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Corporate Governance Framework®

ARTICLE

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LEVERAGING THE "G" IN ESG ASSESSMENTS

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The speed at which governments and regulators are adopting sustainability reporting standards is increasing the pressure in the boardroom. Stakeholders are expecting board members and the c-suite to not only comply with these evolving disclosure requirements, but to embrace the ESG data being collected to minimise risk and drive greater value.

ESG assessments are being used as an indicator of director performance and are increasingly becoming a strong influencer in global capital allocation decisions. Indeed, these assessments have been critical in driving a better understanding of an organisation's sense of purpose and the board's approach to identifying and addressing the needs of the organisation's expanding stakeholder base in securing sustainable value creation. The challenge is that, while many ESG evaluation systems are available, the "G" component of these evaluation systems is often superficial. Many of the governance aspects of these assessments are frequently no more than glorified board evaluations with assessment questions being limited to board composition, independence and diversity. In some cases, the roles and responsibilities of directors and the effectiveness of their decision-making may also be tested. However, the reality is that a much broader and deeper assessment of governance across the organisation is required for stakeholders to be able to derive real value from the measurement of the quality of governance as reported by these ESG evaluations.

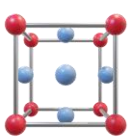
A robust governance framework should help the c-suite to proactively perform SWOT analyses and monitor improvements to the organisation's governance environment - it should be a management tool rather than just a disclosure obligation. For the board, the governance framework outcomes should stimulate insightful questions and opportunities to offer wise counsel (supporting the "nose in, hands off" approach).

Overall, the governance assessments should aim to provide data - substantiated by evidence - to help the board and management lead ethically and effectively, driving integrity, competence, responsibility, accountability, fairness, and transparency across the organisation (in line with the principles of the King IV™ Report).

Arguably, a poor "G" rating should raise red flags about the reliability of the outcomes of the "E" and the "S" evaluations. Without good governance, how does the board (and other stakeholders) derive comfort that the strategies being deployed to achieve the "E" and the "S" strategic objectives are indeed being implemented as planned and that they are having the desired impact?

The extent to which the board and the c-suite leverage the organisation's governance framework (and its resultant governance assessment data) can ultimately be a differentiator in driving sustainable value creation. The depth and breadth of the governance assessment can shape the context and provide the deeper insights necessary to robustly engage on critical strategic actions, anticipate and mitigate emerging risks, and successfully navigate the organisation through volatile and uncertain times.

Boards and the c-suite should reconsider the application of their governance assessments to ensure that these evaluations deliver meaningful and sufficiently comprehensive data to enrich decision-making across the organisation. A more holistic approach makes good business sense.

Stakeholder grouping	Driving value creation	Mitigating risk
Shareholders 	• More attractive investment profile • Long-term capital and dividend growth prospects • Improved efficiencies • Exponential innovation • Improved transparency and comparability	• Improved reputation management • Increased business resilience
Employees 	• Clear sense of purpose and organisational values • Stronger sense of belonging and engagement • Increased productivity • Ability to attract high calibre talent • Clearer job-transition and development opportunities • Improved employee wellness • Improved accountability and consequence management • Clearer and more objective definition and measurement of KPIs	• Improved employee retention rates • Lower cost of recruitment • Fair, equitable, diverse, and safe work environment
Regulators 	• More comprehensive inputs into policy formulation • Maximising market development	• Stronger compliance environment and culture • Lower risk of penalties and fines

Stakeholder grouping	Driving value creation	Mitigating risk
Customers, suppliers, public 	• Improved quality of products and services • Improved customer satisfaction • Improved social cohesion and brand loyalty • Maximising community growth Increased awareness and transparency of sustainability (ESG) impacts • Enhanced social justice • Increased accountability	• Reliability and predictability Reputation management • Maintaining social license to operate • Minimising greenwashing allegations • Clear mitigation plans for resource depletion, stranded assets, and other environmental impacts

Figure 1: Broader stakeholder benefits of more comprehensive governance assessment reporting

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