



# What is the Difference Between ESG and Sustainability?

ESG & Sustainability Transformation

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ESG Transformation



# What is the Difference Between ESG and Sustainability?

Environmental, Social and Governance (ESG) and sustainability factors have become essential considerations for businesses worldwide. Now, it is the turn of small and medium-sized enterprises (SMEs) and the wider community to especially see the keyword "ESG" become extremely popular. If you are looking to expand overseas or simply want your business to become more mature or simply look like it, you should be familiar with these concepts to ensure responsible business practices while ensuring improved financial performance in the long term.

ESG refers to a set of criteria used to assess the impact of 3 groups of essential factors: environmental, social and corporate governance. In contrast, sustainability is the ability to have, or maintain, a focus on the interaction of environmental, social, and economic factors. While both of these terms may seem overlapping, they actually have different scopes and focuses. It is important to distinguish between the two concepts and understand the key terms associated with them.

With the United Nations calling on all businesses to integrate sustainability into their decision-making processes, understanding ESG and sustainability principles will allow you to operate responsibly and sustainably in an international business context.

## What is sustainability?

Sustainability is the practice of running a business in a way that meets the economic, social and environmental needs of the present without compromising the ability of future generations to meet their own needs.

Environmental sustainability focuses on reducing or eliminating negative impacts on the environment by minimizing greenhouse gas (GHG) emissions, reducing waste and pollution, and conserving natural resources. The social aspect focuses on promoting social justice, diversity, and inclusion by ensuring fair and safe labour practices, prioritizing health and safety, human rights, and community engagement.

Finally, the economic aspect of sustainability focuses on maintaining long-term profitability, creating economic value, and ensuring responsible resource allocation.

Corporate sustainability aims to ensure that businesses operate ethically, responsibly and sustainably and that they contribute to the well-being of the communities in which they operate. By addressing a range of issues, such as reducing greenhouse gas emissions, improving working conditions, promoting human rights and conserving natural resources, corporate sustainability can ensure businesses operate in a profitable and socially responsible way. This will create value and benefit all stakeholders in the long term.

## What is ESG?

The environmental, social, and governance (ESG) framework is used by investors to evaluate an organization's performance based on specific criteria. These criteria are used to measure the risk level of the entity with the aim of improving investment decisions.

ESG gained traction after the United Nations published its [Who Cares Wins](#) report in 2005. This report has proven that ESG investments make good business sense. And since the report was published, such investments have grown exponentially.

For instance, it is estimated that by 2025, 50% of all professionally managed investments in the United States will be ESG required assets (according to the Deloitte Center for Financial Services).



ESG is a set of criteria used to assess your environmental, social and governance. You can think of it as a subset of sustainability that includes economic considerations. Its main purpose is to provide stakeholders and investors with a framework for assessing your company's impact on society and the environment, as well as its corporate governance practices. ESG metrics and factors are considered by institutional investors alongside traditional financial services and metrics for ESG investing.

ESG separation, the group of environmental factors (E) can include factors such as greenhouse gas emissions, energy efficiency, waste management, and water conservation. The social factors group(S) looks at how your organization interacts with its employees and community in terms of human rights, employee diversity, labour standards, and supply chain management.

Finally, the governance (G) component of ESG looks at how your business is run and ensures it operates in the best interests of its stakeholders. This includes board diversity, compensation, risk management, and ethics.

Understanding and improving your company's ESG performance can benefit you in many ways, including improving financial performance, enhancing reputation and brand, and reducing the risk of regulatory non-compliance. The number of ESG rating agencies is growing in popularity. New and evolving reporting frameworks are enhancing the transparency and consistency of ESG information that companies report to the public. This is called ESG disclosure.

While ESG disclosure is voluntary, it has become a standard requirement for key stakeholders such as investors. In recent years, ESG factors have become increasingly important for investors and other stakeholders, as they seek to invest in companies that have a positive impact on society and the environment.

The term ESG seems to act as a synonym for sustainability, but the interchangeable use of the two is incorrect.

### **Why is ESG used as a substitute for sustainability?**

The meaning of sustainability has been diluted over the years. For some, sustainability signifies the conservation of our environment specifically, while for others, the term encompasses it all, encapsulating environmental and social responsibility.

Therefore, a clearer definition needs to be adopted, and ESG seems to have met that need.

However, it is incorrect to replace one term with another with a different meaning. So what does sustainability mean and how does it differ from ESG?

### **What is the difference between ESG and sustainability**

ESG and sustainability are two related but distinct concepts. While both ESG and sustainability are related to environmental, social, and governance factors, ESG focuses on evaluating the performance of companies based on these factors, while sustainability is a broader principle that encompasses responsible and ethical business practices holistically.

ESG is a set of criteria used to assess a company's environmental, social, and governance impact. It is a standardized framework that allows investors and other stakeholders to assess a company's impact on society and the environment, as well as its corporate governance practices. On the other hand, sustainability is a principle that promotes responsible and ethical business practices by considering the interaction of environmental, social, and economic factors.

The main difference between ESG and sustainability is that ESG is a specific tool used to measure a company's performance, whereas sustainability is a broad principle that



encompasses a wide range of responsible business practices. ESG metrics are used to evaluate your performance in specific areas such as carbon footprint, diversity and inclusion, and executive salaries. Sustainability, on the other hand, covers a wide range of topics such as supply chain management, stakeholder engagement, and community development.

"ESG looks at how the world impacts a company or investment, while sustainability focuses on how a company (or investment) impacts the world." – [Brightest, Defining ESG vs. Sustainability – What's the Difference?](#)

The main difference between ESG and sustainability is the stakeholders in each concept. ESG is a concept used by investors, providing them with a framework for assessing a company's performance and risk. As an investment framework, standards have been set by legislators, investors, and ESG reporting organizations.

Sustainability, on the other hand, has a broader stakeholder focus, including employees, customers, and shareholders. In contrast to ESG, sustainability standards incorporate scientific input.

ESG seeks to identify and rank commitments that embody desirable characteristics, broader than what is considered for sustainability – these characteristics extend to the salaries of directors, diversity of stakeholders, treatment of workers, community involvement, and health and safety issues (and more).

The difference between ESG and sustainability is subtle but important.

## Understand the key terms of ESG

ESG investing and reporting requires an understanding of many key terms, metrics, and frameworks. These terms provide a common language and set of standards that allow you and your investors to assess your impact on environmental, social, and corporate governance. Here are some important terms you should be familiar with:

### ESG factors

ESG factors refer to environmental, social, and governance factors considered in ESG investing and reporting. These factors include climate change, human rights, and damages compensation.

### ESG Indicators

Also known as ESG data, these are key performance indicators used to evaluate your ESG performance. Some metrics include greenhouse gas emissions, water use, waste management, diversity and inclusion.

### Frameworks

These frameworks provide a standardized approach to evaluating your ESG performance. Examples include:

- Global Reporting Initiative (GRI),
- Carbon Disclosure Project (CDP),
- Climate Disclosure Standards Board (CDSB),
- Sustainability Accounting Standards Board (SASB),
- Science-Based Targets Initiative (SBT)
- Task Force on Climate-related Financial Disclosures (TCF),
- International Sustainability Standards Board (ISSB),
- International Organization for Standardization (ISO),



- Green Business Bureau (GBB),
- UN Sustainable Development Goals (SDG),
- UN Principles for Responsible Investment (PR), ...

## ESG Rating

This is also known as an ESG score and it refers to assessments of ESG factors and frameworks that your investors and stakeholders use to evaluate your company.

## ESG Assessment

They are used to evaluate your ESG performance and identify areas for improvement. These audits may be performed by internal or independent external auditors.

## ESG risk

ESG risk refers to the potential risks that you face as a result of your ESG performance. These risks include reputational damage, regulatory fines, and reduced investor interest.

## ESG Report

This is the process of disclosing your environmental, social and governance performance to stakeholders, including investors, customers, employees, and regulators. In your ESG and sustainability report, you should provide information on ESG factors and metrics including such as energy use, diversity and inclusion, and compensation,... to allow stakeholders to evaluate your ESG performance.

## Understand the key terms of sustainability

Sustainability is a complex concept that encompasses many key terms and concepts. Understanding these terms is essential if you're looking to build sustainable practices into your operations. Some of the most important terms in sustainability include:

### Biodiversity

Biodiversity is important to your business because it takes into account environmental factors, including plant and animal species. Protecting biodiversity is critical to sustainability in order to maintain the natural balance of ecosystems.

### Sustainability

Sustainability means that your business can meet the needs of today by compromising future generations. You should consider how you can build your business activities while achieving a balance in economic, social and environmental factors.

### Supply Chain

A supply chain is the network of organizations, people, and activities involved in creating and distributing your product or service. Building sustainable practices into the supply chain is essential to reducing environmental impact and promoting ethical business practices.

### Corporate Social Responsibility

Corporate Social Responsibility (CSR) are initiatives you take to ensure your company operates ethically and sustainably. This can include charity work, cleaning up the environment, and giving back value to the community.

### Sustainable investment

Sustainable investing is the practice that investors take to invest in companies that demonstrate strong ESG performance and sustainable business practices.



Three of the world's 15 highest-valued unicorns according to HubSpot 2023 share key characteristics. OpenAI, Canva, and Epic Games are all leveraging freemium models, investing in communities, and innovating responsibly with AI. Overall, the unicorn technology group primarily creates solutions that rely on automation, AI tools, integrated applications, and end-to-end platform solutions.

Slower growth and stability are helping companies attract investor funding. A growing number of investors advocate the creation of a "camel-like business" to achieve more sustainable growth or a "zebra-like business" that prioritizes sustainability and impact on the community - Both are approaches worth considering in today's venture capital environment.

## ESG SUSTAINABILITY

ESG criteria act as a shopping list that companies need to have on hand to attract responsible and ethical investments. These criteria are data-driven and more specific for comparison with those used to assess organizational sustainability. This specificity may be why ESG is becoming the preferred choice when thinking about these purpose-driven businesses. We only need to look at the statistics for proof:

According to McKinsey Research, an ESG strategy can increase operating profits by up to 60%.

71% of CEOs believe it is their responsibility to ensure their organization's ESG policies reflect their customers' values.

Deloitte found that ESG-compliant mandatory assets could account for half of all professionally managed investments by 2024, totalling \$35 trillion.

"ESG-oriented investing has experienced a meteoric rise... The acceleration has been driven by society, government, and consumer attention to the broader impact of corporations, as well as by investors and executives who recognize that a strong ESG cap can protect a company's long-term success. The level of investment flows shows that ESG is not just a fad." – McKinsey and Company, Five ways that ESG creates value.

The transition from sustainability indicators to ESG indicates the evolution of business activities to more accurate performance measurements. In this sense, change is good, since it indicates the maturity of business activities in order to more accurately measure how a business impacts the environment and social systems.

It is clear that in the future, businesses will be expected to have high-quality and accurate ESG data, which means they will have to collect timely, complete, accurate and auditable data.

To introduce this data, corporations will need to create an ESG report. Which brings us to the next question: What is the difference between ESG and sustainability reporting?

### Final verdicts

If you are looking to expand your business internationally, or simply offer products and services to the new generation of customers, it is important to understand the concepts of ESG and sustainability. ESG is becoming increasingly important to ensure economic, environmental and social systems can survive into the future. Investors are also looking for companies that prioritize ESG performance so that non-compliance can result in significant losses.

Sustainability is also important (which appears in many countries' Draft Annual Budgets), as businesses are encouraged and expected to operate ethically and sustainably, and



consumers increasingly demand sustainable products and services. By adopting sustainable practices and investing in sustainable business models, you can improve risk management, increase competitiveness, and achieve long-term financial success.

Understanding ESG risks and opportunities is essential to making informed investment decisions that align with both financial goals and broader long-term sustainability goals.

ESG reporting, once independently audited, is like a passport that guarantees the highest authority on the sustainable development of any organization or business in the world, regardless of size, sector, and industry. ESG reporting according to international standards creates absolute verifiable confidence for customers, partners, and even investment funds that rigorously provide green credit packages and long-term companionship with the most favourable conditions only for market leaders.

To learn more about ESG and sustainability-related models, don't hesitate to contact **[YTT Consulting!](#)**

**Source:**

1. [Sustainability vs ESG: What's the Difference and Why They Matter \[Series 1 of 4\] | Article – HSBC Business Go](#)
2. <https://www.mckinsey.com/business-functions/sustainability/our-insights/mckinsey-on-sustainabilityand-resource-productivity/mckinsey-on-sustainability-and-resource-productivity-number-2>
3. <https://assets.kpmg/content/dam/kpmg/ie/pdf/2019/10/ie-numbers-that-are-changing-the-world.pdf>
4. <https://www2.deloitte.com/us/en/insights/industry/financial-services/esg-investing-performance.html>
5. [ESG Reporting: How Does It Differ From Sustainability Reporting? - Green Business Bureau](#)

