

ethikos Volume 34, Number 7. July 01, 2020 On ethics: Alison J. Taylor

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An interview by **Adam Turteltaub**, CHC, CCEP, Vice President of Strategic Initiatives & International Programs, SCCE & HCCA.

AT: What is ESG? It's a relatively new term that many may need defined. How is it different from CSR?

AJT: One of the problems with the world of corporate responsibility is the reliance on numerous overlapping and confusing acronyms! ESG stands for “environmental, social, and governance” and is the latest iteration of CSR. CSR, which stands for “corporate social responsibility,” is a more old-fashioned term. When CSR practices started in the 1950s and 1960s, they were primarily focused on what charitable and philanthropic initiatives a business supported; these initiatives did not need to have any connection to the business’s core moneymaking activities. Companies still tend to engage in philanthropic efforts via separate foundations or charitable arms.

Gradually, though, people began to realize that charity was not enough and that there should be more of a focus on responsible practices in everything a business does, which means linking CSR activities to the core business model. The most important idea today is that a business should focus on creating “shared value”—a term coined by Michael Porter, a strategy professor. So, you should target the activities that will *both* increase your profits and provide value to society and the environment.

Over the past decade, evidence has accumulated that businesses that are more socially and environmentally responsible are also more profitable over the long term.^[1] A number of studies demonstrate this, showing that there is a “business case” for ethical, responsible business practices. This has greatly heightened the interest of investors in CSR and sustainability, and it’s led to the development of what is now called ESG.

The simplest way to think about ESG is that it’s the term investors use for sustainable, responsible business practices. As investors have become more interested in social and environmental responsibility and good governance, this has helped us define what responsible business means. A central idea of ESG is “materiality,” which means businesses should focus on the most relevant issues for their core business. These vary by industry and geography. So, if you are a pharmaceutical company, your most material issues would include access to, and the affordability of, medicines. If you are an oil and gas company, climate change is a material issue. If you are an apparel company, supply chain workers’ rights and the environmental impact of manufacturing are your biggest issues.

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