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What is the difference between CSR and ESG for businesses?

ESG & Sustainability Transformation

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What is the difference between CSR and ESG for businesses?

We may have heard of the concept of corporate social responsibility (CSR) a long time ago. But in the past decade or so, we have seen CSR absent, instead the whole world is covered with a new concept: ESG (Environmental, Social, and Governance). Now ESG has completely overcome the shadow of CSR and become a powerful irreversible megatrend on a global scale. From a business perspective, where do these two concepts differ and can they be used interchangeably?

First of all, we need to understand Corporate Social Responsibility. CSR with the idea that a socially responsible business exists around it.

Companies that embrace CSR are often organized in a way that empowers them to act in a socially responsible way, thereby positively impacting the world. It is a form of self-regulation that can be expressed in initiatives or strategies, depending on the goals of the organization.

Many organizations communicate these efforts to external and internal stakeholders through corporate social responsibility reports.

The concept of The triple bottom line through the "three P's": "Profit, People, Planet", is often used to summarize the motivation behind this concept.

How many types of CSR are there:

CSR has traditionally been divided into four categories: environmental responsibility, philanthropic responsibility, ethical/human rights responsibility and economic responsibility.

Environmental responsibility is the belief that organizations should behave in the most environmentally friendly way possible. This is one of the most common forms of CSR. Some companies use the term "environmental management" to refer to such initiatives.

Philanthropic responsibility refers to the goal of a business to actively make the world and society a better place.

In addition to acting ethically and environmentally friendly, organizations motivated by philanthropic responsibility often dedicate a portion of their income to this purpose. While many companies donate to charities and nonprofits that align with their mission. Others donate to worthy causes that are not directly related to their business. Others go so far as to create their own charity or organization to give back and have a positive impact on society.

Ethical/human rights responsibility involves ensuring an organization is operating in a fair and ethical manner. Organizations that embrace ethical responsibility aim to practice ethical behaviour through fair treatment of all stakeholders, including leadership, investors, employees, suppliers, and customers.

Companies can embrace ethical responsibility in different ways. For example, a business may set its own minimum wage higher if the benchmark wage set by the government does not constitute a "liveable wage." Likewise, a business may require products, materials or components to be sourced according to free trade standards. As a result, many companies have processes in place to ensure they do not buy products made by slaves or child labourers.

Economic responsibility is the practice of a company backing all of its financial decisions in the undertaking. The ultimate goal is not only to maximize profits but also to ensure the business positively impacts the environment, people and society.

What are the benefits of CSR?

Most companies adopt CSR due to ethical beliefs, which can lead to a number of important benefits and social change.

For example, CSR initiatives can be a powerful marketing tool, helping a company position itself favourably in the eyes of consumers, investors, and regulators. These initiatives can also improve employee engagement and satisfaction — key measures that promote talent retention. They can even attract potential employees who have strong personal beliefs that align with the organization's beliefs.

Finally, CSR initiatives inherently force business leaders to examine hiring and management practices, where and how they deliver products or components, and the steps they take to deliver value to customers.

This reflection can often lead to innovative and disruptive solutions that help a company act in a more socially responsible way and increase profitability. Rethinking the manufacturing process so that a company consumes less energy, generates less waste, allows it to become more environmentally friendly while reducing energy and material costs – value that can be recovered and shared with both suppliers and customers.

What about ESG?

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.

To take one example, there has been a fivefold growth in internet searches for "ESG" since 2019, even as "CSR" searches have declined. Environmental, Social and Governance (ESG) is the term used to define issues traditionally tied to sustainability or corporate responsibility – with a focus on the impact on the environment and wider society.

These 3 sets of issues are increasingly being focused on by companies, regulators, investors and other stakeholders in response to the climate crisis and the growing urgency around diversity, equity, and inclusion (DEI).

In addition to short-term profits, stakeholders are now increasingly evaluating companies through ESG factors that have a potential material financial impact on the short- and long-term value of the organization. So it's increasingly important as companies emphasize creating long-term, equitable and inclusive value. When we talk about ESG, we're referring to how organizations use these three factors to assess impact.

ESG itself is an umbrella term for a business's impact on the environment and society as well as its level of strong governance and transparency in terms of company leadership, executive pay, audits, internal controls, and shareholder rights.

It measures how your business integrates environmental, social and governance practices into its operations, as well as its business model, impact, and sustainability.

The three components that makeup ESG are Environment, Social and Governance.

Environment:

The environmental aspect focuses on how the business minimizes the negative impact on the environment. It includes your products/services, supply chain, and operations. ESG allows businesses to target different areas of their organization and implement more sustainable, ethical practices.

Social:

The social aspect focuses on how a business impacts wider society and workplace culture.

Organizations can contribute positively to equity in society, investing in fair and equitable opportunities and conditions for employees, those working in their supply chains, and local communities. Equality and fairness are at the heart of this aspect.

Governance:

Governance refers to the decision-making, reporting, and logistical processes associated with running a business. It also considers the ethical behaviour of the business and its transparency with stakeholders about its activities.

Governance is linked to the environmental and social aspects of ESG in that it considers transparency and decision-making behind them.

ESG governance standards ensure a company uses accurate and transparent accounting methods, pursues integrity and diversity in leadership selection, and is accountable to shareholders.

ESG investors can require assurances that companies avoid conflicts of interest in selecting board members and senior executives, do not use political contributions for preferential treatment, or engage in illegal practices.

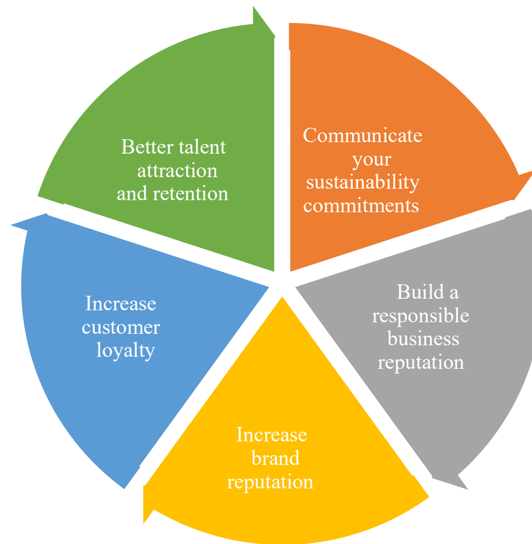
In all industries, geographies or company sizes, organizations have been allocating more valuable resources to ESG improvements. More than 90% of S&P 500 companies now publish ESG reports in some form, as do about 70% of Russell 1000 companies, according to a McKinsey report. ESG encompasses a wide range of issues that can have a direct or indirect impact on financial relevance. Some of the issues covered by the ESG report include resource management, supply chain management, organizational health, safety policy, and building trust through transparency.

CSR and ESG are similar but there are enough differences not to be used interchangeably. CSR drives behind the internal operations of the company. However, it does not use external certifications to prove that it meets specific expectations. ESG uses external assessments to determine compliance transparently.

The biggest difference between CSR and ESG is the inclusion of governance issues. CSR primarily focuses on social and environmental concerns to improve how the organization impacts society. While investors can use CSR or ESG to identify investments, ESG provides additional information about a company's actions to allow investors to obtain more data on specific ways the business addresses environmental issues, social and governance.

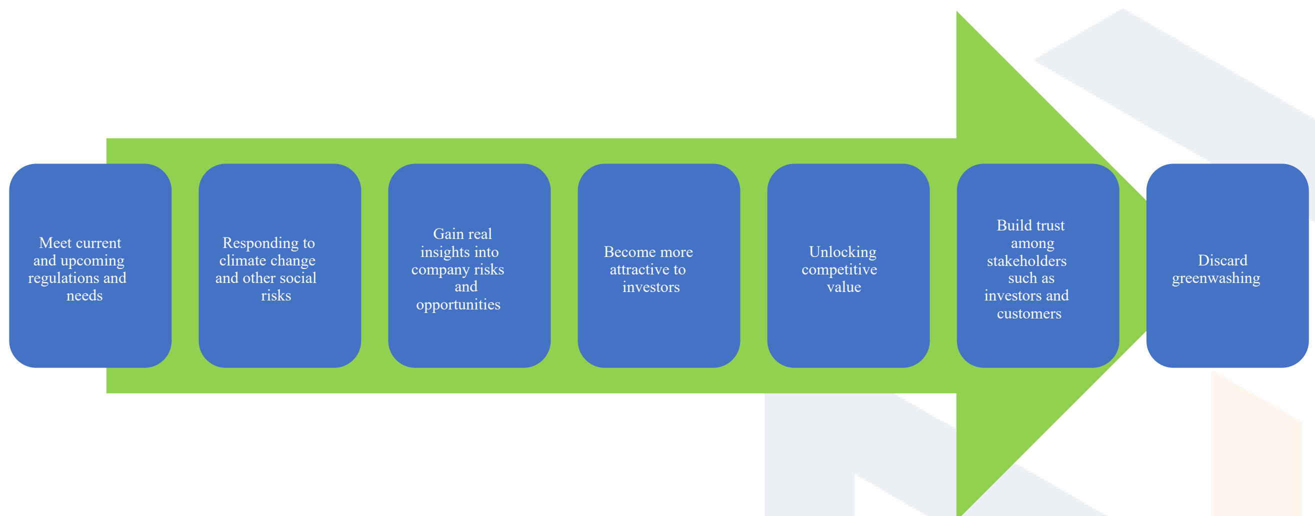
To conclude, CSR is a self-regulation strategy used by organizations to have a positive impact on society.

CSR helps a company to:



ESG, on the other hand, goes a step further by measuring these efforts at a more accurate assessment level, which is often required by investors. It helps companies set measurable goals to demonstrate their processes and their place on the sustainability journey. Today's stakeholders don't want goals to sound majestic or impressive. What they really want is to understand the company. So don't be afraid to report unmet goals. Instead, be transparent with both your accomplishments and the areas you have opportunities to improve.

ESG helps a company to:



ESG deserves to become a guideline for all organizations and businesses globally with the following keywords: Comprehensive, accurately measurable through the lens of recognized external standards, transparency, and emphasizing governance on the journey of sustainable development.

ESG reporting is like a passport that guarantees the highest authority on the sustainable development of any organization or business in the world, regardless of company size 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 Green Economy and sustainability-related models, don't hesitate to contact **YTT Consulting**!