

Sustainability vs ESG: The differences

What board members need to
know



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Sustainability and ESG (Environmental, Social, and Governance) are often used interchangeably, but knowing their differences is crucial for good governance.



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Sustainability

Focuses on the long-term success of a company by balancing its impact on the environment, society, and economy. It aims for a company to thrive economically while making positive contributions to society and minimising environmental harm.



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Goal of Sustainability

Ensures companies are economically successful, socially responsible, and environmentally conscious.



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ESG

A set of criteria used to evaluate a company's performance in three areas: environmental impact, social responsibility, and governance practices. ESG factors help assess how well a company manages risks and opportunities related to these aspects.



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Goal of ESG

Provides a structured framework to measure and improve a company's sustainability performance in specific areas like carbon emissions, diversity policies, and ethical business practices.



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How to approach:

Sustainability Governance



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Set clear, achievable sustainability goals:

Boards should work with management to establish clear and measurable sustainability goals aligned with the company's mission and long-term strategy.



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Make sustainability a core part of the business strategy:

Ensure that sustainability considerations are integrated into business decisions.



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Track progress and hold management accountable:

Implement robust reporting mechanisms to monitor sustainability goals and review performance regularly.



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Engage with stakeholders:

Communicate with investors, customers, and employees to understand their expectations and incorporate feedback.



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Identify and manage sustainability risks:

Assess and mitigate risks related to environmental, social, and economic factors.



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How to approach:

ESG Governance



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Include ESG in the company's governance framework:

Establish board committees or subcommittees dedicated to ESG oversight.



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Promote transparency:

Share ESG performance data in annual reports and other corporate communications.



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Ensure the board has ESG expertise:

Recruit directors with ESG knowledge or provide training for existing board members.



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Link executive pay to ESG performance:

Align executive compensation with ESG metrics to encourage prioritization of these issues.



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Continuously update ESG policies and practices:

Regularly review and improve ESG policies to adapt to new challenges and opportunities.



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Board members must lead their organisations towards a sustainable and ESG-focused future

Set clear goals, making these concepts part of the strategy, and ensuring transparency and accountability.



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