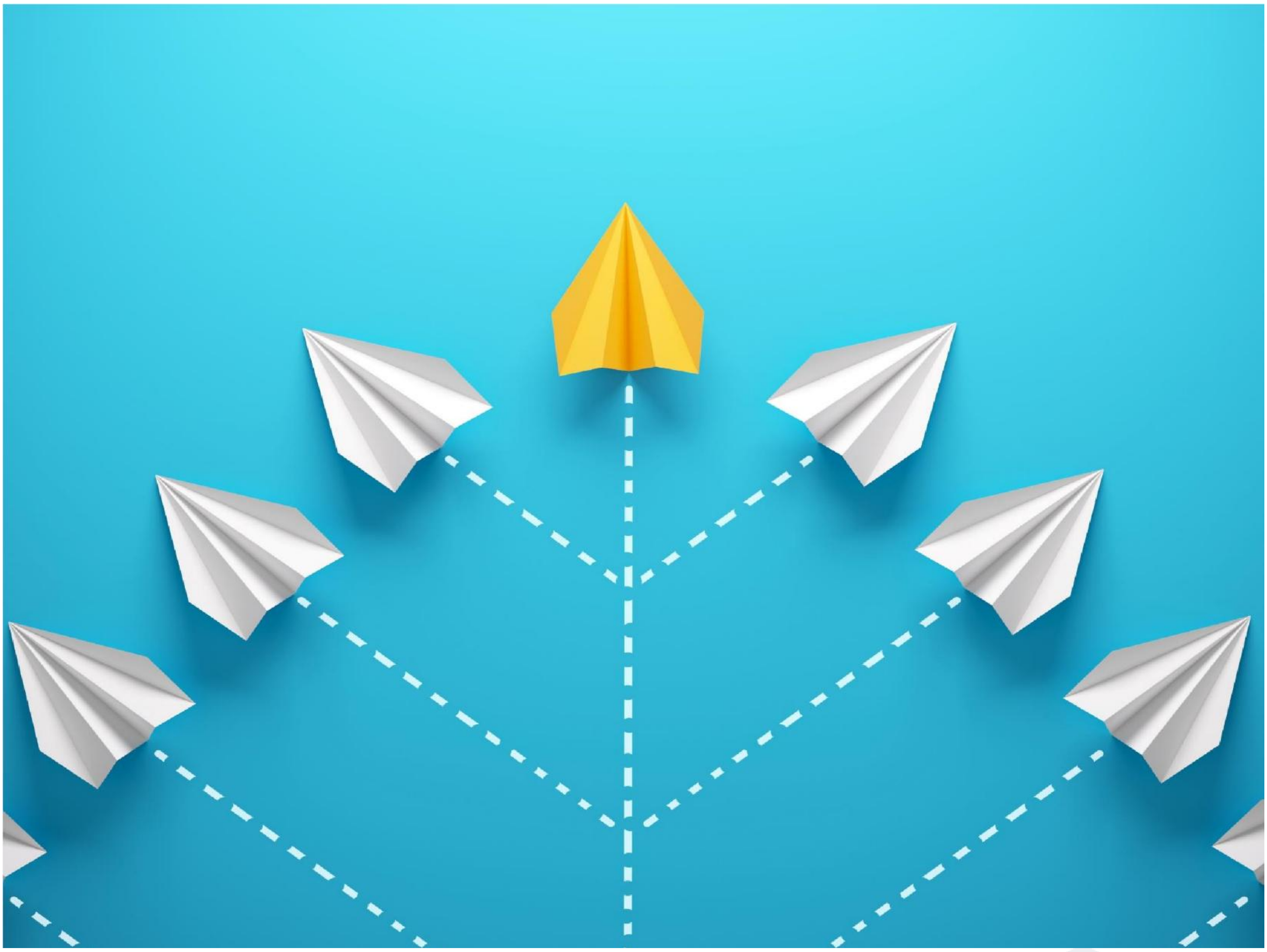

How ESG reporting differ from sustainability reporting?

ESG & Sustainability Transformation

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Environmental, Social and Governance (ESG) and sustainability factors have become essential considerations for businesses worldwide. Accordingly, Sustainability Reports and ESG Reports published by businesses become extremely popular. If a business aspires to grow overseas or simply you want your business to become more mature, you should be familiar with these concepts as well as understand the differences between the 2 types of reporting, to ensure responsible business practices while improving financial performance in the long term.

First of all, we need to understand, what is the difference between Sustainability and ESG?

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.

The concept of ESG is not a recent phenomenon: responsible investing, for example, is rooted in the investment concept itself. In the 17th and 18th centuries, religious groups, such as Quakers and Methodists, issued guidelines to their adherents on the types of activities they should or should not invest in.

The modern ESG concept begins with a letter and a call to action. In January 2004, United Nations Secretary-General Kofi Annan wrote to CEOs of leading financial institutions to participate in an initiative, under the authority of the United Nations Global Compact and with the support of the International Finance Corporation (IFC), to integrate ESG factors into capital markets. The initiative produced a report titled "Who Cares Wins – Connecting Financial Markets to a Changing World," which effectively coined the term "ESG." This report has proven that ESG investments make good business sense. And since the report was published, such investments have grown exponentially.

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.

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.

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.

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.

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.

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 the Sustainability Report?

What is an ESG Report and how does it differ from a Sustainability Report?

To invest effectively and responsibly, investors need ESG reports because these reports allow them to review reliable, accurate, comparable, and timely data.

The ESG report discloses environmental, social and corporate governance data using specific criteria, with the aim of revealing the entity's risk profile to investors. Where:

Disclosure of information about governance is usually provided in an organization's annual report. It is standard for companies to provide a copy of their governance procedures and code of ethics.

Environmental data is harder to report because the metrics are much more complex. New regulations are being developed in this area and with that, reporting standards can be improved.

Social issues include employee welfare, labour relations, workplace health and safety. Companies have often been slow to provide reliable and comparable data on social issues.

Understand the difference between ESG Reporting and Sustainability Reporting

A sustainability report is a periodic report published by companies that want to share their corporate social and environmental responsibilities with multiple stakeholders.

The report will compile and publish the information that an organization decides to communicate regarding its commitments and actions in the social and environmental sectors.

By doing so, an organization will allow stakeholders — from customers to employees and anyone else interested in the organization's actions — to know about the brand's sustainability strategy. We already know the difference between ESG and sustainability, which is that ESG is a specific criterion set by legislators, investors, and organizations that report ESG.

On the other hand, sustainability is an umbrella term for doing good for many stakeholders. This discrepancy is reflected in the report. While many of the standards used for ESG reporting can also be used to create a sustainability report, the purpose and target audience of the reports varies. Plus, a sustainability report can be vague while an ESG report is rigorously structured by environmental, social and governance criteria.

What standards are used for ESG Reporting and Sustainability Reporting?

Companies need to know how to prepare sustainability or ESG reporting, and therefore, you must understand the key reporting standards and guidelines that will provide accurate, consistent, and comparable data.

Businesses across the globe can choose to report against one or more of the most overarching ESG frameworks/standards that are being widely recognised globally:

- Global Reporting Initiative (GRI),
- Carbon Disclosure Project (CDP),
- Climate Disclosure Standards Board (CDSB),
- Sustainability Accounting Standards Board (SASB),
- Science-Based Targets Initiative (SBTi)
- Task Force on Climate-related Financial Disclosures (TCFD),
- International Sustainability Standards Board (ISSB)
- International Organization for Standardization (ISO),
- Green Business Bureau (GBB),
- UN Sustainable Development Goals (SDGs)
- UN Principles for Responsible Investment (PRI), ...

The above standards, requirements, and frameworks support both sustainability reporting and ESG reporting. Businesses should not overuse (over 5) frameworks in one report, instead, organizations should choose frameworks that best suit their industry and reporting goals.

ESG reporting and sustainability reporting improve the overall performance of the company

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ESG is becoming the new industry standard for communicating business purposes. This is because the specificity of ESG requirements makes it a more comprehensive and accurate measure for determining an organization's performance on the environmental, social, and economic fronts.

ESG reporting and disclosure helps companies access capital markets and also secures their license to operate. Investors and other stakeholders such as customers and employees are looking for brands with strong ESG performance.

While the term ESG seems to be replacing sustainability, it is important that we understand the differences between each type of reporting. Such understanding will improve related communication to enhance corporate transparency.

However, in addition to understanding the differences, organizations must also understand the similarities between ESG and sustainability. Both are strategic frameworks used to enhance business resilience and help improve the overall performance of the company.

To learn more about Green Economy and sustainability-related models, don't hesitate to contact **YTT Consulting**!

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