

Environmental, Social, and Governance: What Is it?

By: SIA ESG Advisory Board



There is no set standard for what Environmental, Social, and Governance (ESG) is. It is a concept! It refers to a collection of corporate performance evaluation criteria that assess the robustness of a company's governance mechanisms and its ability to manage its environmental and social impacts effectively.

Separately, they mean three quite different things. Together, they make up a framework that helps us understand an organization and how it manages opportunities and risks when it comes

to sustainability. Many think that sustainability only encompasses environmental topics, but ESG allows us to look at sustainability more holistically.

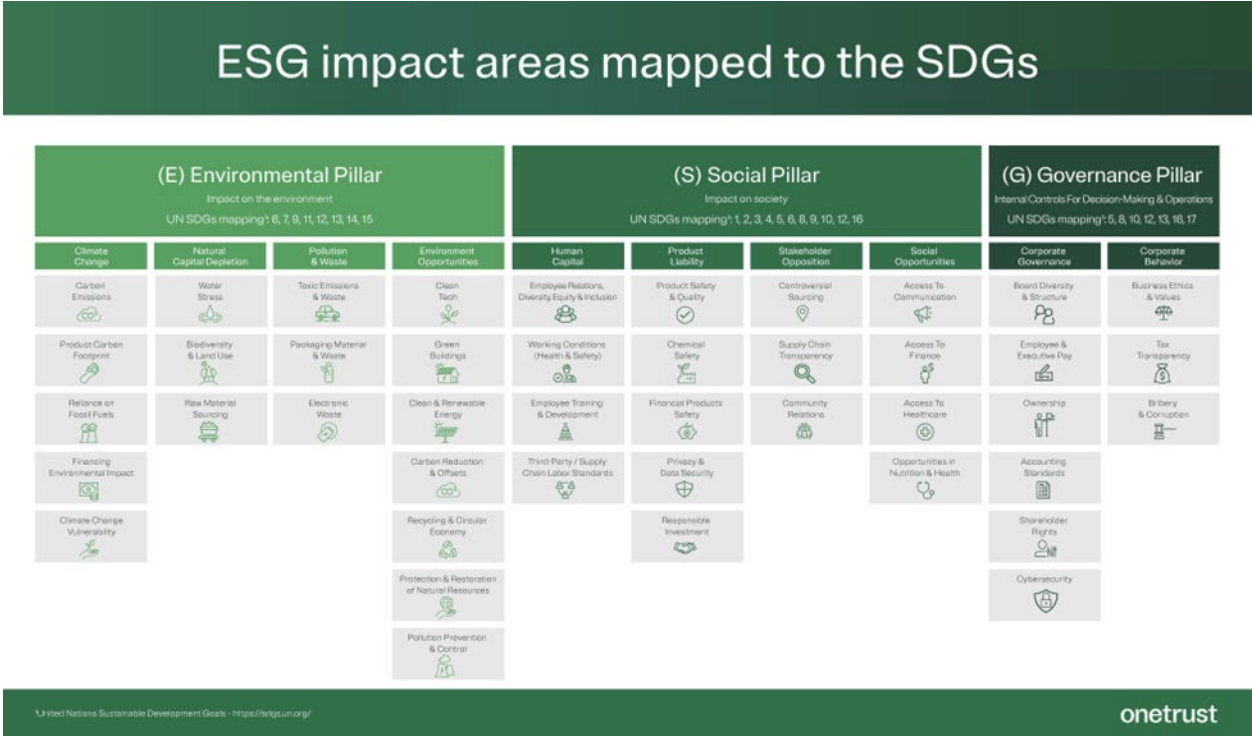
Let's explore each pillar and their impact areas.

The **Environmental (E)** pillar allows us to see the impact on the environment. Major impact areas include climate change, natural capital depletion, pollution & waste, and environmental opportunities, such as clean tech and “green” buildings. From a reporting perspective, this is typically the most complex pillar. An example of this pillar could be a company that commits to being carbon negative or carbon neutral by a certain time.

The **Social (S)** pillar refers to the impact on society. Major impact areas are human capital, product liability, stakeholder opposition, and social opportunities such as access to communication. This pillar includes reporting on supply chain labor and health and safety standards. This pillar can be seen in many companies through promoting diversity and inclusion, or a company sharing where their goods are sourced from in an ethical manner.

Our last pillar, **Governance (G)**, refers to internal controls for decision-making and operations. Major impact areas here are corporate governance and corporate behavior, such as business ethics, values, bribery, and corruption. We see this in companies when executives are held accountable for their actions and decisions by setting up a checks and balances system.

Check out the graphic below to explore more examples of impact areas as it relates to the environmental, social, and governance pillars.



Why does ESG matter?

Looking beyond the obvious reasons for organizations to pursue sustainability, in more recent years we have seen those prioritizing ESG have a competitive advantage. Consumers are looking for these initiatives from their favorite brands, and investors and stakeholders are looking for transparency into what businesses are doing regarding ESG initiatives.

In fact, in a recent study, 83% of consumers think shaping ESG best practices is something all companies should be doing. There is more to just the consumer point of view. Even when polling employees, 86% stated they would prefer to work for a company that cares about the same issues they do. Thankfully, business leaders are in alignment, with 91% believing they have responsibility for acting on ESG issues.

What can you do?

Communicate with others and educate yourself. Find like-minded individuals also interested. Speak to your leadership team to see how your company is involved with ESG. It's possible your company has public reports you can read in regard to sustainability efforts. You can also look for community events happening in your area.

Resources:

[ESG \(Environmental, Social, & Governance\) \(corporatefinanceinstitute.com\)](https://www.corporatefinanceinstitute.com/terms/what-is-esg/)

[What is ESG and why does it matter? - IA Engine \(theiaengine.com\)](https://theiaengine.com/what-is-esg/)

[How much does the public care about ESG? - PwC at COP26](https://www.pwc.com/au/en/issues-and-trends/esg/2022/08/08-how-much-does-the-public-care-about-esg-at-cop26.html)