ESG & Climate Oversight in the Spotlight

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Environmental, Social and Governance (ESG) represent three key factors used to assess the sustainability and ethical impact of investments in companies and organisations. ESG criteria are used to evaluate the performance and behavior of companies in these areas, and they have become increasingly important for investors and stakeholders who want to align their investments with their values and contribute to a more sustainable and responsible world.

Climate governance on the other hand specifically focuses on the governance aspects related to climate change. It involves how companies and organisations manage and address climate-related risks and opportunities. Climate governance includes the development and implementation of strategies to mitigate greenhouse gas emissions, adapt to climate change impacts, and promote sustainable practices. In the last couple of years, we have seen developmental issues such as the pandemic escalate and elevate ESG discussions in the boardroom. In two separate surveys with IOD Ireland and Spencer Stuart respectively, respondents indicated that their board level of ESG has increased significantly post covid compared to pre- Covid.

In the context of ESG and climate governance, companies and organisations are expected to demonstrate a commitment to environmental sustainability, social responsibility, and effective governance practices related to climate change. To attain this, there is a greater responsibility to delegate responsibility of oversight. In our recent ESG report with Spencer Stuart, we asked respondents about ESG oversight. It is becoming clear that ESG is now falling onto the shoulders of the full board.

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Almost half of our respondents (49%) indicated that their board has ESG oversight. Comparatively in a similar report that Diligent Institute conducted with IOD Ireland in 2022, 58% of our respondents indicated that their board has oversight of ESG. This shift is very important as it shows that organisations are increasingly moving away from ESG being just a tick box exercise and now embedded in the overall strategy of companies.

A closer look at the Pillars: What is the oversight strategy by organisations?

What factors should companies consider under environmental factors? Companies should assess and minimize their environmental impact, such as reducing greenhouse gas emissions, conserving energy and water, managing waste, and promoting biodiversity conservation. Our research indicates that most boards globally retain full oversight of environmental related issues. They are also likely to delegate to ESG/Sustainability committees and their Audit committees in that order.

What should companies consider under social factors? Under social factors, Companies should generally consider their impact on various social stakeholders, including employees, customers, communities, and suppliers. This includes promoting fair labor practices, diversity and inclusion, human rights, and community engagement. Our research indicates that most boards globally retain the full oversight of social related issues. However, segregating the data by region, we made some quite interesting findings. Whiles the boards in America are likely to delegate social related issues to the nominating committee, compensation committee and Audit committee; European Boards are likely to retain full oversight of social related issues at board level by far compared to relegating it committee level.

Under governance factors, companies should have strong governance structures and practices in place to ensure effective management of climate-related risks & opportunities. This involves transparent reporting, accountability, board oversight, and risk management strategies related to climate change.

Investors and stakeholders increasingly consider ESG and climate governance factors when making investment decisions. They look for companies that have robust ESG strategies, transparent reporting, and strong governance practices related to climate change. Rating agencies, indices, and frameworks have emerged to evaluate and rank companies based on their ESG performance, providing investors with tools to assess sustainability and climate governance practices.

Regulators and policymakers around the world are also focusing on ESG and climate governance. They are implementing regulations and guidelines to encourage companies to disclose their ESG practices and address climate-related risks. For example, initiatives like the Task Force on Climate-related Financial Disclosures (TCFD) provide recommendations for companies to disclose climate-related risks and opportunities. Overall, ESG and climate governance are vital concepts for promoting sustainability, responsible investment, and addressing climate change. They drive companies to be more accountable, transparent, and proactive in managing their environmental and social impact while ensuring effective governance structures related to climate change. One of the ways that boards can support climate oversight is increasing the competency level of the topic on the board.

Overall, one of the greatest things that Boards can help with climate and ESG oversight is to set measurable targets, develop plans to integrate the goals and providing measurability to stakeholders as to how they are tracking them.

Our recent research on ESG has shown that there is quite a deficit of directors with sustainability and climate backgrounds on Board. Aside from upskilling the board through certifications, there is also a greater need to access the current level of climate awareness. How is the board sensitive to the strategy, risk and climate reputation of the company? After this has been determined, perhaps the next step is to determine the knowledge building of the board on climate. For some businesses, the key is perhaps to appoint directors with climate or sustainability backgrounds onto the board. However, some also advocate for the need to upskill the entire board by going through programs tailored for directors on Climate and ESG. There is not a one size fit all and we asked this question to respondents in our recent report as to what they are doing to address ESG or climate competency on their board. A significant majority of respondents; 29% indicated that they are going through external programs. Another 24% indicated that they are looking to bringing in external consultants. Companies should look deep within, see which strategy better fits their climate goal and address that appropriately. ■

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