

ESG vs Sustainability: What are the Differences?

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Takeaways

- With the threat of climate change and climate risk, sustainability and ESG (environmental, social, and governance) measures have become essential in business.
- ESG (Environmental, social and governance) is a framework for evaluating a company's sustainability and ethical behaviour, taking into account economic factors. Sustainability is the practice of balancing economic, social and environmental needs without endangering future generations.
- [ESG and sustainability](#) differ in their focus on environmental, social, and governance areas, with sustainability taking into account economic issues. Both require stakeholder participation, but sustainability gives collective decision-making more weight.

The terms ESG (environmental, social, and governance) and sustainability have grown significantly in popularity and significance in today's business world. ESG's fortunes have been continuously improving ever since the term "ESG" (environmental, social, and governance) was coined in 2004. Organisations have been devoting more funds to enhancing ESG across industries, regions, and corporate sizes. While sustainability is being given equal attention as businesses realise how important it is to conduct their operations in a socially and environmentally responsible manner. In 2020, [92% of S&P 500 businesses and roughly 70% of Russell 1000 companies](#) published sustainability reports.

ESG stands for environmental, social, and governance factors that are present in a company's activities. When evaluating a company's sustainability and ethical impact, several variables are taken into account. Contrarily, sustainability has a wider focus, paying attention to both the general impact of corporate operations on the environment and society as well as specific ESG issues.

In this article, we will debunk the phrases "ESG" and "sustainability," examine their distinctions, and emphasize the importance of each in the business sector. Businesses can adopt practices and make decisions that contribute to a more sustainable future by comprehending these ideas.

What is ESG?

[Environmental, social, and governance, or ESG](#), is a set of standards used to assess a company's performance and business practises in terms of sustainability and ethical behaviour. It offers a framework for evaluating a business's effects on society, the environment, and corporate governance practises. With regard to sustainability, ESG is sometimes seen as a subcategory that also takes economic factors into account.

ESG aims to give customers and investors a thorough understanding of a company's commitment to social responsibility, environmental stewardship, and ethical governance. Investors that participate in ESG investing take ESG measurements and factors into account in addition to conventional financial indicators.

Environment	Social	Governance
Examines the effects of climate events on the physical environment, the risk company, and its suppliers/partners.	Discusses the social impact and associated risk that result from societal acts, workers, customers, and the communities where it works	Evaluates governance, the rights and responsibilities of various stakeholder groups, the timing and quality of decision-making, and governance in order to reduce risk and have a positive social impact.
• Greenhouse gas (GHG) emission • Energy efficiency • Carbon neutrality • Waste management • Water management • Biodiversity and ecosystems	• Diversity, Equity and Inclusion • Social responsibility • Community Relations • Health and Safety • Labour rights • Supply chain management	• Corporate governance • Risk management • Business ethics • Bribery and corruption



ESG factors

For businesses, there are several advantages to comprehending and enhancing ESG performance. First of all, it can result in better financial performance because ethical and responsible behaviour frequently promotes long-term success and [business resilience](#). As it indicates a dedication to sustainable development and societal well-being, it also improves a company's reputation and branding. Last but not least, by taking into account ESG aspects, businesses can lower the risk of regulatory non-compliance and foresee changing stakeholder expectations.

As more businesses voluntarily disclose their ESG practises and performance, ESG disclosure has grown in significance. Transparency and consistency in the data that businesses publicly provide regarding their ESG initiatives are provided by ESG disclosure. Although disclosure is completely optional, it is now a prerequisite for important stakeholders like investors. Investors and stakeholders are becoming more interested in ESG factors as a result of a desire to support businesses that are good for the environment and society.

What is sustainability?

The term “sustainability” refers to the practise of running company operations in a way that satisfies the current generation’s economic, social, and environmental requirements without endangering the ability of future generations to do the same. In order to maintain long-term wellbeing and resilience, it is important to strike a balance between these three elements.

1. Environmental

The goal of environmental sustainability is to reduce or completely eradicate harmful effects on the environment. This entails cutting back on greenhouse gas emissions, protecting natural resources, generating less waste, and avoiding pollution. Businesses seek to reduce their ecological impact and help preserve and protect the environment by using sustainable practises.

2. Social

The social component of sustainability focuses on advancing social inclusion, diversity, and equity. This entails maintaining honest and secure working conditions, upholding human rights, promoting equality, and interacting with neighbourhood communities. In order to address social difficulties and inequality, social sustainability attempts to have a beneficial impact on society, improve the wellbeing of employees, stakeholders, and communities.

3. Economy

Maintaining long-term profitability and creating economic value while taking into account the wider implications of business activity is the focus of the economy pillar of sustainability. It entails managing resource allocation, ensuring economic stability, promoting innovation, and promoting sustainable economic growth. Economic sustainability acknowledges that businesses must be successful in order to continue giving back to society and the environment.



pillars of sustainability

All three aspects of environmental, social, and economic sustainability are taken into account while making decisions in the framework of corporations. Corporate sustainability attempts to generate long-term value by considering how a company's operations affect the economy, society, and the environment. The interests of diverse stakeholders must be balanced, and company strategies must be in line with sustainable practises.

Corporate sustainability aims to make sure that corporations act morally, responsibly, and sustainably while enhancing the welfare of the communities in which they operate. It covers a broad variety of topics like lowering greenhouse gas emissions, enhancing working conditions, advancing human rights, boosting local economies, and protecting natural resources. Businesses that embrace corporate sustainability see the need to add value for all stakeholders, pursue profitability while taking social and environmental factors into account, and work towards a more sustainable and inclusive future.

Key differences between ESG and sustainability

Although environmental, social, and governance, or ESG, and sustainability are closely connected ideas, they have different traits and areas of concentration. Businesses may effectively navigate these concepts by being aware of the major differences between ESG and sustainability. These key distinctions are listed below:

1. Scope and Focus

Environmental, social, and governance aspects are the three main areas on which ESG primarily focuses when assessing a company's performance. It evaluates how an organisation controls its environmental impact, engages with society, and upholds good governance practises. On the other hand, sustainability is a more general term that includes both economic and ESG issues. Without sacrificing the ability of future generations to meet their own demands, sustainability attempts to satisfy the current generation's economic, social, and environmental needs.

2. Practice versus Evaluation

ESG is frequently utilised as an evaluation framework for evaluating the performance of a corporation in particular sectors. It offers a set of benchmarks and measures to evaluate how successfully a business manages its social, environmental, and governance challenges. Contrarily, sustainability is more concerned with the actual practise of running a firm sustainably. It entails incorporating sustainable practises and ideals into an organization's main business activities and decision-making procedures.

3. Investor Focus vs. Holistic Approach

Investors that combine non-financial criteria with financial data while making investing decisions should pay particular attention to ESG factors. ESG investing seeks to assess a company's sustainability and potential for long-term wealth generation. On the other hand, sustainability adopts a comprehensive strategy and takes the interaction of economic, social,

and environmental factors into account. It works to ensure a sustainable and responsible approach to corporate operations while balancing the interests of all stakeholders.

4. Regulatory Requirements

Regulations and disclosure requirements frequently take ESG factors into account. Companies must publish ESG-related data under the regulations of many nations and territories, especially those operating in heavily regulated sectors. However, sustainability practises are guided by the more general expectations of responsible and ethical business conduct, even though they may not be governed by specific laws.

5. Integration into Decision-Making

Investment analysis and decision-making frequently employ ESG as a tool. To evaluate a company's long-term worth and sustainability, investors often take into account ESG elements in addition to financial indicators. While sustainability is integrated into a company's overall decision-making processes, the opposite is also true. It entails taking into account the effects on the environment, society, and the economy while developing strategies, establishing objectives, and making operational choices.

In conclusion, sustainability is a larger term that incorporates economic factors, whereas ESG focuses on assessing a company's performance in environmental, social, and governance sectors. ESG is frequently used as a framework for evaluation, especially for investors, whereas sustainability places an emphasis on integrating sustainable practises into corporate operations. Regulations apply to ESG issues, whilst sustainability practises are governed by more general principles. While sustainability addresses the long-term effects of current activities, ESG adopts a more immediate viewpoint. Both ideas call for stakeholder involvement, but sustainability emphasises group decision-making more strongly.

BBC comprises a team of passionate practitioners implementing solutions for sustainability. Our consultants have extensive knowledge and experience in ESG and Sustainability, helping you to solve your problems with sustainable innovative solutions. [Download our latest free eBook: The 101 ESG Guide and the Future of ESG](#), to learn what ESG is, how ESG is impacting businesses, and how to integrate ESG into your business strategy.