significance of the findings, highlighting the substantial impact of corporate governance concerns on the attitudes of the surveyed young individuals. The descriptive statistics of the individual items of the 'Governance Index' are presented in the table below.

Table 9: Descriptive Statistics Governance Index

Items of the Governance Index	**n**	**Mean**	**SD**
I am more likely to buy from a company that stands up for governance issues, e.g. tax transparency and business ethics.	90	4.30	0.94
I am more likely to work for a company that stands up for governance issues.	90	4.09	0.94
I believe that companies have a responsibility to maintain high standards of integrity in their business practices.	90	4.54	0.66
I believe that companies should be held accountable for all of their actions.	90	4.70	0.53
I believe that companies have a responsibility to disclose information about their executive compensation practices.	90	4.09	1.05

Note: the items were randomized in the survey

Afterwards, the same test was conducted with the comprehensive ESG Index ($M = 4.41$; $SD = 0.56$; $\alpha = 0.90$). The respective hypothesis (H5) "*Young people simultaneously care about how companies handle, environmental, social and governance issues.*" can be accepted as the t-test yielded highly significant results ($t = 23.07$; $df = 89$; $p < 0.001$; Cohen's $d = 2.50$).

The following table presents an overview of the results of the central tests of this thesis.

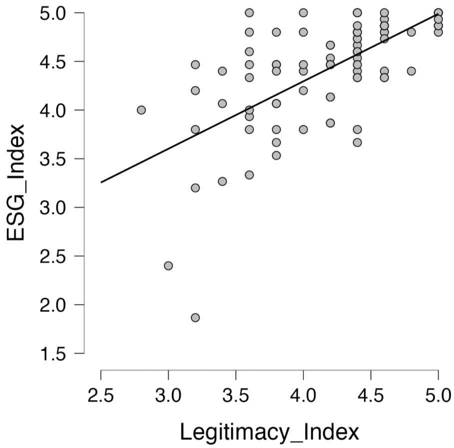
Table 10: Overview One Sample T-Tests of Central Constructs

Overview: One Sample T-Tests	**t**	**df**	**p**
#1 Friedman Statement	-0.71	89	0.480
#2 Drucker Statement	21.11	89	< .001
#3 Legitimacy Index	21.06	89	< .001
#4 Environmental Index	24.52	89	< .001
#5 Social Index	19.76	89	< .001
#6 Governance Index	20.93	89	< .001
#7 ESG Index	23.70	89	< .001

Note: For the all presented t-tests, the alternative hypothesis specified that the mean is different from 3.

Lastly, the study examined correlations among the central constructs in order to identify any unexpected relationships (refer to Appendix 6 for details). However, no new insights emerged from this analysis. Only the Friedman statement displayed a negative correlation trend with the other central constructs, though this trend was not statistically significant. This outcome is expected, given that agreement with the Friedman statement fundamentally contrasts with the remaining constructs.

Figure 4: Correlation ESG & Legitimacy Perception



All other constructs exhibited moderate to strong positive correlations, suggesting that the survey was internally coherent for respondents and effectively captured attitudes that align, rather than contradict, each other. One noteworthy correlation should be highlighted: Pearson's correlation indicated a significant link between legitimacy (measured by the Legitimacy Index) and the overall perception of environmental, social, and governance (ESG) factors (represented by the ESG Index) ($r = 0.646$; $p < 0.001$). Therefore, within the collected data, the perceived importance of ESG issues aligns positively with perceptions of a business enterprise's legitimacy, and vice versa.

4.1.3 Additional Data Examination: Gender and Nationality

Though not explicitly stated as a hypothesis, two further series of – in this case – independent t-tests were conducted in order to make the best use of the data collected. Both series compared two groups with regard to their mean differences of the constructs in the table above (#1–#7). Hereby, the first series tested for differences between gender (female vs. male) and the second series tested for differences between particular nationalities (German vs. American). When comparing the answers to the central constructs with regard to gender, the Brown-Forsythe test was significant for constructs #4 through #7, suggesting a violation of the equal variance assumption. Consequently, the non-parametric Mann-Whitney-U test was used, which is a commonly accepted substitute for the independent t-test when its assumptions are not met (McClenaghan, 2022). No significant differences between the two genders were found. Results are portrayed in the table below:

Table 11: Gender Comparison for Central Constructs

Mann-Whitney U test (female vs. male)	**W**	**p**
#1 Friedman Statement	1123.00	0.21
#2 Drucker Statement	900.00	0.43
#3 Legitimacy Index	962.00	0.88
#4 Environmental Index	1164.00	0.17
#5 Social Index	1184.00	0.09
#6 Governance Index	1052.50	0.55
#7 ESG Index	1135.50	0.20

To compare the means of the central constructs by nationality, the dataset was filtered to exclusively encompass observations from Germany or the United States. This transformation converted the earlier ordinally scaled variable into a nominal one, leading to the omission of 9 observations. Consequently, the sample size for the subsequent set of Mann-Whitney-U tests was n=81 (German: n=50; American: n=31). The outcomes are detailed in the table provided below.

Table 12: Nationality Comparison for central constructs

Mann-Whitney U test (German vs. USA)	**W**	**p**
Friedman Statement	388.00	< .001
Drucker Statement	964.50	0.02
Legitimacy_Index	980.50	0.03
Environmental_Index	719.50	0.65
Social_Index	772.50	0.95
Governance_Index	844.00	0.44
ESG_Index	780.50	0.88

As evident from the above, the respondents from the two nations exhibited a significant difference solely in their agreement levels with the Friedman Statement. German participants (M = 2.55) displayed lesser agreement compared to their American counterparts (M = 3.53).

4.2 Discussion and Summary of the Survey Results

Firstly, the sampling approach can be assessed as effective, as 90 out of 120 completed surveys were conducted with 18- to 27-year-olds (Gen Z), who either knew about the acronym ESG or were able to derive it from context. Overall, the balanced diversity in socio-economic background, gender, and nationality provided a well-rounded sample for the research interests of this study.

Two shortcomings of the survey should be discussed.

1) One resolution to the conflicting results from H1 and H2 could be that Friedman's and Drucker's statements are not perceived as mutually exclusive. The insignificant results for H1 may be explained by the cultural differences between Germans and Americans. Germans slightly disagreed with Friedman's statement, while Americans slightly agreed. However, there was agreement about the second statement, namely that these rules, which govern business activity, should incorporate Drucker's understanding of social responsibility, as opposed to mere legal compliance.

2) The legitimacy index has a suboptimal Cronbach's alpha of 0.68, due to the mean value of the first item significantly differing from the others. This may be attributed to the vague wording of the term *"stakeholder"* and *"value-creation",* which might not elicit clear associations for individuals unfamiliar with these concepts. Brosius et al. (2012) describe that respondents often choose the middle category when they lack knowledge about a question or item, which could explain the pronounced deviation of the first item's mean from the rest. However, respondents did not refrain from selecting extreme values for other items of the index (or in other questions),

suggesting that the fallacy of central tendency bias is negligible. Therefore, the analysis revealed an overall value-driven understanding of social legitimacy, with respondents emphasizing companies' essential contribution to society and promoting the common good.

Furthermore, the findings highlight a significant concern among young people for environmental, social, and governance issues. Respondents expressed a preference towards companies that prioritize environmental and social issues, both as consumers and employees. The results of the survey emphasize the importance of fair labor practices, diversity, and inclusion in hiring practices. Additionally, participants believed that companies should be accountable for their actions and disclose information about executive compensation practices, which is in line with the demand for more regulatory nudges for responsible corporate behavior (Hernandez et al., 2022). The significant positive correlation between legitimacy (Legitimacy Index) and overall ESG perception (ESG Index) suggests that young people perceive ESG issues as integral to the legitimacy of a business enterprise. This finding reinforces the notion that companies' responsible practices positively influence their perceived legitimacy among younger generations.

All in all, the survey findings support the notion that young people prioritize ESG issues and value companies that demonstrate responsible behavior, within their various societal roles. The results align with the growing global focus on sustainable business practices and suggest that younger generations have a strong interest in promoting ESG-related initiatives.

The survey results offer a valuable contribution to the expanding ESG research landscape. Prior to this study, there has been limited attention focused on how young individuals perceive ESG issues. The analysis shows unanimously that young people deeply care about environmental, social and governance issues as members of our society. It has further been evidenced that this is reflected through their perception of a legitimate business.

To sum up, the results of the survey can be viewed as an exemplary confirmation of the extensively discussed demands of young people in

Chapter 2.3. Therewith, the survey empirically reinforces the argument that for the long-term, value will be increasingly created through values.

4.3 Qualitative In-Depths Interviews (Expert-Interviews)

This chapter describes and simultaneously discusses the results of the semi-guided expert interviews. First, a general evaluation of the respondents' engagement in the topic of ESG, the conversation, and their general attitudes towards the research are provided. The rest of the chapter is structured in order with the sub-research questions (SRQ 1–SRQ 6). At the end of this chapter, an answer for the main research questions is suggested. At this point, it should be emphasized that the results are assessments and observations of the respondents, which are inherently subjective and do not allow generally valid conclusions. Furthermore, as this study was conducted by a single researcher, his personal subjectivity is indivisibly associated with the presented results (Meyen et al., 2011). In the following pages, the participating experts are cited with the initial of their fictional last name [Letter] and the position of their statement in the interview transcript [Number]. For instance, a reference to position 29 of the interview with Jack Hush, would look like this: (H, 29). Direct quotes in the following section were translated from German to English if they were not in English originally, with only minor edits made to improve readability. The following table provides an overview of the participants in the study.

Table 13: Overview Participants in Expert Interviews

Abbr.	Anonymization	Industry	Length in min.	Gender	Position	Country	Years of experience
R	Max Ratson	Big 4 Audit	61	Male	Senior Consultant	Germany	2
T	Sara Thomson	ESG Ratings Consulting	59	Female	ESG Advisor	Germany	3

G	Julia Goldstein	Strategy Consulting	59	Female	Head of Sustainability	Germany	9
M	Max Mance	Higher Education	55	Male	Business School Lecturer	Germany	15
B	Eva Brown	Private Equity Consulting	53	Female	ESG Consultant	Germany	1
L	Simon Larsson	Corporate Banking	53	Male	Head of Marketing	Germany	32
W	George White	ESG Consulting	49	Male	Partner	Germany	4
C	Larissa Cora	Family Office	48	Female	Head of Impact Investments	Germany	16
F	Ben Ferris	Corporate Venture Capital	45	Male	Venture Partner	Germany	11
S	Bill Smith	Private Equity	32	Male	Associate	USA	4
H	Jack Hush	Communications Consulting	30	Male	Founder	USA	14

4.3.1 Reflection on and of Participants

All questioned experts were remarkably engaged in the talk and it appeared as though ESG is a topic where passion can meet profession. Accordingly, all interviewees expressed their appreciation for the conversation and offered availability for further questions throughout the research process (e.g. L, 67; G, 73; T, 60). Some also referred the researcher to further experts, indicating the perceived meaningfulness of the conversation (C, 84; M, 59). Additionally, they were eager to receive the final thesis to possibly expand their own horizon. Multiple interviewees reflected on their point of view of the ESG ecosystem in the final minutes of the interview:

> OK, so first of all, I think it's a really interesting research that you're doing. I think we always need to question everything and we need to look at like the negatives as well as the positives and maybe not get blinded by our own opinions too much (…) if we feel like 'OK, maybe something is going into the wrong direction', change course, admit failure and you know, go a different way. So, I think it is really important to criticize ESG. (B, 64–65)

> I would be interested to read through it and also to hear what, what other people had to say about the topic of this. I'm happy to hear other perspectives as well, because I'm fully aware that mine is just one of multiple perspectives on many topics, so always happy to be challenged there. (W, 38)

Overall, the expert interviews yielded relevant, though not all too surprising[53], insights and could (subjectively) be described as a pleasurable experience for all participants:

> It's always fun to take a step away from my work and just, like, actually get to think. About stuff. So that's nice. (H, 29)

4.3.2 Assessment of ESG's Current State

The first sub-research question (SRQ 1: *"When considering ESG's current state, what are its' purpose and mission, perceived impact, major shortcomings and obstacles for broad adoption?"*) was mainly answered by analyzing the categories and sub codes of 'Current State of ESG' and 'Reporting Standards and Rating Agencies'. The entire category system can be found in the appendix of this thesis (Appendix 7).

53 The insights were often not very surprising, as they were partly already discussed in theory part of this thesis. However, an in-depth elaborative confirmation is worthwhile regardless.

Emergence of ESG

First of all, the experts seconded that ESG became a focal topic in their industry only in recent years. As outlined in Chapter 2.1.2, Larry Fink's Letter to Shareholders (H, 2; M, 22) and the UN SDGs (L, 55; C, 41; T, 20) are viewed as critical milestones for the development of ESG's momentum. Yet, the interviews also reflected that there is still plenty of flexibility in the term ESG. Some respondents clearly defined ESG as a tool for risk management or financial value creation (M, 4; H, 12), while others had a value-laden definition of ESG (R, 8; F, 11). Accordingly, a third group of experts stated that, in fact, there is no clear definition of ESG yet, and that it has become a buzzword, *"where everyone has their own interpretation"* (W, 8). One respondent, working in private equity stated:

> I think we're in the very early innings of ESG. I think because it's such a novel concept. It's not an ancient concept in and of itself, but it's very recent that it's been taken so seriously from a corporate perspective. Because it wasn't prioritized from investors 20 years ago nearly as much as it is now. But I think companies are still figuring it out. Honestly, I think a lot of the companies barely figured out what it even means. And I think we're only at the very beginning of understanding how it's best implemented in reality. (S, 43)

Purpose and Mission of ESG

Likewise, there was a diversity of opinions when experts were asked about their understanding of ESG's purpose and mission. For some, the answer is clear: mainstream ESG is a tool to find the right balance between risk and opportunities for a company, while complying to regulations (W, 6; R, 8). Yet, a manager of a family office investor added that *"in the long term, the purpose of ESG is to make the world better"* (C,12), while another expert stated that ESG is used only to practice virtue signaling within the institutional investors community (S, 10). On the other hand, notably the most senior expert of all interviewees described ESG's purpose as a wake-up-call to both mitigate social injustices (L, 20) and to tackle potentially the most important challenge humanity has ever faced, namely *"saving our earth"* (L, 4).

Overall, there was certainty that ESG is no longer a trend that could disappear (H, 5; W,4; M, 8). Despite this agreement, it is not surprising that the interviewees differed in their understanding of ESG's purpose and mission. As discussed extensively in Chapter 2.1.3, the 'big tent' approach of ESG has led to exactly this. One could argue that this flexibility may lead to doubts about ESG for individuals working in the ESG ecosystem. The following excerpt exemplifies this phenomenon:

> **Schwarzer**: (...) How would you define the purpose of ESG?
> **Thomson**: That for me is not a fully definitive question, because I have been asking myself lately whether ESG is actually, you know doing the right things. Like is it actually benefiting the target group that I aim to benefit in terms of my career? Because...
> **Schwarzer**: Who is that?
> **Thomson**: I would say the people. (T, 11–14)

Perceived Impact of ESG

However, most experts were cautiously hopeful that ESG already has – or at least will soon – drive significant change in our society (M, 6). For instance, Ratson described that ESG has more weight in corporate structures compared to the *"much softer topic of corporate sustainability"* (R, 4) and Hush explained that although anti-ESG voices can be a pace brake for ESG, they also demonstrate that ESG has hit a *"critical mass"* (H, 2) and is no longer a nice-to-have topic (R, 4).

Currently, the real impact of ESG is thus far often limited to 'quick wins', such as enforcing a diversity, equity and inclusion (DEI) initiative in professions where underprivileged groups are typically underrepresented (S, 13–14) or the initial drafting of corporate climate policies (W, 32–34). This is because today, it is still *"whishy washy"* where ESG actually adds value and the recently passed ESG laws confuse and overwhelm companies (B, 4; G, 50). Of course, advisors and consultants are to the rescue and they come with the compelling pitch, that if companies do not act on ESG today, they will experience severe repercussions within the next few years (G, 16, B, 30), risking lawsuits with hefty penalties or reputational loss from investors (W, 4).

Shortcomings and Obstacles of ESG Adoption

When discussing the shortcomings and obstacles of ESG adoption with experts in the field, it became evident that merely selecting the right ESG framework is exceedingly difficult for companies without the knowledge of an internal, but more often external, ESG expert. Furthermore, a major hindrance for all three of ESG reporting, ESG investing and ESG strategy, is the (still) defective comparability and transparency of standards used within the ecosystem (T, 20; R, 4 & 20; W, 6). While investors show real interest in ESG ratings (T, 16; L, 26; R, 44) their vastly different methodologies and therefore varying results, make it necessary for them to combine ESG insights from multiple sources (C, 37, W, 20), because as a responsible investor "*you don't really go to one rating at all*" (T, 16). According to most interviewees, the threat of greenwashing is closely interlinked to the lack of standards, because it remains questionable who really will investigate the truthfulness of compliant, or even stellar, ESG ratings (L, 4; B, 28; R, 20; 16).

> **Schwarzer**: (...) So what MSCI, S&P and Sustainalytics are doing is that sales or are they really adding value so to say?
> **Mance:** Of course, yes. It is way too much. They're sniffing the dollars everywhere and it's not news, so. Of course, it's part of their strategy to create new income streams. I don't take these rankings for serious because they're based on many, many different methodologies and it's really hard to compare companies from different industries and sectors. (M, 14)

Further noted deficiencies of ESG encompassed the perceived sanctimoniousness among companies striving for eligibility in specific financial products (e.g. ESG ETFs) (S, 2), the creative limitations of ESG initiatives constrained by their placement within accounting departments (G, 60), or the associated expenses of ESG ratings from well-established entities (C, 6). Moreover, the necessary initial investment to truly begin with ESG as a business enterprise was commonly perceived as a burden for financial stakeholders (G, 54; L, 42, C, 12).

Notably, multiple experts had concerns about whether all the ESG efforts in the developed world can indeed *"move the needle"* regarding climate risk mitigation and reduction of worldwide social inequalities, especially when considering the global south (e.g. F, 1; B 61–62; R, 14, H, 26). Ben Ferris, a corporate venture capitalist, reflected on recent German ESG laws, focusing on supply chain issues.

> I definitely think it will change a few things, but it does not address the core issues that these countries face. Like why is it a fact that a 10-year-old kid would go and work in a in a cocoa farm. That's a problem that still would remain the same. (F, 5)

Finally, the perception that ESG is still in the writing was shared by all study participants (e.g. L, 2; R, 14 & 30). Imperfections of the current system are deemed acceptable, as we are in the middle of a *"huge transformation"* (C, 16).

The results to the first sub research question can be summarized as follows: the experts in this study agree that ESG is no longer a trend and is here to stay. Yet, there is still a lot of flexibility in the term, which can lead to confusion and doubts about its purpose amongst professionals in the ESG ecosystem. Most experts believe that ESG has the potential to drive significant change in our society, but that it is still in its early stages of development. There are a number of shortcomings and obstacles to ESG adoption, including the lack of standardized reporting frameworks and rating methodologies, the threat of greenwashing, and the high cost of getting started with ESG initiatives. Despite these challenges, the experts believe that ESG is a worthwhile endeavor. Overall, imperfections are accepted throughout this transformative period of ESG.

4.3.3 Driver's and Beneficiaries of the 'ESG Revolution'

The second sub-research question: *"Who are the drivers and true beneficiaries of the 'ESG Revolution?' Who should they be?"* (SRQ 2) was addressed by mainly analyzing the categories and subcodes of 'Role of Governments' and 'Transition & Transformation', as well as other relevant categories.

Drivers of ESG

> **Schwarzer:** (…) do you see that these [ESG regulations] are the main drivers for ESG, or is it somewhat – are there also intrinsic forces here?
> **Brown:** No! 100%. Only the regulatory obligations are the drivers. In my opinion – I mean from what I'm seeing, especially with the private equity firms (…) like with private equity companies, we work with companies that invest in medium sized businesses. And there, the only driver really is the regulation in my opinion. And only because they are there, they are forced to do so something (laughs). (B, 5f.)

Firstly, the sentiment that legislative force is the primary motivator for ESG is shared by most study participants (R, 4; F, 45; T, 2; H, 6). And again, the expectations toward effective ESG laws are high in order to not succumb to greenwashing. One of the experts, a co-founder and partner at a German ESG consultancy notes:

> But this, all had to be initiated by the legislator (…), because companies themselves always want to portray themselves in the best light possible. So only if you establish tough baselines and tough standards for everyone, and the everyone is the important fact here, you will have something where you can take all the greenwashing out and really have comparable information across the company domain. (W, 16)

In this regard, many interviewees highlighted the magnitude of the Corporate Sustainability Reporting Directive (CSRD). It is argued that this new wave of legislation concerned with the European Green Deal will trickle down over the years and affect the way companies do business on a large scale (R, 45). However, this *"visible hand of the law"* (see p. 50) is coming without much of a warning. Extensive ESG reports must now be created in a very short time by over 50,000 European companies who are *"scrambling"* to become compliant (W, 2; T, 36). Next to looming legal fees, it is argued that prioritizing ESG is in the self-interest of companies as well, because companies who don't are likely to miss out on investors' money (W, 4 & 14).

> At least in the US – though and I have a feeling this is how it is in Europe as well – ESG has recently been prioritized only because investors have asked for it. Companies fear that by not implementing ESG initiatives, they might lose investors. (S, 53)

Accordingly, some respondents highlighted that investors are driving the ESG revolution as well (H, 2; S, 42), mostly because it became a coin term in the industry that is now demanded (T, 22). Why? Because they have experienced first-hand the financial materiality of ESG aspects (C, 18). Once investors started caring, it was a "*huge unlock*" for other participants in the ESG ecosystem (H, 2).

Beneficiaries of ESG

As a consequence of this unlock, the 'gravy train of ESG' – as Damodaran (2022) would call it – started rolling. It was uncanny that participants who had ESG in their job description (mostly consultants), thought of their own profession first when asked about the main beneficiaries of the ESG transformation. Next to consultants (S, 14; B, 14; W, 10; R,12; T, 14), advisors (R, 26), insurances (W, 16), institutional investors (C, 75; W; 14), solution providers (B, 14), it was big corporations that were named as market participants who can expect a financial gain from this transformation. However, based on the responses from the experts in this study, it can be inferred that participants in the ESG ecosystem do not act out of self-righteousness[54].

> So, I think the companies that will profit the most from this initial phase will be consultants like us. I can't lie about this, but also insurance companies that then have to assure that all the information that is provided is also correct. And this is a challenging task because other than with numbers, you can't only look at, well, the accounts, etc. And the letters and tell whether this is true, but you also have to have some expertise when it comes to how to measure CO2 emissions and is that really correct? What the company did or not? And so, this will span a whole industry that will really grow. I think companies like PwC, they, they are hiring like 100,000 people around the world in the next few years for ESG alone. So, this is crazy and I think those will be the ones that will profit the most, in the short term at least. And then in the midterm, I think, I hope, that the planet and society will also profit from this because if you establish a global baseline with ESG or at least a European wide baseline of comparable information in the environmental and social domain, really all investors and this means also private investors like you and me, will have a better basis to decide on which company is really sustainable. (W, 10)

This quote reveals two important insights:

First, the 'ESG revolution', **if** [author's emphasis] conducted as described above, is hardly a 'gravy train'. In fact, it aligns more closely with Drucker's idea of turning social needs and wants into a profitable business opportunity (Drucker, 2003, p. 105). However, particularly the professional firm mentioned above, PwC[55], is a good example for how some participants in the ESG ecosystem are swerving between doing good and protecting their own financial interests. In 2021, PwC

54 Here, cultural differences could play a pivotal role. Overall, the experts from the US appeared much less hopeful about ESG's potential for change and cynic about current ESG practices.

55 None of the interviewed participants worked at PwC.

dismissed Desiree Fixler's allegations of broad-scale greenwashing by DWS, while advising the asset management firm on sustainability strategy (Storbeck, 2021). Yet, only two years later, PwC pitched anti-greenwashing frameworks to asset managers (PwC, 2023). This raises the question of whether these same companies are perpetuating the problems they claim to be solving in the ESG transformation.

Second, the societal need exists as the ‘you and me’ or the ‘untrained eye’, would greatly benefit if ESG enabled them to effectively distinguish between sustainable companies and unsustainable ones. This need is accentuated by the generational demand discussed in Chapter 2.3.

Young People and ESG

Overall, the interviewed experts share the notion that young people are playing a critical role in accelerating the ESG transformation, as their choices and attitudes begin to manifest in financial materiality. The influence of young consumers is becoming evident, with a growing trend of demanding more ethical practices and sustainable products. Corporations that promote their commitment to sustainability, such as reducing carbon footprints, appeal to this new consumer mindset (B, 14). In line with the theoretical background of the given thesis, experts also agree that the rise of social media platforms overall, empower young people to put pressure on companies and governments alike.

> I think the Gen Z have a special advantage which has never happened before. Which is, it's for the first time in the whole history of humankind, that you can basically stop a company just by being annoyed. (F, 37)

Young people know that the business practices of yesterday “*can’t be it*” (R, 30). For instance, former practices in waste management are not perceived as legitimate any longer (ibid). And they use digital tools to voice their opinions about corporate misconduct (B, 26). This is not constrained to demands for regulatory nudges for business enterprises, but translates into demands towards society (and therewith) governments as a whole, as the following dialogue shows:

> **Brown**: I feel like what we're kind of seeing is a little bit of a grassroots uprising. To some degree, yeah.
> **Schwarzer**: OK. I agree, but would you care to elaborate? What do you mean by that?
> **Brown**: So, I mean, you know, we see it with the climate protests that we are having in Germany right now. I mean, (...) I wouldn't want to call it a revolution, but trying to revolutionize from the bottom up. It's mostly young people, who are often like really disregarded in our society too and I think we see that now. (B, 26ff.)

Accordingly, younger people demand a lot from future employees. Because ...

> (...) now sustainability is a topic for people, right? If you look at future employees, they ask companies different things. They want them to be sustainable and it doesn't necessarily – it's not enough to have like a marketing strategy. Like they're way more informed, way more critical of companies when it comes to this topic. And it is because it gives them fulfilment and they're looking for something that makes their lives better. (G, 42)

Similarly, Larsson – a senior manager at large corporate bank – describes talent attraction for new graduates as follows:

> So, when I talk to young people I hire as trainees, they look to see how the company is doing in terms of ESG, because otherwise they simply won't come. They ask themselves, ‘Can I identify with this?’ (L, 46)

One caveat, as reported by Hush, states that, unfortunately, although millennials, and particularly Gen Z, generally think differently than previous generations, *"it might be a little too late by the time we gain the power to change things"* (H, 22).

4.3.4 The Role of Business in Society: A Modern Perspective

The third sub-research question: "*What is the role of the business enterprise in our society and what is its social responsibility? Do elites have a special role to play? How is legitimacy affected?*" (SRQ 3) was mainly addressed by analyzing the categories and subcodes of 'Opinions on Peter Drucker Statements' and 'Demands of (young) people', as well as other relevant categories. Here, every interviewee was presented with the same two statements about Peter Drucker (see Appendix 4, Topic Area III, 1) & 2)).

Role & Social Responsibility of the Business Enterprise in our Society

Firstly, when asked about the role of the business enterprise in our society, all experts shared the idea that it is not the same as a few years ago. Rather, its role is multifaceted as it became influenced by various factors, including evolving public sentiment, technological advancements, and regulatory pressures. There is a demand of people for companies to eclipse mere profit-making, as they trust businesses to contribute to addressing the challenges faced by society (G, 42; T, 26). Unsurprisingly, it was widely acknowledged that profitability will remain the first priority of any business (e.g. F, 15; B, 22; T, 24; R, 30; H, 20), because otherwise it cannot "*discharge anything else*" (Drucker, 1986, p. 239). Yet, Goldstein emphasizes that companies are indeed responsible for finding their place within society and acting accordingly (G, 32). It was emphasized that factors like employee well-being, diversity, and environmental impact are interconnected with profitability. Neglecting these aspects can harm a company's reputation, and through this, its bottom line (T, 24; C, 65). One positive example of addressing these demands was social impact procurement, which focuses on purchasing goods from groups contributing to economic stability for marginalized communities. Hereby, Ferris (45) illustrated how seemingly small decisions can have substantial positive impacts.

Moreover, in terms of reputation management, transparency has emerged as a vital aspect for business enterprises today according to the interviewed experts (e.g. B, 50; T, 2 & 28; R, 8; W, 4). Openness in actions helps prevent scenarios like Coca-Cola's[56] recent greenwashing scandal and fosters trust with investors, customers, and employees (Thomson, 28–30). The rising demand for ESG drives companies to provide more information, even if it's prompted by the desire for a higher ESG score, which ultimately leads to more transparency (Thomson, 28–30). As discussed above, ESG has already been effective in this way, regardless of the understanding one has about its purpose (see p. 24). Overall, ESG's role is perceived as pivotal to establish a baseline for better decision-making, especially as businesses are scrutinized for their societal and environmental impact (White, 25–26).

Here, the role of younger generations and their changing expectations, which has already been articulated extensively, should not be underestimated. Due to the *"generational shift",* (G, 40; H, 6) drastic changes are expected to happen in the realm of the metaphysical concept of legitimacy (see p. 35). Goldstein expresses her social constructivist perspective and suggests that, maybe, more radical concepts like de-growth[57] will push through because ultimately "*it's society that changes society*" (G, 64). However, despite optimism about the generational demand, some experts recognize that deeply ingrained economic philosophies such as the *"Friedman mindset"* and *"trickle-down economics bullshit"* can hinder change (H, 22; L, 30).

When experts were asked directly if they think that the business enterprise is responsible for solving society's problems, the responses were mixed. For instance, some experts argued that companies must at least contribute to the well-being of their own employees by paying living wages (T, 32; C, 65). Some extended this notion and emphasized the balance between profitability and sustainability (B, 33), especially

56 The expert pointed out the irony of Coca-Cola sponsoring the UN climate conference (COP27) while being the world's most prolific plastic polluter.

57 De-growth is a socio-economic paradigm that advocates for a reduction in economic growth in order to protect the environment and promote social justice.

because according to the best-case narrative of ESG, long-term profits and successful social and environmental responsibility of companies are interlinked (W, 14). Notably, Max Mance highlighted the challenging imperative to finally switch to long-term thinking in the corporate world.

> It's all about long termism. So basically, the outcomes of business that are bad for society are only.... All these mistakes, they only 'make sense' if you look at the short term and it's basically profits. And if you have a longer term and you establish – well – long termism, which is the goal of the European Union, as well as investors like BlackRock. When you create long-termism you solve parts of the problems I think. (M, 23)

On the other hand, Rastson (R, 46) stated that he believes that societal and environmental problems are primarily the responsibility of governments, as they create the necessary frameworks and regulations, so to say the Friedman-esque *"rules of the game"*. In response to the inquiry about the potential for companies to become effective problem solvers in a scenario of extensive ESG convergence, Smith asserts that companies would still grapple with conflicts *"because it's in their best interest to do the bare minimum"* (S, 41). He suggests, that government initiatives and regulations are critical to *"force businesses to be handling themselves with ESG at the forefront of their mind"* (ibid.)

Special Role of Elites

> **Schwarzer:** Do you think that companies in general are partly responsible to solve our today's problems? Or is that something you'd leave to NGOs and governments?
> **Cora**: No, I'd rather leave it to people that have money. (C, 43)

This excerpt implies that 'those with resources' (see p. 61) have a special role in contributing to the successful ESG transformation, especially because some members of the 'elite' have resources so vast, that it would be irresponsible to not make them available to improve society for the majority (S, 35; G, 32). Ferris extended this idea by stating that, we – as a society – are firstly, lacking necessary disincentives to attain ultra-rich status such as the billionaires that Silicon Valley bred over the past two decades and secondly, we need to create better *"pathways that these people can contribute to society"* (F, 23). Larsson (38) explicitly defines elites as politicians and business leaders, who have more influence and hence can make more impactful decisions than the average citizen (ibid). His notion is close to Drucker's understanding of the responsibility of the elites (see p. 51).

> This means they influence the world much more than the non-elite. And that's why they have more responsibility. Leading society or companies in the right direction, doesn't matter. However, what is not acceptable, is for those who are not part of the elite to sit down and say, 'I don't have to do anything.' (L, 38)

Hereby, Larsson expresses an idea that is shared by other interviewees. While society's major leadership groups are the decision makers, it is the responsibility of every individual to ensure that they send the right signals as consumers, voters or even employees (B, 26; G, 44). For instance, Brown described how *"grassroot protests"* are increasingly putting pressure on the elites (B, 28). Max Mance, lecturer at a German business school, responds to the second presented statement of Peter Drucker (see Appendix 4), that this aligns well with the overall need to implement exhaustive ESG strategies.

> But ESG is really all about business strategy and of course it all comes down to responsibility and it's a great thing and there's a famous quote (…) from Larry Fink, the CEO of Black Rock. He started this, which is now heavily criticized by these Republicans, saying he's woke. (…) There's a New York Times article and the heading was 'Black Rock to companies: Contribute to society or lose our support!'. And this is really what I think is best reflected in the quotes you just said, by Peter Drucker. (M, 21)

Henceforth, the collective sentiment of experts indicates that businesses are expected to somehow embrace a broader societal role that goes beyond profit generation. The integration of ESG emerges as a way to meet these expectations and foster trust. While there is acknowledgment that change is challenging, the results of the interviews allow the synthesis that a combination of regulatory ESG frameworks, responsible behavior of society's major leadership groups and evolving business practices, all driven by changing societal demands, will conjointly shape the role of the business enterprise and its responsibilities in the future.

4.4 Opinions on Environmental, Social & Governance

4.4.1 Perceived Effectiveness of 'E'

The fourth sub-research question, *"How can the 'E' pillar be effective and is it – in this regard – recommendable to focus on healing the planet, instead of not harming it further? Is there a comprehensibility issue with ESG?"*, was addressed by mainly analyzing the categories and subcodes of 'Environmental' and 'Transparency', as well as other relevant categories.

Overall the interviewed experts shared the notion that, because ESG has not reached its final form, its impact in effectively mitigating climate risk is limited (e.g. S, 4 & 41; T, 38; R, 9). Simultaneously, it appears more promising than the efforts of the past, aiming to "*reform capitalism*" (Globerman, 2022) (F, 39; G, 35; M, 4; C, 77). Urgency appears to dictate importance for the pillar of 'E', as Cora (49) responded to the question if ESG is going far enough to protect our environment with a prompt "*No, it has to go much further*". Similarly, Larsson emphasized that ESG "*has to work*". According to him, there is no doubt that if we want to save our planet, we have to master the historically largest transformation of the global economy, (L, 2) and ESG finally set the initial incentives to embark on this journey. White (14) provided the compelling analogy that if "*we don't do anything about climate change, we will turn into rubble and then your profitability will go through the floor so to say – in the other direction*". In juxtaposition, Smith's experience in the private equity industry suggests that immediate profits remain the top priority and that mitigating one's environmental impact is merely tolerated.

> **Schwarzer**: OK, so you said that this company [portfolio company of the PE firm] sometimes reallocates capital to offset their carbon footprint. And how do shareholders then react to this?
> **Smith**: It's frowned upon. It's something that would be OK with investors only as long as the company is performing well, which they have been, but there is no way that that would be allowed to continue if performance were questioned at any point.
> **Schwarzer**: Okay, I see.
> **Smith**: They would immediately ask for the initiative to be cut. (S, 25–29)

Moreover, almost all experts were explicitly asked about their opinions on net-zero strategies and targets, which often accompany ESG proclamations. Here, the results were mixed. For instance, while, Larsson (48) was convinced that most companies take them very seriously, Mance (53), explained that there is *"a lot of net zero bullshitting out there*" and the he does not trust them. Ferris (39) expressed a more balanced view as he states that although they "*don't add much value, as the bigger problems remain the same*", at least they start genuine discussions, which was rarely the case before. The diversity of results, allows the optimistically realistic interpretation that, while such reports and whitepapers still involve a lot of public relations expertise, they are taken more seriously than in the past mainly because investors read them thoroughly now.

When asked if not harming the planet further warrants a high ESG score, the questioned experts, asserted that *"doing the bare minimum*" would not lead to an above average ESG score (B, 52 & T, 32) and that *"ESG ratings already cover good environmental behavior*" (R, 50). As this thesis focuses on the overarching raison d'être of ESG rather than delving into rating methodologies, it is worth noting again, without further commentary, that MSCI assigns Shell its second-highest 'grade' (see Appendix 2).

Furthermore, healing the planet through the implementation of ESG appeared improbable to some experts, as the only matter in question is "*how exponentially worse the whole situation gets*" (L, 2). According to Goldstein, all kinds of *"buzzy concepts"* are likely to focus on adaptation soon (G, 50).

> Like it's all about adaptation. How do we deal with the kind of heat we'll have? (…) And how do we make sure that people don't die because of heat and floods and all that kind of stuff? And that is like something that we'll have to deal with, right now as well. So, I think to really go beyond that and have that sort of innovational like… how can we heal and how can we change like, is at this point maybe sort of idealistic utopia, I don't know. (G, 50)

It can be inferred that the *"era of global boiling"* (Guterres, 2023 as cited in Niranjan, 2023) is at the forefront of the mind of most interviewed experts. According to Goldstein and Brown, successfully advocating for a business model transformation aimed at decarbonization, as opposed to relying solely on carbon compensation, can be seen as a silver lining in the effort to heal our planet through the implementation of an ESG strategy (G, 20; B, 52). Today, companies with higher carbon footprints are required to compensate for their emissions by purchasing carbon credits. However, Ferris proposed a different approach: rather than simply buying credits, companies should be mandated to generate their own carbon credits.

> What we can implement is to say: you cannot buy carbon credit. You have to generate carbon credit and by this, they have to do projects in countries where there is lack of resources and if you do this, the upside is that these companies are generally very innovative, so chances are, if you give them access to these, let's say population, where innovation can improve their quality of life rather than only buying carbon credit. If they do this and create their own carbon credit. It might also impact the bottom of the pyramid in an economic way, not only by reducing carbon footprint. (F, 23)

This suggestion could indeed be a more societally fruitful approach, though expectedly not appreciated by corporations, as the currently embraced system of compensating for carbon credits is widely adopted, despite being under suspicion to be mostly worthless in actually limiting temperature rises (Greenfield, 2023; White, 2021). White shared this notion and stated that carbon credits "*won't lead to a better world. This is just greenwashing*" (W, 8).

Lastly, it was examined if the 'untrained eye', trying to put its money towards a good cause while aiming for long-term financial value through ESG investing, would be disappointed if they found out what the current renderings of ESG truly entail. The response of experts was clear. They would be (B, 30; T, 36; S, 2). Ratson (44) explains how it can be quite irritating for retail investors to really dive deep into the configuration of ESG funds only to then find out that they are almost identical to regular market indexes. Cora (14) expands this argument by stating that unfortunately, there is nothing private investors can do about it, as they are unlikely to have *"a Bloomberg* [Terminal] *that costs 30,000 a year"*.

This highlights that under the 'big tent approach' of ESG, a mismatch between (perhaps unrealistic) expectations, born out of 'better world' marketing, and actual ESG investing practices is common. Overall, it can be inferred that, according to the interviewed experts, retail investors hardly comprehend the true nature of investment vehicles broadly associated with ESG. In this regard, Ferris (13) mentioned another idea that could be effective either for an ESG strategy implementation or considered for ESG regulation. For him, one of the central obstacles to overcome for a successful ESG transformation is the prevailing philosophy in today's developed societies that pursuing happiness necessitates acquiring more material possessions which often exploits a significant portion of the population in the global south. He uses the production of denim as an example and highlighted that hardly anyone is aware of the excessive water consumption associated with the production of such products. Therefore, he argued for the introduction of clear and comprehensive information, similar to the

European Nutri-Score about the environmental and social impacts of such products in order to elicit conscious consumption. Such an 'Environmental Score' may curtail the overconsumption in the world's richest countries, which is often the root cause for both environmental (Phillips, 2022) and social (Diallo & Sullivan, 2022) problems.

In summary, the experts' perceptions of the current effectiveness of the 'E' pillar in ESG were varied. They acknowledged its limitations in mitigating climate risks due to its evolving state, yet simultaneously viewed it as a more promising avenue for reforming capitalism and addressing urgent environmental concerns than previous endeavors. Some doubted ESG's potential to heal the planet, given the urgency of the climate catastrophe and therefore made the case for adaptation to worsening climate impacts, rather than reversing them through ESG integration. Despite skepticism, advocating for a business model transformation toward decarbonization, rather than relying solely on carbon compensation, is seen as a potential silver lining of ESG strategy. However, the mismatch between public expectations and actual ESG investing, as well as the challenge of conscious consumption, highlights areas for improvement.

4.4.2 Perceived Effectiveness of 'S'

The fifth sub-research question, *"How can the 'S' pillar of ESG be effective and is it – in this regard – recommendable to focus on providing for competence, inside and outside of the organization?"*, was addressed by mainly analyzing the categories and sub codes of 'Social Pillar' and 'Role of the Business Enterprise', as well as other relevant categories.

When participants were asked about the 'S' pillar of ESG, it became prevalent that here, the most focal topics in the ESC ecosystem were labor conditions (W, 20), with a particular focus on supply chain issues (e.g. R, 4 & 8; F, 5; T, 12; G, 52) fair pay (B, 34; H, 20), or DEI initiatives. For the latter, Larsson (56) and Smith (19) reported that ESG has already been quite successful in this regard. As discussed on page 114, DEI efforts are often seen as quick wins for improving

ESG performance. However, interviewees were skeptical of ESG's true success in addressing issues such as adequate pay and supply chain management, despite the increased attention. Brown (36), an ESG consultant specializing in M&A, reported that while fair compensation for frontline workers is something they check for in their ESG due diligence, it is not something they would consider a deal-breaker. Smith shared a more drastic case how the current effectiveness of 'S' in ESG can play out.

> So, we have a portfolio company that produces (...). They are considered...they have a very high ESG score because they're reducing emissions and their workforce, at least in their US offices, is very diverse both in terms of ethnic background and in terms of sex. And they have a larger than typical portion of women leadership in their company. So, they have a very positive ESG score at least through some of the third-party programs we use. However, just to give you an example of their labor practices during Covid: they have facilities in China and during the Chinese Covid lockdowns, the Zero China policy or sorry, the Zero Covid policy, they locked their employees in the factory for a couple of months, because that was technically a way to get around the Covid shutdowns. If everyone is living in the factory then and they're able to continue working without having to obey these shutdowns. So, although there were no living quarters in the factory, they claimed that 100% of their Chinese workforce volunteered to continue working and living there and be literally locked in the factory. Which, you know, perhaps they honestly did volunteer. It's difficult for me to really say from my perspective, but it's hard for me to believe that that is the most, yeah, responsible way to be treating your workforce. (S, 10)

What this anecdote vividly demonstrates is that a high performance in the 'S' pillar of ESG cannot and should not automatically assign a clean slate to companies. While it's acknowledged that ratings consider various aspects within the 'S' pillar, and assign different weights accordingly, the outlined scenario implies that DEI, which is undeniably vital for enhancing workforce equity, might be misused to offset potentially deficient practices.

Ratson (18) explained that for the social pillar the ecosystem's overall appeal for comparability and transparency might be the most urgent. He states that when trying to compare two companies through the lens of common ESG ratings from big agencies, the industry *"seem(s) to be lost in an extreme way"*. He expanded his view on 'S' in ESG later during the interview, stating that for companies, it can often be convenient to direct public attention toward said pillar (R, 32). Similarly, White explained that the social pillar often depends on the generosity of a company's disclosure, as many social KPIs are either highly qualitative and/or self-reported and that ESG overall is less clear than in the environmental domain (W, 22). Furthermore, some experts explained that, especially in the 'S' realm, box ticking is a general practice (B, 56; T, 20). For instance, Sara Thomson is specialized in ESG rating consulting and described that *"if a company puts UN sustainable development goals* [on their website], *you just do like: 'OK, check mark, they kind of started the sustainability journey', but it's just like it doesn't say much, you can just adhere to want to support it, but it doesn't say much."* (T, 20). Thomson also highlighted, that ESG is often used to *"protect the company from the inside"* but there is not enough *"focus on protecting the people who might be affected by the actions we take in ESG as whole"* (T, 14). This lack of focus becomes particularly evident, when considering the fact that some bigger corporations have adopted the practice of selling parts of their business, which were typically vertically integrated prior to the sale, just to boost their ESG performance. Smith, associate at an US-based private equity firm, reported that insiders call this *"vice investment"* and acknowledges it to be a relatively common practice in the industry (S, 21). In this context, Ferris noted that such corporate behavior is problematic because employees of sold companies are *"a bit of an orphan"* and likely to be exploited even more (F, 7), all while creating the impression that the larger corporation is more socially conscious.

Lastly, in line with the theoretical extension of the 'S' pillar in ESG, experts were questioned about a company's role in developing its own workforce. In some cases, the Amazon example (see p. 76) was mentioned, while in others, the issue was discussed more generally. It is noteworthy that overall the experts' elaborations on this topic were relatively short, indicating that for the 'S' pillar, considerations about supply chain issues, DEI or adequate pay take precedence over human capital development initiatives. George White explained that it is in the best self-interest for companies to develop their employees further as the knowledge inherent to an organization eventually impacts its profitability (W, 24) and Cora stated that especially bigger corporations, such as Amazon, have the responsibility to develop their workforce because they *"got a lot* [of resources] *from every one of us"* (C, 57). Accordingly, Goldstein (42) & Ferris (41) argued that nowadays (young) people look for careers with purpose and fulfilment, and that workforce development is imperative to design such careers. White further explained that, to win the *"war for talents",* such training opportunities are indispensable (W, 24). To continuously maintain function and fulfilment for the employed individuals, organization are well-advised to provide opportunities to develop one's competence.

Moreover, Simon Larsson mentioned that efforts regarding the 'S'-pillar are often wrongfully secondary to 'E'. He explains:

> The 'S' for social injustices has repeatedly manifested itself, yet consistently yielding the same outcome: the population does not accept them. This can be observed in various historical events, such as the Russian Revolution under the czar, where the world was divided between poverty and wealth. The French Revolution is another example. Over time, labor unions emerged during industrialization that refused to endure working 80 hours a week without fair compensation. This gap between the haves and the have-nots has continuously deepened. A recent example is what happened in France last week. This reaction can be seen as an expression of feeling 'left behind.' Our society is increasingly splitting into winners and losers, with the number of losers growing and the number

> of winners diminishing – a highly concerning trend. Hence, social justice is of utmost importance. Therefore, I view ESG more as a wake-up call to progress positively – perhaps even as an impetus to pause and say, 'This cannot continue!' Personally, I resonate strongly with the concept of the 'Last Generation.' Considering our approach to this matter, I find it almost justified to resort to more drastic measures. Of course, one could always argue: 'The ambulance won't be able to get through anymore!' Yet, if I were 20 or your age… then I could very well understand it. (L, 20)[58]

This lengthy statement underlines that the social ills of today are not missed on the reflective managers of today. As the wealth gap widens, social cohesion becomes fragile. An omnipresent development that can be dangerously dismissed by those who are rarely – if ever – exposed to it: society's major leadership groups. Additionally, Larsson elaborates throughout the interview that political opinion is interlinked with the levels of education of given individuals (L, 2 & 18) and that the lack of the latter can yield detrimental results for our planet. Here, it can be inferred that the rise of ESG offers ample occasion for companies to educate their own people on the issues of climate change in a similar manner in which they so eloquently address it in their own sustainability reports.

It is not unreasonable to think of a corporate world, where trainings on climate change are normalized and mandatory to a comparable degree as trainings on compliance or data security. Similar to data protection – an issue that was treated fairly lax in companies just 10–15 years ago (B, 30) – ESG could evolve to a concept that is soon deeply rooted in corporate trainings.

In summary, practices concerning the 'S' in ESG commonly revolve around supply chain matters, fair compensation, and DEI initiatives. Experts' anecdotes reveal that the latter is occasionally employed as a

58 Here, Larsson refers to activists who glue themselves onto roads in protest against climate change inaction. Opponents of these activists label them as 'Klima-Kleber' and argue that, with their traffic blockades, they not only upset the general population but also impede first responders from effectively doing their jobs.

'quick win' to overshadow shortcomings in other aspects of corporate behavior. The experts concur that the 'S' aspect is often less tangible and quantifiable compared to the environmental component ('E'). Moreover, they agree that ESG could be an effective tool for addressing social issues, but it is important to go beyond box-ticking. Companies are advised to invest in employee development, recognizing its potential impact on their profitability and attractiveness as employers, next to the maintenance of function and status for their existing workforce. Furthermore, the significance of ESG issues is expected to rise for companies, suggesting that mandatory training could be a proactive solution to bridge the climate change knowledge gap.

4.4.3 Perceived Effectiveness of 'G'

The sixth sub-research question, *"How can the "G" pillar be effective and is it – in this regard – recommendable to focus on a company's political stance and executive compensation?"*, was addressed by mainly analyzing the categories and sub codes of 'Governance Pillar' and 'Role of Elites', as well as other relevant categories.

Firstly, when participants were questioned about the importance of incorporating the political stance of a given company into the 'G'-pillar of ESG, the answers revealed that, although extensive political advocacy is not regarded as a key responsibility for companies, the transparency about political financing should be more deeply integrated into the ESG assessment of a business enterprise. Both Brown (40) and Thomson (54) reasoned for more rigid disclosure requirements regarding donations towards political campaigns or financial contributions towards lobby associations. Arguably, companies have a responsibility towards employees and customers alike to be transparent about their political position. As such transparency usually only surfaces by companies if a positive public relations effect is anticipated, mandatory disclosure of political financing could become a critical way to improve the effectiveness of the 'G'-pillar in ESG.

Next, experts were asked about their opinion on the often disproportional executive-to-employee compensation ratio. Here, the interviews yielded mixed results. While some experts stated that there is nothing wrong with such practices because extraordinarily compensated executives dedicate their whole life to a company (M, 55), others explained that paying top management so much more than the average employee is, in many cases, only justified through the internalized profit rhetoric that dominates the operations of many corporations. Ferris (19) explained that a company may not be alarmed by paying a C-level executive hundreds of times more than other employees because they are only focused on the profit that the executive is bringing in. They do not consider the 'cost of this profit', such as the impact on employee morale, the environment, or the community. As long as the company is profitable, they do not see a problem with the high pay. However, if they start to consider the 'cost of the profit', they will start to see the need to create a balance between profit and other factors and hence might re-think the compensation packages of their top managers. Cora (73) stated that good CEOs do not want to earn a *"thousand times more"* than their average employees. Yet, at more than 40 publicly traded companies in the United States this is exactly the case (AFL-CIO, 2023a). Already in 2018, Manfred F. R. Kets de Vries, observed that *"nobody heeded the warnings of management sage Peter Drucker"* who determined the proper ratio between CEO pay and that of the average worker to be around 25-to-1 (see p. 79). Five years later, the average CEO compensation (in the United States, at least) has further increased. With ESG, there seems to be a potential opportunity to address the social unrest caused by such unbridled forms of capitalism that led to executive salaries exacerbating social inequalities and affecting the morale of the average employee in the employee society (ibid.). Hence it is proposed that the pay ratio between top executives and median employees should be considered when assessing a company's ESG performance. For the case of ESG ratings, businesses with a lower ratio should therefore receive a higher score than businesses with a higher ratio.

As one could expect that such an integration will be slow at best, participants were further asked if they believe that tying executive compensation to the achievement of ESG goals is useful. Unanimously, the questioned experts agreed (B, 43; S, 53), because *"money is always a good argument"* to motivate behavior (R, 54). Experts highlighted that in their experience, financial incentives are appealing for the achievement of results, especially for the short-term (B, 50). Therefore, tying executive compensation to ESG goals is viewed as the most effective way to get the desired results. However, in line with the theoretical considerations (see p. 80), White (30) emphasized the necessity of clawback provisions to counteract myopic management tendencies. Otherwise, executives would only focus on a new set of KPIs, now carrying an ESG label, whose achievement is strived of meaning if not controlled for in retrospect (T, 38).

To sum up: transparency in political financing can be seen as crucial to enhance the effectiveness of the 'G' pillar's impact. The debate around disproportional executive-to-employee compensation revealed mixed opinions, with some justifying it based on profit, while others emphasized the need to balance societal factors. The questioned experts unanimously supported linking executive compensation to ESG goals, driven by the potency of financial incentives. However, caution is warranted to avoid short-term focus. Additionally, the results allow the recommendations to integrate executive-to-median employee pay ratios more closely into ESG assessments and to bolster ESG based pay with rigid clawback provisions to prevent myopic tendencies in the pursuit of ESG performance.

4.5 Synthesis of Results: Can ESG Be a Vehicle Towards a Bearable Society?

The following abstract provides a brief synthesis of the expert interviews with regard to the main research question: *"Can ESG lead towards a bearable society?"*. Hereby, next to the insights gathered by answering SRQ 1–SRQ 6, the categories 'Outlook' and 'Final Remarks on the Bearable Society' and their respective subsides were analyzed.

Although ESG summarizes the problems of our time (L, 20), its current state appears mainly useful to mitigate climate risk, as in this regard ESG legislation and consequently, ESG convergence (strategy, reporting and investing) is most advanced. Yet, effectiveness of ESG in other areas is expected for the future, especially as more rigorous and functional ESG legislation is anticipated from the interviewed experts. Overall, experts expected that ESG will drastically impact the way profits are generated within the next 10–15 years (R, 40; W, 14) and were hopeful that ESG will eventually contribute to a world with more equal opportunities (H, 22).

> For me in the long term, if ESG is succeeding, everyone and everything is getting better anyways. (C, 73)

Notably governments, or other regulatory bodies (but not businesses), were perceived as the core drivers of the ESG transformation. Moreover, ESG is inferred to be fundamentally different from preceding concepts such as the Triple Bottom Line or CSR initiatives, as it is for the first time conjointly driven by regulators, investors and the generational demand for significant change in business practices (R, 40). Yet, if ESG were completely voluntarily for companies, it would probably not exist. Nonetheless, companies have no choice but to commence their ESG journey at this point in time, even if it means that they are fueling the growth of the ESG ecosystem instead of real change. ESG is considered to be still in its infancy (W, 18), despite being around for almost two decades.

The lack of omnipresent ESG reporting standards is commonly described as the biggest hindrance in broad ESG adoption. This explanation almost appears as a truism that justifies semi-effective work produced by the ecosystem. Throughout the 'huge ESG transformation', initial imperfections and drastic modifications are deemed acceptable to an extent where it appears thinkable that the acronym itself disappears entirely (T, 62; W, 18) or at least looks very different in practice than it does today (S, 43; T, 62). Although some of the interviewed experts were adamant about their own financial interest in doing as much ESG work as possible, they all cautioned about the threat of greenwashing.

One critical meta insight here is that 'conventional greenwashing' through misleading marketing campaigns or fiddled public relation activities is comparatively easy to debunk. Meanwhile, greenwashing perpetuated by the ESG ecosystem is, firstly, harder to spot and secondly, even harder to reverse. Hyperbolically speaking, the ecosystem constructs trails of sanctimonious credibility through the work of rating agencies, consultants and self-reported data from companies. However, the final result of these fuzzy trails are solid facts, represented by ESG reports and scores, both expressed in tangible numbers.

Overall, the experts believed that ESG has the potential to drive significant change in our society. This is because ESG can help to address some of the most pressing challenges facing our world, such as climate change, social inequality, and unethical corporate governance however it should not be viewed as the remedy to all problems (H, 26). In fact, when explicitly asked if they think that ESG will contribute to a bearable society, the shared notion was that ESG alone will not lead to such a society, but instead could represent an important prerequisite.

> **Schwarzer**: Do you think it [ESG] will lead to a bearable society?
> **White**: I think without ESG we won't have any chance to get there. To make a very, very bold statement. But I think ESG can only be the foundation to really lead to this bearable world. Yes, ESG can establish a baseline and can establish like the grounds on which to make then the good decisions that can lead to this world. (W, 26)

This resonates well with the '50-year-old new responsibility' of the corporation in our society (p. 58f.), which exceeds mere profit-generating. The experts were certain that ultimately, the role of the business enterprise in society will be shaped by a combination of regulatory frameworks, responsible behavior by the elites (i.e. investors), and otherwise evolving business practices in response to generational demand. Regardless of ESG's success in contributing to the mitigation of our environmental and social crises, both crises will inevitably increase over the next decades. This may lead to potentially more drastic and corrective changes, for example, through disastrous election outcomes (L, 60), than what could be navigated now with forethought through a recalibration of ESG. The proposed suggestions for each of the ESG pillars provide solid conceptual foundations to expand the purpose and mission of ESG.

Specifically, there are several derived avenues to extend ESG. One is enhancing the comprehensibility of a company's environmental impact. This is important for both investment and consumption purposes. Additionally, incorporating development opportunities for human capital is crucial in the age of AI. This helps maintain social status and individual function for the members of the employee society. Moreover, promoting mandatory political transparency appears essential. This could be incorporated into the 'G'-pillar alongside increased attention to the executive-to-median employee pay ratio. If the aforementioned aspects were to be integrated rigidly into ESG Investing, ESG reporting and ESG strategy, and thereby become the continuous operationalization of Corporate Social Responsibility instead of sporadic CSR initiatives, ESG is argued to potentially become a vehicle towards a bearable society.

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 sustainability 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 investigation, 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).

6 Summary and Conclusion

The beginning of this thesis explores how, under the ‘big tent approach’, ESG has emerged from a niche financial term, to an acronym that is embraced by a multitude of stakeholders in the political, academic and business sphere with varying understandings of ESG’s purpose. Moreover, the thesis cautiously adopts the definition of ESG as the operationalization of Corporate Social Responsibility and subsequently examines how the ESG ecosystem, consisting of for-profit, non-profit and government institutions alike, drives the ‘ESG revolution’, aimed at increasing convergence between ESG reporting, ESG investing and ESG strategy. Furthermore, the current ESG dynamics are critically discussed as both opposing and proposing arguments for ESG are explored. It was shown that – in the name of positive change – the line between profiteering and making progress can be thin, though it definitely exists. While the current renderings of ESG undoubtedly bear imperfections, the demand of younger people within their various societal roles solidified the notion that ESG is no longer at risk of disappearing. The true nature of (financial) long-term value is inseparably linked to the values of a generation that is coming of age during times of environmental anxiety and high exposure to social inequalities (especially due to global connectivity).

To re-calibrate the compass for the ESG transformation, Peter Drucker’s understanding of social responsibility and the requirements for a bearable society were integrated into the ESG debate. His body of thought, as evidenced by this thesis, closely aligns with ESG’s original purpose of considering non-financial data in the investment process in order to foster the development of sustainable societies. Here, it is critical to mention that, because we live in a society just as much as we live in an environment, the importance of the 'S' and 'G' pillar ought to be increased to match the recent efforts concerned with the 'E' pillar. The comprehensive theoretical background ends with the extensions for each of the acronym's pillars. Radical sincerity for 'E', heightened attention on workforce development for 'S' and justifiable executive compensation – next to political transparency – for 'G', build, in short, the novel conceptual additions that are all argued to be in the best self-interest of companies and investors alike in the pursuit of creating long-term value, thereby enabling ESG to truly become the tool for transformative change in which it is commonly marketed to be.

The conducted survey empirically underpins to the notion that, for the younger generation, the social license of the business enterprise is indeed closely intertwined with normative values and that ESG issues are perceived as highly relevant. The analysis of the expert interviews confirmed the current definitional flexibility of ESG – even among active participants in the ecosystem. Accordingly, the idea of ESG's infancy prevailed, where the lack of comprehensive standards is regarded as both the greatest hindrance to broad adoption, as well as the catch-all reason for ESG's improvable influence on driving real change. Consequently, it is critical to acknowledge how necessary it is to focus on the effectiveness of ESG first, and efficiency second. Here, the interviews allowed the insight that not only the suggested extensions to ESG – rooted in Drucker's body of thought – could be initial starting points to bring *"ESG back on track"* (Fixler, 2022), but that participants in the ESG ecosystem have promising ideas for the development of sustainable societies.

All long-term values are equal, but some long-term values are more equal than others[60]. – could be the literary inspired meta insight, after a thorough analysis of how the business and political leaders are driving

60 This is a playful modification of the famous line *"All animals are equal, but some are more equal than others."* from George Orwell's book 'Animal Farm'.

the 'ESG revolution'. Purposefully throughout this thesis, the word revolution was put in quotation marks when put into context with ESG, as the true revolutionary forces lie outside of the professionals within ESG ecosystem, namely the man-made environmental crisis and impediments to a functioning society. Yet, the social ills of today – although one ought to believe so – are not necessarily on an irreversible trajectory dictated by the laws of nature, as the environmental crisis is. Therefore, it must be warned that the failure of (social) revolution often lies in the process itself, as the leaders of the revolution serve their own interest rather than the interests of those they are meant to serve. The only – yet long-known – consequence is that there is no final revolution[61].

Applied to the 'ESG revolution', this means that limiting ESG's focus to the creation of long-term financial value is not holistic enough to truly foster the development of sustainable societies. It will continue to legitimize corporate action that is best described as beating around the bush fire, rather than extinguishing it. Mitigating the financial risks of social and environmental change through ESG serves companies and investors at best for the mid-term, because both changes are inevitable. Hence, the ESG ecosystem as a whole is advised to re-direct the acronym's current momentum towards something that yields the qualities of life for everyone, instead of the quantities of financial returns for themselves and their accomplices.

As the collective corporate consciousness grapples with an identity crisis between the homo oeconomicus and the homo ecologicus, Drucker's emphasis that the manager of all institutions (but particularly business) must establish themselves as the representative of the common good, can finally bear fruit in today's business world as ESG is (advised to be) increasingly integral to corporate strategy.

In all brevity, what this thesis suggests is that through a re-calibration of ESG's purpose and mission, it can simultaneously function as

61 See 'We' written by Yevgeny Zamyatin: *"If the number of numbers is infinite, how can there be a final number? Then how can you speak of a final revolution? There is no final one. Revolutions are infinite."*

a mechanism to protect society from itself, as well as be a driver for positive change, if true long-term value in the form of quality of life is made the priority. Thus, ESG can be a vehicle towards the bearable society.

7 Personal Epilogue

As a master student in Consumer Science, ESG is a topic that is rather distant from the thematic focus of my core studies. In my personal, professional, and academic life, ESG has only peripherally affected me. Yet, it originally stuck with me due to its 'better world' narrative, which in many cases, as my research intensified, turned out to be more talk than walk. Presumably driven by the *"insatiable longing for a better world"*[62], I chose to combine ESG with Peter Drucker's ideas to which I was introduced to by Peter Paschek in the final year of my studies. As I have close personal ties to both Germany and the United States, it seemed only logical for me to investigate ESG in these countries. This circumstance, although it meant sacrificing a few of the nations' respective nuances around the topic, appeared reasonable as ESG truly is a global topic, affecting all companies in all industries in all nations. Consequently, as an individual who is not directly concerned with driving the 'ESG Revolution', but infatuated by its potential, I attempted to take the perspective of a bystander as described by Peter Drucker.

> *"Bystanders reflect – and reflection is a prism rather than a mirror; it refracts."* (Drucker, 1994, p. 1)

This means that, despite the use of scientific methods, my personality is inseparably linked to the perspectives presented in this master thesis.

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62 Direct translation from German to English; [getrieben von der] "unstillbaren Sehnsucht nach einer besseren Welt" (Plessner, 1960, p. 224 as cited in Paschek, 2020, p. 55).

So, while I hope to at least convey a thought-provoking message, I humbly anticipate opposing opinions by potential readers.

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Appendix

The appendix can be found under the following link:
https://www.nomos-shop.de/tectum/titel/recalibrating-environmental-social-governance-esg-id-119991/