Brief Report

Open Access CrossMark

Corporate sustainability and ESG: an imperative distinction

Abstract

Society increasingly incorporates concerns about environmental and social issues that may affect future generations, especially after the covid-19 pandemic alert on the interdependence of social, environmental, and economic relations. With an increasingly responsible demand on their way of acting before society, organizations are faced with a spread of the term ESG by the financial market, and which also brings the rediscussion of the concept of corporate sustainability towards society. Both concepts have been used by many companies indiscriminately and without due connection with the organizational spheres of corporations. Our goal is to clarify the essential differences for organizations to use the advantages of both concepts in their management and strategy.

Keywords: organizations, business, sustainability

Volume 7 Issue 5 - 2022

Fabio Silva
University of Sao Paulo, Brazil

Correspondence: Dr Fabio Silva, University of Sao Paulo, Brazil, Tel (61) 9999-7412, Email fcnss1101@gmail.com

Received: December 20, 2022 | **Published:** December 30, 2022

Introduction

Around the world, more and more organizations are taking responsibility for the impacts of their business. Society in general incorporates concerns about environmental and social issues that may affect future generations. The sustainability agenda has been discussed for decades and has become increasingly an integral part of business in any segment.

The term Corporate Sustainability has been used for decades too much, generically and with a scope that makes it difficult to understand executives and the objectivity that the business world (organizations) lacks. At the same time, the financial market has long aspired to the (significant) materialization of the much-talked about Sustainability (in companies), begging for a denomination that shines the eyes, "the heart" and pocket of companies and executives.

The truth is that every business is deeply linked to environmental, social and governance issues (ESG).

Thus, the term ESG was adjusted as a mandatory agenda in the discussions of the top of the business agenda of organizations, especially for companies evaluated by the financial market, identifying crucial issues not only for organizations, but for society as a whole.[1]

With the corporate world becoming aware of the need to incorporate ESG criteria, in particular, leveraged by the context in which companies now operate transformed by climate change, loss of biodiversity, social movements around inclusion, equity, diversity and working conditions, COVID-19 and changes in expectations of the role of companies (stakeholder capitalism), it is important to understand the differences and correlations between the names of Corporate Sustainability and ESG1[1].[2]

Thus, in this article, we provide a framework to understand the main organizational specificities related to Corporate Sustainability and ESG in the business world, contributing to academic and corporate literature by highlighting the differences when compared to corporate sustainability and ESG.

Search problem

Recently, the theme ESG "stuck the bubble" and took over all relevant reports and media organizations of the most diverse segments and sizes. Bringing up a series of discussions on the subject and its relationship with Corporate Sustainability, being even called the "sustainability revolution" in some media vehicles.[3,4]

Thus, Corporate Sustainability also gained prominence in discussions on business strategy, becoming the focus of discussions of various forums, webinars or business conference,[5] leading the general public to a confusion about the concepts of Corporate Sustainability and ESG, being employed interchangeably. Although these two concepts are related, each has its own definitive objectives and characteristics and presents a number of particularities when applied to organizations.

Thus, the general objective of this work is to identify and present the important differences that people and organizations should know between the terms Corporate Sustainability and ESG.

Theoretical rationale

Corporate sustainability

The term business sustainability originates from "sustainable development", coined by the World Commission on Environment and Development in 1987 *in its report Our common future*, a United Nations initiative. Sustainable Development means "development that meets the needs of the present, without compromising the capacity of future generations".[6]

The concept of corporate sustainability materializes sustainable development in the business context, which equally comprises economic, social and environmental organizational results without affecting future generations (RAHDARI; ROSTAMY, 2015).

The idea of corporate sustainability gained more strength and clarity in 1994 when business consultant John Elkington presented the *triple bottom line concept*[2] in the book Canivais with Garvo and Faca, proposing that organizations to be sustainable should balance their goals, being "financially viable, environmentally responsible and socially just".

The concept presented by Elkington was probably the most didactic format for an understanding of organizations on Corporate Sustainability. However, 25 years after the triple bottom line was launched, the author himself proposed a strategic review to make adjustments to this management concept adopted by organizations. Elkington argues that the concept of the triple bottom line had the idealism of encouraging companies to track and manage economic, social and environmental value and thus provoke deeper thinking about capitalism and its future, but the adoring corporations in general understood the concept only as an act of balancing the tripe.[7]

Based on the concept developed by Elkington, Hart and Milstein (2003) and Porter and Kramer (2011), they complement that the idea of the triple bottom line should permeate the organization's strategy, and can generate shared value, not only for owners or shareholders, but also for stakeholders, and society as a whole [3].[8,9]

Thus, companies should reflect on the way triple bottom line is used in their management, for an understanding beyond the environmental, social and economic spheres specifically. Organizations should understand that corporate sustainability also involves analyzing societies' challenges and concerns in local and global scenarios that need to be considered for the formulation of management strategies and practices that can have a positive impact on society.

Corporate Sustainability is a comprehensive term that covers all the efforts of a company to reduce its impact, being a true strategic driver of the organization and its business for the benefit of a sustainable world (NICOLĂESCU; ALPOPI; ZAHARIA, 2015).

This understanding was manifested in the current Covid-19 pandemic, which accelerated the need for more responsible capitalism on the part of organizations around an action that thrives for society as a whole and showed that organizations that had Corporate Sustainability as a guide to their strategy and management did better in coping with the crisis caused by the Covid-19 pandemic.[10]

In research presented in the book "Leading Sustainably - The Path to Sustainable Business and How the SDGs Changed Everything", Bridges and Eubank (2021), show that companies with mature Business Sustainability programs were better positioned to cope and survive this unusual crisis (Covid-19). Also according to the study, organizations (from hospitality to waste management, fashion, finance, etc.) had incorporated Corporate Sustainability into their core strategies, adopting a stakeholder perspective to examine their relationships in all spheres and scenarios in which they were [4] present.[11]

This enabled them to understand and mitigate the impacts they had on communities, ecosystems, consumers and business partners. This knowledge has made these organizations have improved visibility into their impacts, preparing them to respond more quickly and effectively when problems happen unexpectedly.

Corporate Sustainability should guide the purpose of the organization. Do the right thing, because it's the right thing to do. A construction of business identity in commitments based on values that permeate the organizational culture of the company and that consider its stakeholders and its implications in the structure, management, strategy and decision-making of the organization.

ESG

The acronym ESG (*environmental, social and governance*) representing the trio of measures to measure and disseminate the environmental, social and governance impacts of organizations has become exponentially popular recently. The issues relevant to the ESG theme were raised to the top of corporate agendas, driven by financial institutions and investors seeking investment opportunities in socially responsible organizations.[12]

Although the term ESG has become popular in recent times, the concern about investments in sustainable companies has existed for a long time. The term *Socially Responsible Investing* (SRI, in Portuguese, Socially Responsible Investment) has its modern roots in the United States amid the political climate of the 1960s involving anti-Vietnam war movements, civil rights equality and cold war concerns; such movements broadened their claims to labor practices in industries and the anti-nuclear social movement during the 1970s. These movements fostered and escalated social issues with investment funds that began to consider social criteria in decision-making on which companies should receive investments.

In the 1980s, concerns about social criteria for investment grew dramatically, thousands of people from Methodist churches had filters against investments in guns, alcohol, tobacco and gambling. Another relevant factor occurred mainly through the effort to end the racist apartheid system in South Africa.[13,14] Later the focus shifted to avoid investments in companies responsible for environmental disasters, such as the Bhopal Disaster in India, in which tons of toxic gases leaked from pesticide factories, and the exxon mobil oil tanker crash in Alaska in 1989.

Thus, the environmental agenda also raised the concerns of socially responsible investors. During this period, organizations began to realize the importance of reducing negative impacts on the environment so as not to lose investment in the financial market.

Between the 1990s and 2000s, the first socially responsible indices emerged. One of them is the MSCI KLD 400 Social Index, which focuses on sustainable investments. It is aimed to reduce investments in arms, cigarettes and alcohol companies. Another index created was the Dow Jones Sustainability Index, created in 1999 to evaluate the sustainability performance of companies.[15,16]

Thus, socially responsible investments were merging as a response to the concerns of the financial market. Thus, in 2005, in the report Who Cares Wins (or, in Portuguese, "who cares''), the result of an initiative of the United Nations (UN) emerges for the first time the acronym ESG. At the time, 20 financial institutions from 9 different countries – including Brazil – met to develop guidelines and recommendations on how to include environmental, social and governance issues in asset management, securities brokerage services and research related to the topic.[17]

Thus, in 2020 we saw the boom of the ESG theme as a consequence of the COVID-19 pandemic, which materialized as a reminder of the imbalance among the systems that sustain us: economic, social and environmental.[18] Illustrating the collapse in society's relationship with the environment and exposing vulnerabilities in the interdependence of the economic and social dimensions).[19,20]

The acronym ESG rekindles the importance of social, environmental and governance aspects that were already treated in socially responsible investment, now incorporates a critical bias of how a company is managed, how it positively impacts society, how it affects the environment and how all these factors cumulatively determine the overall performance of the organization.[21]

Discussion

While Corporate Sustainability and ESG have many similarities, there are significant differences. Mainly in the sense that Corporate Sustainability is comprehensive, and ESG is more specific, providing a particular set of criteria that organizations can use.

Corporate Sustainability aims at the continuity of business with responsibility (social, economic, financial and environmental) committed to present and future generations, generating shared value

Citation: Silva F. Corporate sustainability and ESG: an imperative distinction. *MOJ Eco Environ Sci.* 2022;7(5):178‒181. DOI: 10.15406/mojes.2022.07.00265

to all stakeholders. The ESG is based on three pillars (environmental, social and governance) central to the measurement of the non-financial aspects that organizations report to society, especially to the financial market.[22]

The concept of Corporate Sustainability already has a tradition in research in the area of business and management. However, the adherence of the acronym ESG with the financial world has strongly elevated discussions on corporate sustainability, still viewed with some disbelief by many executives and corporations. Corporate Sustainability is again discussed in its form of integration with the values, culture and purpose to the strategic management of the organization.

The acronym ESG reappears at a time when the Covid-19 pandemic illustrates the collapse in society's relationship with the environment and exposes vulnerabilities in the interdependence of the economic and social dimensions, thus also emerging a discussion about the actions of companies in the face of the imbalance among the systems that sustain us: economic, social and environmental.[18–20]

Topics that are often difficult to measure and use comprehensively in companies, Corporate Sustainability directs organizational actions. The ESG focuses on (concrete) evidence of the impacts of the actions of those developed by the organization, especially those that can generate risks to the core business of the business and data for the decision-making of senior management.

Based on the already stated in our discussion, we understand that a specific differentiation is still made in aspects relevant to the management and strategy of organizations on Corporate Sustainability and ESG, as reported in the Table 1 below:

As shown in Table 1, corporate sustainability and ESG are relevant for organizations and, although they are in several places, there are also relevant differences to be considered. Comparing the topics relevant to the Management and Strategy of each, it is evident that there is a difference. The distinction between the two is well marked and arguably relevant in the sphere of organizations.[23,24]

Table 1 Corporate sustainability and ESG applied to management and strategy

Management and Strategy	Corporate Sustainability	ESG
Scope	it's a comprehensive term that guides companies to "do better, do what's right."	highlights specific and crucial issues for executives and investors.
Strategy	should be integrated into the business strategy	provides data for strategy decision-making
Performance	fosters initiatives for the purpose of the organization	evaluates the company's performance (in the financial market) to achieve its purpose
Documents	materializes in policies, guidelines, action plans, programs and projects	materializes in company reports and reports (PRI, TCFD, MSCI, GRI)
Reasons	is based on research and studies of environmental sciences, business and management	is based on standards defined by investment organizations and reports
Acting	is the company's responsible way of acting	defines criteria that make these responsible action efforts measurable
Relationship	organization with society and the environment	Stakeholders (Mapped)
Relevance	organizations of all segments and sizes.	organizations listed on stock exchanges or that need to obtain financial market financing
Measurement	qualitative, quantitative and in some cases measurement indicators not possible	provides quantifiable indicators
Risks	environmental risks	identifies the material risks to the organization[i]
Stakeholders	society as a whole.	those mapped according to materiality matrix[ii]
Focus	focuses on the cause/origin of material themes	focuses on the result (measurements) of material themes
Motivation	"do what's right, because it's the right thing to do"	do what is measured/managed
Responsibility	creates responsibilities and values within the organization itself	tries to measure existing values and responsibility
Result	economic (intangible)	financial (tangible)
Impact	generates positive impact on society and stakeholders	generates a positive impact on the financial market
Value	creates shared value	creates targeted value
Defendant	from within (organization) out	from the outside in.
Communication	Society as a whole	investors, financial market, shareholders
Scope	addresses broad and complex issues in the environmental, economic, social, cultural, spatial, psychological, national and international political dimensions.	addresses specific issues in the reductionist view of the financial market in the environmental, social and governance dimensions.

Source: prepared by the author

Final considerations

Corporate Sustainability is a precursor to the birth and current "resurgence" of ESG. Without Corporate sustainability, there would be no ESG. Essentially, while Corporate Sustainability aims to make a company responsible, ESG establishes criteria that make the activities of organizations measurable.

ESG is a financial market classification of corporate sustainability and consequently the performance of your company. Good enterprise sustainability initiatives can help drive high ESG ratings for organizations.

Ideally, if the organization has a strong business sustainability, it will consequently have positive ESG ratings. Thus, business sustainability has implications for organizational structure, management and strategy functions and responsibilities in organizations.

The current market factor called ESG can add value to organizations through evidence presented to the financial market regarding environmental, social, governance, security and compliance issues addressed by organizations.

The differentiation between the concepts of ESG and business sustainability may seem only a matter of semantics, but for organizations, it is essential to understand the two terms and in what each proposes best for business.

The ESG does not by nature carry a sustainability gene. A company can be very well evaluated in an ESG rating, but to say that this company performs excellently in business sustainability is a different statement. Organizations must thrive in the long term, generating value and respecting the limits, thresholds and standards (social, environmental) that are defined by society, not simply defined by comparing companies or goals and objectives defined by financial market institutions.

The current condition of ESG evaluations is discussed by several actors involved, headed by the financial market for the establishment of standards that meet accounting criteria and that provide more evidence of materiality that generate reliability, credibility and the possibility of comparison between organizations.

As the world recovers from COVID-19, society will not lose sight of the sustainable action by organizations and the trend of ESG issues will become more central to the financial market. The ESG will play a critical role in how the environment will be built is managed going forward in more sustainable economic recovery. Business sustainability, originating from the concept of sustainable development is much more than the reductionism of indicators of the economic, social, environmental and governance dimensions. Thus, organizations have a long journey to go on the path of organizational learning and development, and it is necessary to invest in Corporate Sustainability for the much desired results in ESG.

Acknowledgments

None.

Funding

None.

Conflicts of interest

The authors declared that there is no conflict of interest.

References

1. Niemoller John. ESG and sustainability - What's the difference? *PeaSoup Cloud*. 2021.
2. WEF. Measuring Stakeholder Capitalism. Toward common metrics and consistent reporting of sustainable value creation. 2020:1–48.
3. Niemoller John. Sustainability vs. ESG: What's the difference, and why does it matter? 2021.
4. Pereira Carlo. Is ESG a concern that's taking away your sleep? Calm down, nothing's changed. 2020.
5. Not Best Site DE, Servi Cias OU, Digital Asian, et al. What we learned from how sustainability and sustainable businesses have weathered the Covid-19 crisis. 2020.
6. WCED. Report of the World commission on environment and development: our common future towards sustainable development 2. Part II. Common Challenges Population and Human Resources 4.
7. Elkington John's. 25 years ago, I got the phrase "Triple Bottom Line". Here's why it's time to. 2018.
8. Hart L Stuart, Hart Stuart, Milstein Mark. Sustainable value. 2010.
9. Isabelle Horak, Kevin Mckinnon Sarah, Palumbo Chiara. Is Porter's five forces framework still relevant? A study of the capital/labour intensity continuum via mining and IT industries. *Technology Innovation Management Review*, 2020;10(6):28–41.
10. Bailey K, Breslin D. The COVID-19 pandemic: what can we learn from past research in organizations and management? *International Journal of Management Reviews*. 2020.
11. Bridges Trista, Eubank Donald. Leading sustainably: the path to sustainable business and how the SDGs changed everything. 2021. 176 p.
12. Blueprint. Environmental, Social, and Governance (ESG) Investing. Environmental, Social, and Governance (ESG) Investing. 2020;201:9930.
13. Donovan William. The origins of socially responsible investing. 2020.
14. Schueth Steve. Socially responsible investing in the United States. *Journal of Business Ethics*. 2003;43(3):189–194.
15. NG Artie W, Leung Tiffany CH. A guide for investment professionals CFA Institute. 2020.
16. USE, Terms OF. Mapping WFE ESG Metrics June 2018 to the GRI Standards TERMS OF USE About this tool: This tool provides a quick reference to show the correspondence between WFE Environmental, Social, and Governance (ESG) Metrics June 2018 and the GRI Sustainability. 2018.
17. United Nations Global Compact. Who cares wins: connecting financial markets to a changing World? The Global Compact. 2004.
18. Donthu Naveen, Gustafsson Anders. Effects of COVID-19 on business and research. 2020:284–289.
19. Newell Robert, Dale Ann. COVID-19 and climate change: an integrated perspective. *Cities & Health*. 2020:1–5.
20. Sachs J, Schmidt-Traub G, Kroll C, et al. Development, the sustainable development goals and COVID-19. Cambridge University Press. 2020;202:250.
21. Remchukov Maxim. Why COVID-19 is a litmus test for corporate attitudes to sustainability. 2020.
22. Almeida Álvaro. ESG seems, but it is not the same as sustainability. *Neo Feed*. 2021.
23. Ayres Andreia Ribeiro. Corporate sustainability : an analysis of the materiality matrices of global automobile manufacturers. 2020:81–101.
24. Mcphee Wayne. A new sustainability model: Engaging the entire firm. *Journal of Business Strategy*. 2014;35(2):4–12.

Endnotes

1. In stakeholder capitalism, all those who have an interest in the economy can influence the taking of decisions, and metrics optimized for economic activities favor broader social interests
2. Or *triple bottom line* is a sustainability structure that examines the social, environmental and economic impact of a company.
3. According to Porter (apud MCPHEE, 2014) only through the actions of the companies will the global challenges be solved; because businesses can create social and economic value simultaneously, solving issues with a business model, which it names "shared value".
4. Leading sustainably - The path to sustainable business and how the SDGs have changed everything (our translation).