ESG Explained

ESG stands for Environmental, Social and Governance. These are three groups of questions about how a company affects the world around it, and how it is run. The term became widely used after a 2004 United Nations Global Compact report called Who Cares Wins, written with leading financial institutions. Today, investors, banks, customers, employees and regulators often ask companies about ESG. For companies, it is about managing risks and finding opportunities; for employees, it is often part of everyday work.

1. Environmental

The E in ESG looks at how a company affects nature. It covers energy use, greenhouse gas emissions, water, waste and pollution. It also covers the risks that nature creates for the company, such as floods or heat. Companies measure these topics, set targets and report their progress. What gets measured can then be managed and improved.

Example: A family looks at the environmental side of its home and checks its water bill every month. One high bill leads them to a leaking pipe under the sink. After the repair, both the water use and the bill go down.

At work: Faisal works in the operations team of a food packaging company, and a big client has asked for its ESG data. Starting with the environmental side, he measures the factory's energy use at night and finds machines running in an empty hall. Switching them off saves energy, money and emissions.

2. Social

The S in ESG looks at how a company treats people. This includes its employees, its customers, its suppliers and the communities around it. Typical topics are health and safety, fair pay, training, diversity and respect for human rights. A company with strong social practices usually finds it easier to keep good staff and to win trust.

Example: A small café thinks about the social side of its business and asks its staff about their working hours. Many work late shifts with no notice. Fair schedules, shared one week ahead, mean that fewer staff leave.

At work: Faisal reviews the social side and looks at the factory's safety records. They show many small injuries in the loading area. After better training and a weekly safety walk, the number of injuries falls.

3. Governance

The G in ESG looks at how a company is directed and controlled. It covers the board of directors, clear roles, internal controls, ethics and the fight against bribery and corruption. Good governance means that decisions are made fairly, openly and in the interest of the company,

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not of one person. It also means that someone is clearly responsible for ESG topics. Without good governance, environmental and social promises are hard to keep.

Example: A neighbourhood sports club applies good governance to its money. Two members now check every payment, and the accounts are shared with all members once a year. Trust in the club grows, and more families join.

At work: Faisal notices a governance problem: a manager approved a contract with a supplier owned by his brother. The company introduces a simple rule: any conflict of interest must be declared, and that person steps aside from the decision. Decisions become fairer, and the client sees it.

4. Reporting Standards

To compare companies, ESG information must follow common rules. The GRI Standards, from the Global Reporting Initiative, help organisations report their impacts on the economy, the environment and people. In 2023, the International Sustainability Standards Board, known as the ISSB, issued IFRS S1 and IFRS S2. IFRS S1 sets general requirements for sustainability information that matters to investors, and IFRS S2 focuses on climate. Good reports use real data, not only attractive words, because misleading or unsupported claims about a company's environmental record are called greenwashing.

Example: Schools use the same report card for every student, so parents can compare results fairly. Reporting standards work in the same way for companies. With one common format, readers can see who is really making progress.

At work: Faisal's company prepares its first report using the GRI Standards, with real figures for energy, safety and governance. It also starts preparing for IFRS S2, because its bank asks about climate risks. The client receives clear, honest data and renews the contract.

Conclusion

In summary, ESG asks three questions: how a company affects the environment, how it treats people, and how it is governed. Reporting standards such as GRI and the ISSB's IFRS S1 and S2 make the answers clear and comparable. For companies, ESG helps to manage risks, win trust and find opportunities. For employees, it often starts with simple actions: measuring, reporting honestly and speaking up when something is wrong.

Sources

- United Nations Global Compact (2004). Who Cares Wins: Connecting Financial Markets to a Changing World.
- Global Reporting Initiative: The GRI Standards – https://www.globalreporting.org/standards/
- IFRS Foundation: International Sustainability Standards Board (ISSB) – https://www.ifrs.org/groups/international-sustainability-standards-board/
- IFRS Foundation: IFRS Sustainability Standards Navigator (IFRS S1 and IFRS S2) – https://www.ifrs.org/issued-standards/ifrs-sustainability-standards-navigator/
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