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# What Is Environmental, Social, and Governance (ESG)?

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**Environmental, Social, and Governance (ESG)** refers to non-financial factors that investors and stakeholders may consider to assess company operations and performance. These criteria have come to prominence as investors, particularly "socially responsible investors," have used ESG to screen potential investments and as a measure of risks and opportunities that could impact a company's ability to create long-term value.

Factors that affect each branch of ESG include:

- **Environmental:** carbon emissions, water and waste management, raw material sourcing, climate change vulnerability; climate change and resource scarcity;

- **Social:** diversity, equity, and inclusion, labor management, data privacy and security, community relations;

- **Governance**: board governance, business ethics, intellectual property protection; executive pay and tax transparency; safety issues and data security.

The term ESG started to gain traction in 2013 and 2014 after academic studies concluded that good corporate-sustainability performance is associated with good financial results. Many mutual funds, brokerage firms, and robo-advisors now offer products that employ ESG criteria as part of their tools to help investors evaluate if companies reflect their own values and concerns. ESG looks beyond simply considering the profitability or risk presented by an investment opportunity. Currently, there are few mandatory line-item disclosure requirements for ESG issues, but that is changing.

Some companies who have boasted strong ESG metrics have come under fire for using the standards as part of efforts to "greenwash" their operations, or make them seem more environmentally responsible than they may be in practice.

Winston & Strawn's Environmental, Social, and Governance (ESG) Advisory Team helps boards, management teams, and investors oversee the complete spectrum of ESG-related legal and business issues.

# Related Capabilities