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What Is Environmental, Social and Governance (ESG)?

Environmental, social and governance (ESG) are the pillars that investors can judge your company on. Are you ready to face the scrutiny?

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People donâ€™t take companies at their word when they say theyâ€™re making a positive difference in the world â€” stakeholders want to see the results through concrete data.

Thatâ€™s whereÂ environmental, social and governance (ESG) comes in. ESG is a quantitative, data-based approach to determine a companyâ€™s improvement in its environmental, social and corporate governance efforts over time.

Environmental, Social and Governance (ESG) Definition

Environmental, social and governance (ESG) is a framework that offers companies metrics they can share with investors, employees, customers and other stakeholders as hard data on their efforts to address climate change, social good (such as diversity, equity and inclusion) and thoughtful corporate governance.

What Is Environmental, Social and Governance (ESG)?

Environmental, social and governance is a framework that provides a set of metrics for investors, regulators, customers and other stakeholders to use to evaluate a companyâ€™s long-term sustainability efforts, support to various communities and ability to assess risks and govern the organization transparently.

ESG frameworks are developed by third-party organizations and can apply to a specific industry or on a global scale. Major ESG bodies include the Sustainability Accounting Standards Board, the International Sustainability Standards Board and the Global Reporting Initiative. Itâ€™s up to companies to choose the ESG framework that works best for them, taking into account factors like their industry, goals and stakeholder preferences regarding ESG.

Environmental

The â€˜Eâ€™ in ESG refers to a companyâ€™s impact on the environment and its responsibility to follow sustainable practices. Issues like climate change, conservation and pollution fall under this category. In response, businesses may develop initiatives around reducing carbon emissions, limiting waste produced from daily operations and prioritizing renewable energy.Â

Social

The â€˜Sâ€™ in ESG refers to a companyâ€™s impact on people inside and outside the organization. This includes how a business supports a diverse and welcoming workplace, treats customers and vendors and interacts with local communities. Organizations can make a positive social impact by leading DEI initiatives, volunteering with local groups and donating funds to organizations centered around social justice.Â Â Â

Governance

The â€˜Gâ€™ in ESG refers to how a company runs its operations, requiring a business to be transparent about these processes. Explaining how board members are selected, releasing executivesâ€™ salary information, revealing how funds are used and communicating shareholder rights are healthy governance practices.

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Why Is ESG Important?

ESG enables businesses to provide quantifiable evidence that theyâ€™re actively making a positive impact on areas like the environment, social change and the health of local communities. ESG data can show whether a company has improved in its focus areas over time and how it compares to its peers and other industry players.Â

Many organizations collect and share this data with ESG rating agencies, which fund managers and potential investors often turn to before investing. This way, investors can ensure theyâ€™re playing their part in addressing urgent issues like climate change.

â€œWe need to move capital at a rate and size the world probably hasnâ€™t experienced before in order to finance the low carbon transition,â€ Simon Fischweicher, head of corporations and supply chains for CDP North America, told Built In. â€œThatâ€™s where ESG can really make a huge impact in providing investors information.â€

ESG also serves as a way for employees, customers and other stakeholders to hold businesses accountable. This is especially crucial for businesses as the SEC develops tighter climate reporting standards and stricter fund naming rules. Complying with ESG laws and frameworks allows companies to maintain positive relationships with stakeholders while encouraging transparency around business goals and practices.

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Real-Life Examples of ESG

ServiceNow

ServiceNowâ€™s 2024 Global Impact Report provides a comprehensive overview of the companyâ€™s climate andÂ sustainability goals, DEI initiatives and corporate governance practices. In the realm of DEI, the company has notably seen women make up 33.3 percent of its global workforce â€” just short of its goal of 34 percent by 2025.Â Â

Apple

Appleâ€™s ESG efforts are broken up into two reports covering the companyâ€™s environmental progress and supply chain and relationships. According to its environmental report, the company has achieved carbon-free corporate operations while still seeking to completely reduce its carbon footprint by 2030. Meanwhile, Apple touts in its supply chain report that it trained over two million supplier employees on workplace rights in 2023.Â Â

IBM

IBM lays out clear goals in its 2023 Impact report, including investing $250 million in apprenticeship and new-collar programs by 2025 and generating 90 percent of its electricity using renewable energy by 2030. The report also provides data into the makeup of IBMâ€™s board of directors, noting that 92 percent of board members are independent of the company and 38 percent of members are women and ethnically diverse.Â

Accenture

Accentureâ€™s 2023 360Â° Value Report highlights how the company has supported people inside and outside the organization, with $1.1 billion allocated toward learning and 4.3 million people being taught employable skills globally. Accenture has also been working toward DEI goals, noting that 30 percent of its managing directors are women and that 118,000 new employees have undergone unconscious bias training.Â

NVIDIA

NVIDIA showcases its energy and ethical achievements in its sustainability report, sharing that 76 percent of the companyâ€™s electricity is generated through renewable energy and that it has audited 93 percent of its suppliers in the past two years. The company also provides detailed DEI information on its workforce â€” more than 50 percent of employees are at least 31 years old, and around 65 percent of NVIDIAâ€™s workforce is non-white.Â Â

Infosys

Infosysâ€™ 2023 ESG report shares that the company has remained carbon neutral for five years in a row and recycles 100 percent of its wastewater. The company also highlights its TechForGood initiative, which it claims has improved the lives of 119 million people. In addition, Infosys covers how it has supported a diverse workforce, explaining how its return to work post-maternity program helped 99 percent of participating women return to their jobs and that hiring initiatives have increased the number of employees with disabilities to 1,130.Â Â

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How to Develop an ESG Strategy

Creating an ESG strategy may seem like a daunting task, but following these steps can make the process smoother and lead to greater results.Â Â

1. Seek Feedback From StakeholdersÂ

Reach out to employees, customers, potential investors and other stakeholders to ask what issues matter most to them. Then, craft a strategy around the ESG elements that are top priorities.Â

2. Assess Company ProcessesÂ

Review all company processes and pinpoint areas of improvement. This can include workflows that demand excess energy, unnecessary waste created during production, a low number of LGBTQ+ employees or a lack of a volunteer program. Record any data and observations as well, so teams can compare the results of implementing an ESG plan later on.Â

3. Earn Leadership Support

Communicate ESG findings, strategies and future plans with company leadership. While informing all employees of potential ESG policies, getting executive support is key to ensuring an ESG plan gets the backing it needs to become a company-wide initiative. If allowed, form a planning committee to execute an ESG plan.Â

â€œYou need to think about the executive and where ESG will sit in the organization, so it can get the support, emphasis and focus it needs to be truly part of your culture,â€ Edua Dickerson, vice president of ESG and finance strategy atÂ ServiceNow, told Built In.

4. Select an ESG Framework

Choose an ESG framework that makes the most sense for the organization. For example, an automaker may select an emissions framework to guide them on what environmental data to collect for their ESG report, while an agriculture company may choose a water management framework for its ESG report data. If needed, businesses may also select an international framework for additional credibility.Â

5. Establish ESG Goals

Set clear goals for all departments and company personnel to follow. An organization may aim to hire a certain number of women for management roles, seek to cut its carbon emissions by a specific percentage or decide to offer skills training to a particular number of local community members by 2030.Â

6. Develop Data Collection and Reporting MethodsÂ

Design a detailed data collection process that covers what types of data will be gathered, who is responsible for compiling this data and what types of data management and software solutions are needed. Provide steps for reporting ESG data, including what ESG rating agencies and stakeholders to disclose this information to. Otherwise, information gaps could occur and affect a companyâ€™s ESG scores.Â Â â€œRating agencies determine what your rating is based on the information you disclose. So it goes back to what kind of information you have to disclose,â€ Christine DiBartolo, senior managing director and Americas head for FTI Consultingâ€™s corporate reputation practice, told Built In. â€œIf a company is not disclosing information, there are times rating agencies assume that youâ€™re not taking any steps, when in fact you might be.â€

7. Gather and Analyze ESG DataÂ

After ESG preparation is complete, have relevant company personnel collect ESG data over a designated period. Analyze ESG data, noting any common trends, achievements and areas where the business is falling short of its ESG goals.Â

8. Evaluate ESG Progress

Review the results and decide what next steps to take. Determine if goals need to be reconsidered, new processes need to be implemented or other adjustments need to be made. Maintain a regular cadence for revisiting the ESG strategy, so company personnel can stay informed and pivot when needed to ensure a successful ESG plan.

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ESG vs. Corporate Social Responsibility (CSR)

ESG and corporate social responsibility (CSR) are related concepts â€” both focus on improving company behavior â€” but they have some key differences.

Itâ€™s mainly the push by investors for quantitative data that distinguishes ESG from CSR, which is viewed as qualitative. CSR is self-regulated, meaning each company decides how to define CSR, since there are no industry or global standards. This is different from ESG frameworks, which are determined by third parties and require participating businesses to report concrete metrics.

Still, ESG and CSR can be viewed as complementary and be applied together to amplify their effects. For example, a company may measure its diversity among its workforce as part of its effort to gather ESG data, but also sponsor workshops on combating cultural and racial biases as part of its CSR strategy.

â€œYou need both. There isnâ€™t one versus the other,â€ DiBartolo said. â€œESG is data-driven, disclosure-oriented and quantitative metrics around those three areas, whereas CSR is the programs and engagement you have around some of those same issues.â€

Frequently Asked Questions

What is environmental, social and governance (ESG)?

Environmental, social and governance (ESG) is a framework for determining what steps a company is taking to protect the environment, build positive relationships with all those who interact with the company and develop ethical business practices.

What is the purpose of ESG?

ESG serves as a way to hold businesses accountable and ensure they are making a positive impact on the environment, local communities and other stakeholders. By encouraging transparency, this framework also helps companies build trust with consumers and present themselves as promising organizations to work with and invest in.

ESG vs. corporate social responsibility (CSR)

While both ESG and corporate social responsibility (CSR) focus on a companyâ€™s practices around sustainable and ethical behavior, thereâ€™s no widely recognized standard for CSR since each company defines its own CSR model. ESG standards are developed by third parties often on an industry-wide or global level and emphasize concrete metrics and data. As a result, ESG is more quantitative and CSR is more qualitative.

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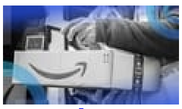

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