

YOUNG ACADEMICS

Betriebswirtschafts
lehre
6

Ferdinand Schwarzer

Recalibrating Environmental Social Governance (ESG)

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

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With a Foreword by Peter Paschek

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Introductory Remarks

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

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

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

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

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

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

May I at the end stress two limitations of ESG:

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

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

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

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

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

Peter Paschek

Table of Contents

1	Introduction	1
1.1	What Is ESG and How Is Peter Drucker Related to It?	1
1.2	Scientific Relevance & Research Goals	5
1.3	Thesis Structure	8
2	Theoretical Background	11
2.1	What is ESG? Revolution or Repetition?	11
2.1.2	The Emergence and Development of the Term ESG	14
2.1.3	More Definitions Than Letters: Flexibility, Ambiguity and Confusion Around ESG	19
2.1.4	The Different ‘Kinds of ESG’	22
2.1.5	The ESG Ecosystem	24
2.1.6	Who Is in the Business of ESG?	30
2.2	Current Dynamics of ESG: Between ‘Better World’ and Deceptive Greenwashing	33
2.2.1	The Opponents of ESG	35
2.2.2	The Proponents of ESG	41
2.2.3	Long-Term Value for Who?	47
2.3	Young Generations and ESG: Legitimacy Under Threat	49
2.3.1	Consumer Demands	50

Table of Contents

2.3.2	(Corporate) Political Demands	52
2.3.3	Employee Demands	55
2.4	Legitimacy Under Threat – Survey Hypotheses	56
2.5	Peter Drucker’s Understanding of Social Responsibility	58
2.6	What Makes a Society Bearable?	66
2.7	The Extensions of ESG	69
2.7.1	Environmental: From Primum Non Nocere to Tertium Sanare	70
2.7.2	Social: Providing for Competence	73
2.7.3	Governance: Politics and Pay	77
2.8	Reflection and Interview Research Questions	80
3	Methodology	85
3.1	Overview and Reasoning for the Methodological Approach	85
3.2	Quantitative Part: Online Survey	86
3.2.1	Recruiting of Survey Respondents	86
3.2.2	Survey Construction and Procedure	88
3.2.3	Quantitative Survey: Analysis Strategy	89
3.3	Qualitative Part: Semi-structured Expert Interviews	90
3.3.1	Advantages of Qualitative In-depth Interviews	90
3.3.2	Recruiting of Interviewees	91
3.3.3	Development of Interview Guidelines and Interview Procedure	92
3.3.4	Qualitative Interviews: Analysis Strategy	94
4	Results and Interpretation	97
4.1	Online Survey	97
4.1.1	General Findings: Opinions on Friedman, Drucker & Social Legitimacy	99

Table of Contents

4.1.2	Perceived Relevance of ‘Environmental’, ‘Social’ & ‘Governance’	102
4.1.3	Additional Data Examination: Gender and Nationality	106
4.2	Discussion and Summary of the Survey Results	108
4.3	Qualitative In-Depths Interviews (Expert-Interviews)	110
4.3.1	Reflection on and of Participants	111
4.3.2	Assessment of ESG’s Current State	112
4.3.3	Driver’s and Beneficiaries of the ‘ESG Revolution’	117
4.3.4	The Role of Business in Society: A Modern Perspective	122
4.4	Opinions on Environmental, Social & Governance	126
4.4.1	Perceived Effectiveness of ‘E’	126
4.4.2	Perceived Effectiveness of ‘S’	130
4.4.3	Perceived Effectiveness of ‘G’	135
4.5	Synthesis of Results: Can ESG Be a Vehicle Towards a Bearable Society?	137
5	Discussion	141
5.1	Limitations of the Study	141
5.2	Research and Managerial Implications	144
5.2.1	Research Implications	144
5.2.2	Managerial Implications	146
6	Summary and Conclusion	151
7	Personal Epilogue	155
8	References	157
	Appendix	181

