Corporate accountability: key ideas

MODULE 5 | PART A.1 | STUDENT COMPANION

Our idea of who a company answers to has widened in three stages. Each stage added a new kind of capital that the company is expected to account for.



Each view widens who the company answers to. Today, corporate accountability includes sustainability.

Four terms you must not mix up

Term	What it means	Scope	Little Fern Coffee (imagined)
Sustainability	Keeping environmental, social and economic outcomes in balance over time, so none is traded away	Any level: people, companies, governments	A world where coffee farms, communities and the climate can all keep going
Sustainable development	Meeting present needs without compromising future generations' ability to meet theirs	A global goal; shaped by the UN's 17 SDGs	Not borrowing from future generations to grow today
Corporate social responsibility (CSR)	A commitment grounded in values: responsibility for how decisions affect society and the environment, shown through open, ethical behaviour	The organisation	Fair-trade beans, reusable cups, pay above the award
ESG	The metrics used to measure environmental, social and governance performance, mainly for investors	The organisation, as scored by analysts and raters	Emissions in tonnes, staff turnover, independent directors

The one-line test: CSR is an organisation's **commitment**, grounded in its values. ESG is the set of **measurements** used to track that commitment, mostly for investors. Writers often use the terms interchangeably, so check the context.

Pillars, goals and ratings

MODULE 5 | PART A.1 | CONCEPTS AND A CASE NOTE

Three pillars, seventeen goals

Sustainability thinking is usually organised around three pillars: **planet** (environment), **people** (society) and **profit** (economy). In 2015 the United Nations adopted 17 Sustainable Development Goals, such as ending poverty, clean water, decent work and climate action. Together with the definition of sustainable development, they have shaped how sustainability reporting developed.

CSR is one way a company moves towards sustainability. It formalises the company's commitment and is the foundation for its wider sustainability efforts. It links to stakeholder theory: a business must manage the needs of many groups, not only investors, to stay viable in the long term.

Case note: an ESG rating is not a green label

In May 2022, at its annual rebalance, S&P Dow Jones Indices removed the electric car maker **Tesla** from the S&P 500 ESG Index, while the oil company **ExxonMobil** remained in it. Tesla's chief executive, Elon Musk, called ESG a scam.

S&P explained that Tesla's ESG score had fallen into the bottom quarter of its global industry group, as its peers improved. It cited Tesla's low-carbon strategy and business conduct codes, and controversies, including claims of racial discrimination and poor working conditions at its Fremont factory, and its handling of a US vehicle safety investigation.

The lesson: an ESG score measures how well a company manages a wide range of environmental, social and governance risks compared with its industry peers. It is not a verdict on whether its products are good for the planet.

Sources: S&P Dow Jones Indices blog on the S&P 500 ESG Index rebalance (17 May 2022); ESG Today, 19 May 2022. Little Fern Coffee is an imagined business.

Practice questions

MODULE 5 | PART A.1 | TRY THESE BEFORE THE WORKED ANSWERS

Question 1 - Name the term

Label each statement as **sustainability**, **sustainable development**, **CSR** or **ESG**.

Statement	Your label
(a) "Our aim is a world where farming, communities and nature all thrive, with none traded off against the others."	
(b) "Growth today must not leave our grandchildren less able to meet their own needs."	
(c) "We pledge to buy only fair-trade beans and to pay every team member above the award."	
(d) "Scope 1 and 2 emissions fell 12% to 3,400 tonnes, and 40% of our directors are independent."	
(e) "A ratings agency scores the company AA for managing environmental, social and governance risk relative to its peers."	
(f) "The board has written its responsibility to the local community and environment into our values and strategy."	

Question 2 - Green product, weaker rating

Explain, in your own words, how a company in a polluting industry could receive a better ESG rating than a company whose main product helps the environment. What does this tell you about the difference between ESG and sustainability?

Statements in Question 1 are original teaching examples.

Worked answers

MODULE 5 | PART A.1 | WORKED ANSWERS - ATTEMPT THE QUESTIONS FIRST

Question 1 - Name the term

Statement	Answer	Why
(a)	Sustainability	Balance across environmental, social and economic outcomes, none sacrificed
(b)	Sustainable development	The future-generations test from the classic definition
(c)	CSR	A values-based commitment by the organisation
(d)	ESG	Measured indicators: emissions and board independence
(e)	ESG	A rating of how risks are managed relative to peers, for investors
(f)	CSR	Responsibility for impacts built into the organisation and its strategy

Question 2 - Green product, weaker rating

An ESG rating compares how well a company **manages** a wide range of environmental, social and governance risks against companies in the **same industry**. A company in a polluting industry can still be the best manager of risk among its peers, while a company with a green product can score poorly because of weak governance, workplace problems, controversies or poor disclosure. The Tesla and ExxonMobil index decision in May 2022 shows this.

So ESG is a set of investor-focused measurements, not a verdict on whether a business is sustainable overall. Sustainability asks whether the economic, social and environmental outcomes stay in balance over time.