The term ‘ESG’ fails to capture the impact of what a responsible business is – but that doesn’t mean we should ignore it

Although it seems ESG’s rise to the top of the news agenda was swift, focus on its fundamental elements – Environment, Social, and Corporate Governance – are nothing new. Previously understood through the term ‘CSR’ or corporate social responsibility, many agree that ESG is merely the newest edition in a constant rebrand of the same principles. And in extreme cases, it’s considered a deceptive way of boosting corporate reputation: a guise distracting the industry from a lack of action being taken.

One of the defining characteristics of ESG compared to its predecessors is how it quantifies action taken by an organisation. But the pitfall of this lies is the attitudes of some corporates who view ESG as a box ticking exercise, as opposed to fully embracing its values in business decision making. In this respect, the evolution of the term ESG has had a limited impact when it comes to achieving tangible goals, stalling the imminent action required: *only 33% of businesses* changed their behaviour in 2021 to achieve ESG goals, a far reach from the UK government's 2050 net zero ambition alone.

ESG isn't a foreign language

A frustrating misconception is that *ESG is an overly complex framework*. This view is shared by businesses of varying sizes, from global corporates to small business owners, largely due to the jargon and complicated language too often used by industry specialists. While there is a pressing need for ESG experts – individuals whose sole purpose in a business is to up ESG efforts – we need to change the narrative that ESG is a foreign language, as this will only leave corporates who want to make positive changes feeling disconnected. It also risks disincentivising businesses from accessing information and guidance or taking any proactive interest in their own ESG values as they perceive it as an impossible task.

This barrier means that the gap between a corporate's intent and strategy, and the actual ingraining of sustainability through a business is unsurprising. To impart actual change on a business, deep rooted transformational delivery is the answer, utilising experts who are topped up with sustainability expertise. Corporates must balance the demands of E, S and G in response to the current climate, just as they would with any other multifaceted framework. But good ESG is not about tidying up around the edges: it's about *making fundamental, long-term changes in a business* and understanding its breadth and depth rather than viewing it as simply three boxes to tick.

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Reporting methods should hold all corporates to the same standard

A further barrier to successful adoption across the board is the wash of *ESG reporting methods available*. While metrics are a practical indicator, they are not always an accurate reflection of a business' true ESG offering and subsequently aren't deemed a robust indicator by external stakeholders. *One survey* found that just a third (33%) of investors think the quality of ESG reporting they are seeing is good, with less than half (40%) trusting information from ESG ratings.

A good ESG rating is considered a stamp of approval for businesses, and some corporates take advantage of this for their own self-interest. Consequently, there is a tendency to use ESG as a greenwashing tool in which organisations strategically adhere to certain requirements to publicly boost their own rating whilst not practicing good ESG in reality. We need stronger government regulations and policies to prevent this, as well as sanctions for any business that adopts this approach.

The surplus of too many standards available also make it difficult to determine the right course of action for a business, as well as for investors who may be misled into making decisions based on inaccurate detail. To address this, more holistic measurement is needed as well as tighter global regulation. The introduction of frameworks like the International Sustainability Standards Board (ISSB) is a practical way of achieving this, exposing laggards and holding all corporates to the same set of standards.

At this point, no business can be excused for *dismissing ESG principles*, irrelevant of the barriers, especially for large corporates and authorities who have the potential to yield the most significant impact. But labelling positive action as ESG is not what is most important. Standards and reporting will always be necessary to assess the action being taken, but what matters is that businesses act responsibly with positive action at the forefront of their agenda, rather than obsession over scores and ratings. Corporates who do so will feel the direct benefits, such as better loan rates and the ability to attract top talent.

We can be simultaneously critical of the term ESG and still champion its values. While a short and succinct acronym will never be able to encapsulate the plethora of factors it intends to cover, increased awareness around ESG is clearly needed – whether it's more education, consulting, or sanctioning. ESG values are important and companies need to start taking action.

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