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

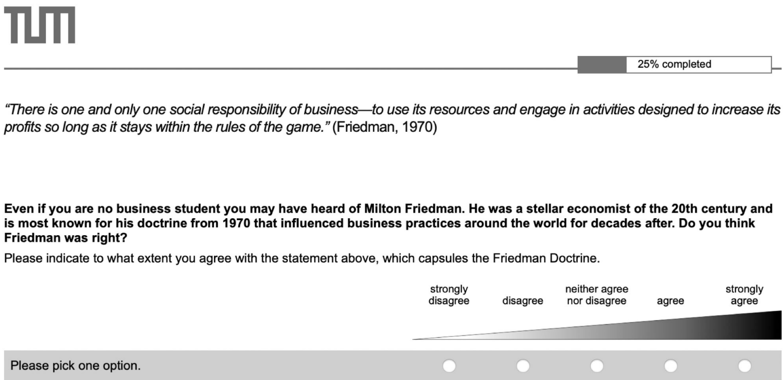
Turkey	1	1.11	1.11	65.56
United Kingdom	1	1.11	1.11	66.67
United States	30	33.33	33.33	100.000
Frequencies for Highest Education				
High school	19	21.11	21.11	21.11
Assosciate's Degree / Apprenticeship	3	3.33	3.33	24.44
Bachelor degree	49	54.44	54.44	78.89
Master degree / Diploma	17	18.89	18.89	97.78
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.

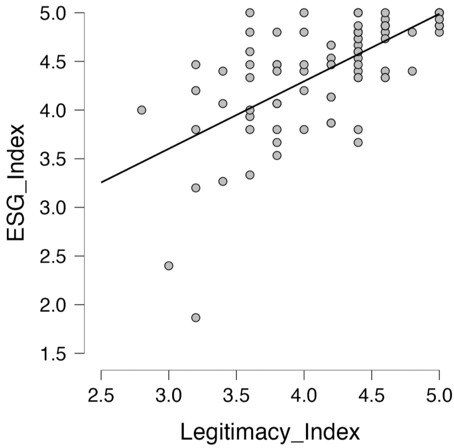
Table 10: Overview One Sample T-Tests of Central Constructs

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	Fe-male	Head of Sustain-ability	Ger-many	9
M	Max Mance	Higher Education	55	Male	Business School Lecturer	Ger-many	15
B	Eva Brown	Private Equity Consulting	53	Fe-male	ESG Con-sultant	Ger-many	1
L	Simon Larsson	Corporate Banking	53	Male	Head of Market-ing	Ger-many	32
W	George White	ESG Consulting	49	Male	Partner	Ger-many	4
C	Larissa Cora	Family Office	48	Fe-male	Head of Impact Invest-ments	Ger-many	16
F	Ben Ferris	Corporate Venture Capital	45	Male	Venture Partner	Ger-many	11
S	Bill Smith	Private Equity	32	Male	Associate	USA	4
H	Jack Hush	Communica-tions 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.