ESG levered governance: A key success factor in driving sustainable growth

The Perspective: Sustainability has become a critical factor in the corporate world. ESG issues are increasingly seen by shareholders as a key driver for the business. Investors increasingly assess a corporation's performance on environmental, social, and governance (ESG) factors. Leading companies view ESG issues as a business imperative. They manage ESG related risks while seizing the opportunities. Many companies are facing financial and operational pressures due to the pandemic. Those companies that take a serious look and a broader view of their long-term strategy incorporating responsibility to ESG issues will be in a better position to handle these challenges create value going forward.

ESG and Board implications : Stakeholders are exerting huge pressure on the companies to take care of ESG factors and act responsibly. This casts a responsibility on the Board to become conscious and act towards making ESG count in every decision. Due to the growing consensus around ESG performance which is linked to company's value, boards must consider the following aspects for successful implementation and governance of ESG

- Understanding the ESG concept and framework
- Integrating ESG into the company's strategy
- Align risk and ESG considerations
- Assess the company's ESG maturity
- Overseeing the adoption of an ESG framework
- Assure, disclose, and communicate ESG matters

Creating an Agile Board Operating Model : The move towards ESG requires boards to rethink their core operating model and whether they have the agility to respond to a fast-changing environment. This calls for a management Information System which can provide relevant and credible data / information to the Board to embed ESG in Board decisions. This requires the Board to spend time understanding and acting upon the ESG considerations.

Board Committee on ESG: Some companies may consider to specifically delegate oversight of ESG issues to an existing board committee particularly when the focus on the ESG strategy is a relatively new area for the company. The Board may consider an option of constituting a special committee of the Board to oversee sustainability or ESG-related matters. This will facilitate ongoing sand deep deliberations on relevant matters and factors within the ESG domain.

"ESG Governance is becoming a new board standard. Notwithstanding all the reasons for focusing on ESG, the board must first consider its primary fiduciary responsibility — to help govern the enterprise to attain long-term value creation"

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Article

The Value of Third-Party Assurance: There is an imperative need for third party assurance of ESG disclosures to create trust amongst the stakeholders. This will provide necessary check on the efforts of the companies to use ESG as a marketing gimmick.

ESG Reporting: When it comes to ESG, a common thread is, getting public companies to disclose more ESG-related information in a better, more efficient and comparable way. Disclosure plays a key role in allowing investors, and the public in general, to understand and assess the risks and returns of ESG factors and their potential impact on long-term value. The important thing is to be transparent. The company must develop a communication strategy of keeping the stakeholders informed about the steps taken and the achievements in terms of imbibing ESG factors and considerations in decision making.

Conclusion : ESG Governance is becoming a new board standard. Notwithstanding all the reasons for focusing on ESG, the board must first consider its primary fiduciary responsibility — to help govern the enterprise to attain long-term value creation. ESG is a strategic consideration. The choices made now will have long term implications, which will depend upon the sustainability of the organization. In short, boards should take responsibility for ESG matters and ensure they have the right people to implement the ESG Governance and implementation structure.

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