

What is the difference between ESG, SRI, and Impact Investing?

In this article we are going to outline exactly what ESG, SRI, and Impact Investing is, what their benefits are, and how these three similar terms differ.

What is ESG?

ESG stands for Environmental, Social, and Governance. ESG Investing is about using certain considerations to make investment decisions. Unlike traditional investing, ESG considerations are not focused on profit potential but rather the potential environmental, social, or governance risks associated with a company. The idea behind ESG investing is that companies that are bad for your own health are also bad for business. It's not just about being green but also about being good to people and good for society.

- Investors are increasingly using environmental, social, and governance (ESG) factors to assess organisations in which they may want to invest.
- ESG criteria are being used by a growing number of brokerages, and investing advisors, including robotic advisors.
- Investors can also use ESG criteria to avoid companies that may pose a higher financial risk owing to their environmental, social, or governance policies

What are the benefits of ESG?

The main advantage of ESG investing is that it will help you to maximize your profit potential without compromising your ethical position. The reason is that since companies are being more transparent about their ESG performance, investors can now easily evaluate the environmental, social, and governance performance of a company. Some of the benefits of ESG-focussed investments are:

Strong ESG Programs Increase Stock Liquidity

Everyday large sums of money are being invested into companies that are proactive in governing and operating in an ethical and sustainable manner. As a result, a double-digit increase is being seen in sustainable and impact investing. [According to the US SIF Foundation](#), total U.S.-domiciled investments adopting sustainable, responsible, and impact (SRI) strategies reached \$8.72 trillion in 2015, up 33% from 2014 and 14 times higher than 1995. This equates to roughly one out of every six dollars under management.

ESG Initiatives can Unlock Competitive Value

Despite investor concerns that ESG investment may reduce profits, a 2015 analysis by Oxford University and Arabesque Partners found that including sustainability considerations into business decision-making processes is in the best economic interest for corporate management and investors. Good ESG quality, in particular, can assist a company in gaining a competitive advantage, which can eventually lead to outperformance. Coca-Cola, for example, enhanced its ESG quality and achieved higher performance as a direct result of cutting the water intensity of their manufacturing process by 20% over the last decade.

What is Socially Responsible Investing?

Socially Responsible Investing (SRI) is a type of investing that strives to produce both social and financial returns for investors. This means avoiding industries that have a harmful impact on the environment and avoiding companies that are bad to its people. Investments of this type may seem pretty straightforward, but while an obvious example of a SRI would be investing in a green energy company, investing in a socially responsible way also means avoiding companies that produce harmful products like cigarettes or weapons.

- Investing in firms and funds that have beneficial social consequences is known as socially responsible investing.
- Investors should remember that socially responsible investments are still investments, and they should still consider the possibility for profit.
- The political and social mood of the moment tends to be mirrored in socially responsible investing.

What are the benefits of SRI?

Can Improve Risk Management

Responsible investing can help you decrease exposure to dangers that aren't obvious on a company's financial report. This is because SRI considers a company to be more than just a collection of figures. While analysing a company's performance can be difficult, it's important to look beyond financial indicators, as reading behind the numbers to determine if a company's activities correspond with your values can provide a more comprehensive picture.

Contribute to Positive Change

Rewarding socially responsible companies puts pressure on businesses that have yet to adopt a more ethical, responsible business plan. Lego, for example, discontinued their collaboration with Shell Oil a few years ago and is now working on humanitarian initiatives. They're also aiming for a 100 percent renewable energy capacity by 2030, as well as a reduction in their overall carbon impact. Those are causes that would not be able to be sponsored unless people like you invested in them.

What is Impact Investing?

Impact investments are those that aim to have a positive social and environmental impact while also providing a financial return. Impact investors take into account a company's commitment to social responsibility and to positively benefiting society as a whole. Thus, the goal of impact investing is to use money and capital to achieve beneficial social outcomes.

- Impact investing is a type of investment strategy that aims to make money while simultaneously having a good social or environmental impact.
- There is still disagreement over the terms ESG, SRI, and Impact Investing

What are the benefits of Impact Investing?

Align Your Goals with Your Values

Stop working against yourself and make money while making a positive impact for society. It's time to aim for a triple bottom line. Values and profit no longer have to compete when it comes to impact investment. This form of investment allows you to show that you're a responsible investor without sacrificing profits.

Heal the World and Change the Culture of Investing

Impact Investing is on the rise and the culture of investing is already changing. There has never been a better time for investors to capitalize on this enthusiasm and help push Impact Investing into the future. By dedicating our minds and our resources to changing the status quo, we can help build a new normal.

And that new normal doesn't need to be restricted to investing. We can be a part of social change that has demonstrable impact.

You can think of ESG as a lens through which investments are viewed. It's a methodology for determining whether or not a company has a positive environmental, social, and governance impact. On the other hand, SRI is a selection process used to determine the quality of socially responsible investments. This is very similar to Impact Investing, but the latter is simply the act of helping investors reach their social and financial goals.