

Glossary

Environmental, Social and Governance (ESG)

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There is no universally accepted definition of ESG, but it is generally understood to refer to three factors that companies, government agencies, and other entities consider when making decisions and analysing the impact of these decisions and their activities and operations on the environment, society, and their stakeholders. These factors are also used by investors and third parties to assess and measure an entity's sustainable and ethical decision-making and business operations.

The three factors are:

- **Environmental:** this refers to an entity's policies on and approach to energy and natural resource consumption (including its use of clean and alternative energy and commitment to reducing its carbon and other [greenhouse gas](#) emissions), waste management, water management, and reforestation.
- **Social:** this refers to the effects of an entity's decisions and policies on its stakeholders, including consumers, employees, suppliers, contractors, and the community. It also includes the entity's commitment to human rights, diversity, equity, and inclusion.
- **Governance:** this refers to an entity's policies and procedures regarding corporate governance (for example, board independence, board diversity and executive accountability), anti-money laundering, anti-corruption and anti-bribery, and other management issues.

Many companies have adopted ESG policies, whether of their own initiative, at the behest of their investors, shareholders, and other stakeholders, or in response to regulatory and legal developments. To comply with these policies and meet any sustainability targets they may impose, companies are investing in projects and entering into financing products that promote, facilitate, or incentivise certain or all three factors of ESG including [social loans](#), [green loans](#), [sustainability-linked loans](#), [green bonds](#), [social bonds](#), and [sustainability-linked bonds](#).

For guidance on Practical Law's key resources on ESG issues and regulation in Australia and New Zealand, see [Toolkit, Environmental, social and governance \(ESG\) toolkit: Australia and New Zealand](#).

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