



The G in ESG



What is the G in ESG?



Much of the focus of the ESG debate has been on the 'E' and the 'S'. However, without the 'G', the commitments or activities in these areas risk never being followed through by the organisations that make them. You could almost say the 'G' is the glue that holds it all together and ensures that real change is delivered.

Governance as a concept is an old one and certainly predates ESG. Governance is about ensuring organisations are well-run, it is about how **decisions** are reached and **policies** made. Good governance means everyone has clear responsibilities, and that organisational processes exhibit both **transparency** and **accountability**. Some of the biggest corporate crises we have seen have been the result of poor governance: decisions being made without thought as to the accountability the organisation has to its stakeholders, or made in the hope no one will ever discover what the organisation has decided to do. **Ethics** plays a vital role in guiding decision-making and ensuring organisations are mindful of their responsibilities to society.

Poor governance will almost certainly be behind the decision of a company to advertise its products to be sustainable when they are not, or to have a poor health and safety record that puts its people at risk. Examples such as these have seen the 'G' being firmly added to the E and the S.



Recent ESG Regulations and Trends



The ESG landscape is rapidly evolving, with new regulations and trends emerging that communications professionals need to be aware of (see 'E' guide):

EU Corporate Sustainability Reporting Directive (CSRD): This directive, effective from 2024, significantly expands sustainability reporting requirements for EU companies and non-EU companies with substantial EU operations.

SEC Climate Disclosure Rule: The U.S. Securities and Exchange Commission is finalising rules that will require public companies listed in the US to disclose climate-related risks and greenhouse gas emissions. This represents a major shift in U.S. corporate reporting but expect to see a change to this given the new Trump administration.

Biodiversity and Nature-related Disclosures: Following the COP15 agreement, there's an increasing focus on biodiversity reporting. The Taskforce on Nature-related Financial Disclosures (TNFD) framework is gaining traction and we can expect to find organizations needing to report soon in this area also.

Social Factors Gaining Prominence: While climate has dominated ESG discussions, social factors like human rights, diversity and inclusion, and labour practices are receiving increased attention from investors and regulators.

AI and ESG

Artificial Intelligence is being increasingly used to gather and analyse ESG data, presenting both opportunities and challenges for accurate and ethical reporting. Although AI can automate many tasks related to ESG reporting, human judgment is vital for interpreting data and shaping narratives. Communications teams must find a balance between leveraging AI capabilities and applying critical thinking to ensure that automated insights align with the company's values and commitments.

AI Opportunities for Communications Teams

Enhanced Data Analysis and Reporting

AI significantly improves the processing of extensive ESG data from various sources, delivering faster and more accurate results than traditional methods. This allows communications teams to provide real-time insights, monitor ESG performance, and create data-driven narratives, thereby enhancing the credibility and transparency of sustainability reports.

Personalised Stakeholder Engagement

By analysing stakeholder behaviour and preferences, AI enables communications teams to craft targeted ESG messages. This personalisation fosters trust and strengthens relationships with investors, customers, and regulators by delivering content that resonates with their interests.

AI Challenges for Communications Teams

Ensuring Ethical Use of AI

While AI enhances operational efficiency, it raises ethical concerns regarding data collection and privacy. Communications teams must ensure compliance with data protection regulations and avoid biases that could lead to misleading reporting. Clear communication about AI usage and adherence to ethical standards is essential.

Transparency and Accountability

There is growing concern among stakeholders about the transparency of AI processes. Communications teams must clearly articulate how AI is utilized in gathering and analysing ESG data, ensuring that methodologies are transparent, and results are trustworthy. Addressing potential AI-related biases and maintaining accountability in reporting is also crucial.

How is governance embedded within an organisation?



① Define the board's role

- The board should adopt a governance charter that clearly defines its roles and responsibilities. The board should ensure that the charter includes a section on ESG governance and that it is aligned with the organisation's ESG goals.
- The board should establish committees to oversee specific areas of governance, such as risk management, compliance, and ESG. The board should ensure that these committees have the necessary expertise and resources to effectively oversee ESG governance.
- The board should hold regular meetings to discuss governance-related matters. The board should ensure that ESG is a regular item on the agenda and that it is given adequate time and attention.

② Establish a system for monitoring performance

- The board should ensure that the organisation has a system for monitoring its ESG performance. This system should include metrics that measure the organisation's progress against its ESG goals.
- The board should review the organisation's ESG performance on a regular basis. The board should use this information to identify areas where the organisation is doing well and areas where it can improve.
- The board should report on the organisation's ESG performance to stakeholders. This reporting should be transparent and accurate, and it should help stakeholders to understand the organisation's ESG commitments.

3 Hold staff accountable

- The board should ensure that the organisation has a system for holding staff accountable for their ESG performance. This system should include clear expectations, regular reviews, and consequences for non-compliance.
- The board should communicate the importance of ESG to all staff. The board should ensure that staff understand the organisation's ESG goals, and the importance of their role in achieving those goals.
- The board should take disciplinary action against staff who violate ESG policies. The board should ensure that staff are held accountable for their actions and that the organisation's ESG policies are respected.

4 Continuously review and refine policies

- The board should ensure that the organisation's ESG policies and procedures are regularly reviewed and refined. This ensures that the policies are effective and aligned with the organisation's changing ESG goals.
- The board should conduct periodic ESG risk assessments. These assessments help the board to identify new ESG risks and to update the organisation's risk management strategies.
- The board should communicate the organisation's ESG policies and procedures to all staff and stakeholders. This ensures that everyone understands the organisation's ESG commitments and how they can contribute to achieving those commitments.

5 Technology and Data Governance

As organisations collect and utilise more data for ESG reporting, it is crucial to establish robust systems and policies to manage this data effectively. Ensuring the accuracy of ESG data and protecting sensitive information are key components of good governance. This includes implementing advanced data governance frameworks and integrating technology solutions that support secure and transparent reporting.

6 Board ESG Competence

The board of directors should not only be well-versed in governance but also demonstrate a clear understanding of ESG issues. Their competence in ESG matters is critical for aligning the organisation's strategy with sustainability goals and ensuring that ESG is embedded across all levels of the organisation.

How do we know if the 'G' in ESG is effective in an organisation?



There are several facets to governance within an organisation. Some of the most obvious indicators of effective governance can be observed by looking at the following:



Mission and values – A company that has a clear mission and values statement that is communicated effectively to its employees and stakeholders is a good indication that the company is being governed properly



Financial reporting and controls - an organisation should have accurate and transparent financial reporting and internal controls in place to prevent fraud and ensure compliance with relevant laws and regulations



Leadership – the responsibility for ESG should be embedded from the most senior person downwards. Senior executive remuneration should be linked to ESG goals. The management teams should exhibit diversity



Transparency – the organisation should be reporting regularly on targets set and progress against targets and be honest when they are not met, and why



Stakeholder engagement – the organisation should have in place a process to ensure accountability to stakeholders. The openness to challenge and transparency should characterise the dialogue between the organisation and its stakeholders



Organisational culture – the organisation should be a psychologically safe space, whistleblowing protocols should be in place, rewards to employees should be fair and equitable, and employees should be clear on the organisation’s ethics and values



Technology and Data Governance – the organisation should have robust systems and policies in place for managing ESG data, ensuring its accuracy, and protecting sensitive information



Board ESG Competence – the board should demonstrate a clear understanding of ESG issues and their relevance to the organisation’s strategy and operations



Good governance in practice



There are two main governance models used by most organisations. The first is Dr. John Carver's "The Policy Governance Model" The Model provides a framework for boards of directors to fulfill their responsibilities to their organisations and stakeholders.

Carver's model is based on a set of ten principles that guide governance behaviour, as well as a set of policies that define the roles and responsibilities of the board and its members. These policies include:

- 1. Ends Policies** - these policies define the organisation's desired outcomes or results, as well as the limits on how those outcomes are to be achieved.

- 2. Executive Limitations Policies** - these policies define the limits of the authority delegated to the CEO and provide guidelines for how the CEO should operate within those limits.

- 3. Governance Process Policies** - these policies define how the board will operate and make decisions, including the roles and responsibilities of the board, its committees, and individual members.

- 4. Board-Management Delegation Policies** - these policies define the board's relationship with the CEO and delegate authority and accountability to the CEO.

Overall, the Policy Governance Model emphasises the importance of clear communication, accountability, and strategic planning in effective governance. The model is widely used in non-profit organisations, government agencies, and for-profit businesses.

Governance should be the golden thread that runs through the organisation from the very top to the bottom bringing everyone along on the journey. For ESG to be effective, sustainability must be at the heart of all decision-making throughout the organisation.

Policy Governance: Four Quadrants

Executive Limitations

How do we empower our leader within boundaries?

Protect and empower

Focused results

Ends

What do we want to accomplish?

Linkage

How does the board relate to the executive team and staff?

Connection

Disciplined excellence

Board Work

How do we work Together?

<https://leadingfromthesandbox.blogspot.com/2018/08/policy-governance-in-church-overview.html>



The second is the three lines of defence model used in corporate governance to ensure effective risk management and internal control within an organisation. The model involves the following three lines:

1. First line of defence:

This line is responsible for managing and owning risks at the operational level. It includes front-line employees and managers who are responsible for day-to-day operations and implementing policies and procedures to manage risks.

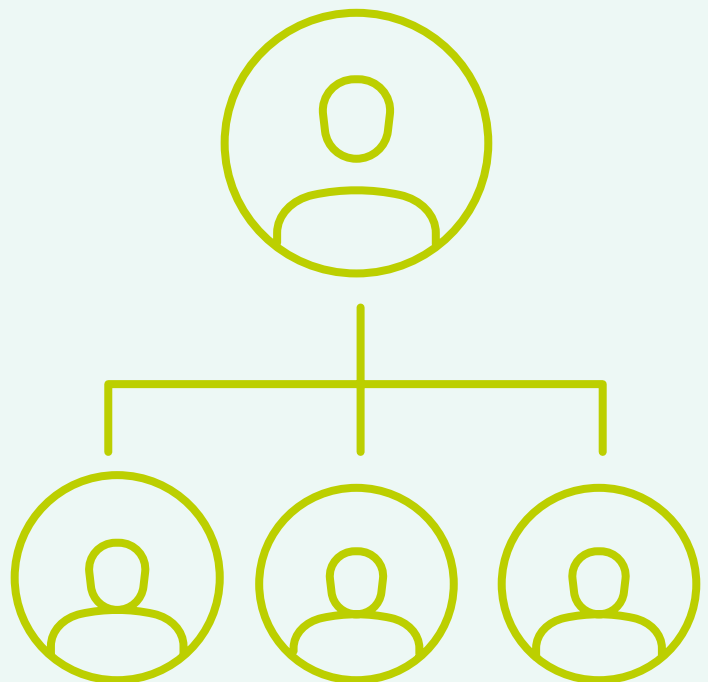
2. Second line of defence:

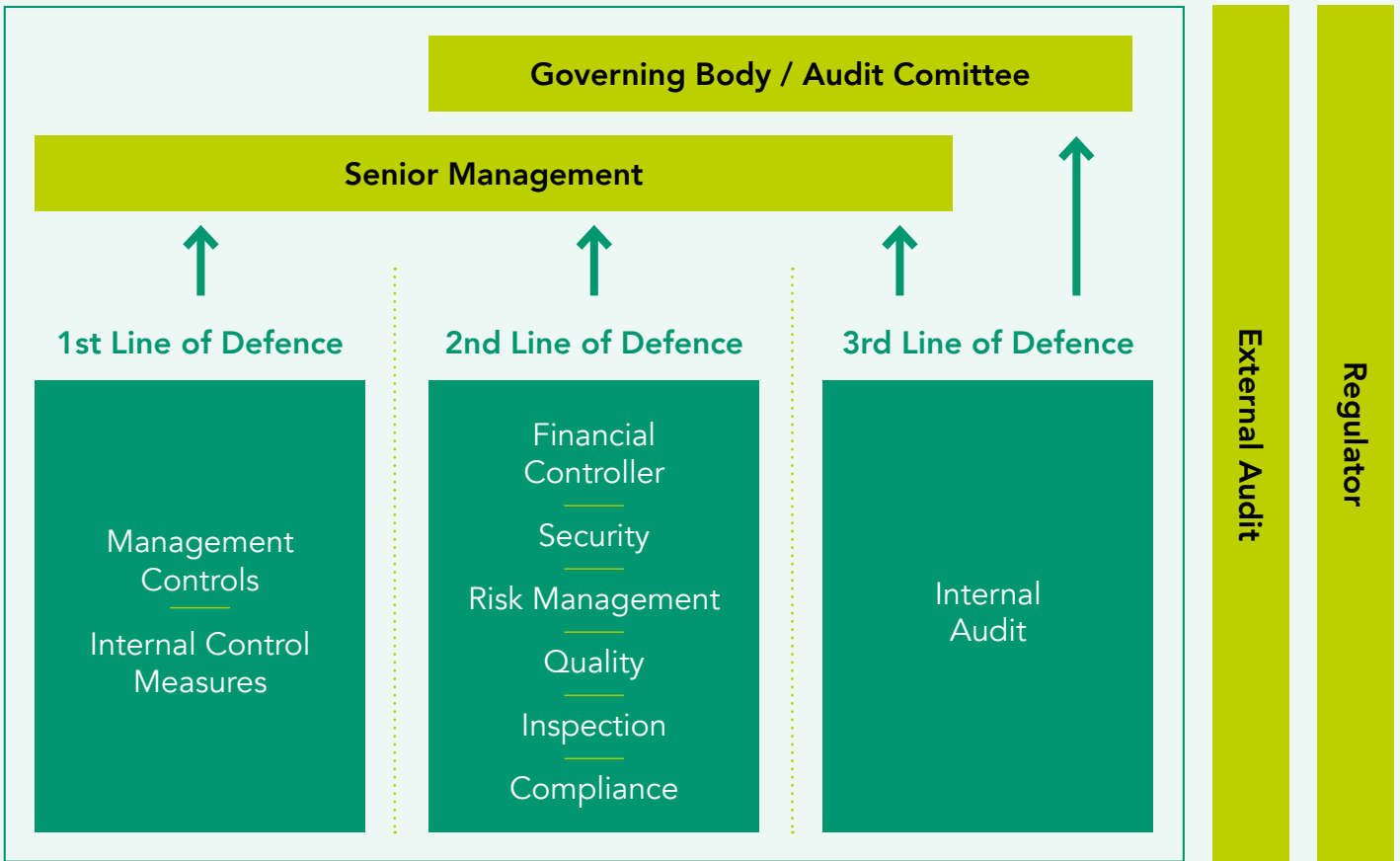
This line is responsible for providing oversight and guidance to the first line. It includes risk management and compliance functions such as risk and compliance officers, internal auditors, and legal and compliance teams.

3. Third line of defence:

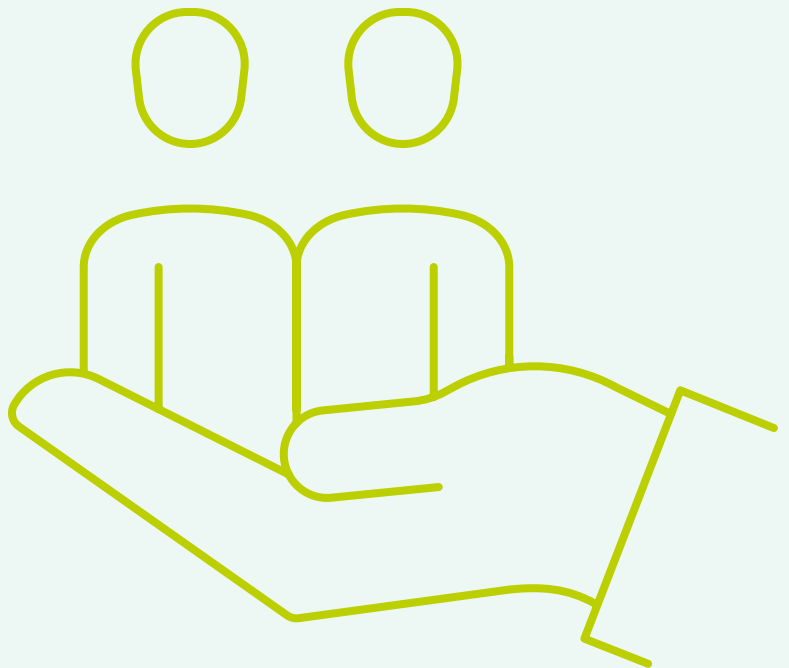
This line is responsible for providing independent assurance and oversight of the first and second lines of defence. It includes internal audit, external audit, and other independent assurance providers.

Overall, the three lines of defence model ensures that there is a clear and effective system of risk management and control within an organisation, with clear responsibilities and accountabilities assigned to each line of defence.





<https://www.theiia.org/globalassets/documents/resources/the-iias-three-lines-model-an-update-of-the-three-lines-of-defense-july-2020/three-lines-model-updated-english.pdf>



Further resources

- https://www3.weforum.org/docs/WEF_Defining_the_G_in_ESG_2022.pdf
- <https://www.thecorporategovernanceinstitute.com>
- <https://www.spglobal.com/en/research-insights/articles/what-is-the-g-in-esg>
- <https://www.unpri.org/> - UN Principles for Responsible Investment
- <https://www.fsb-tcfd.org/> - Task Force on Climate-related Financial Disclosures
- <https://tnfd.global/> - Taskforce on Nature-related Financial Disclosures

Introduction to the ESG Panel

ESG is now, according to the CBI, “at the top of boardroom agendas everywhere”. Organisations are expected and required to communicate and report on their environmental, social and governance activities. The impact for the communication professional working in this environment today is significant. The journey to becoming a more sustainable organisation cannot be managed by one department but the role of public relations will play an increasingly important role.

The CIPR’s Environmental, Social and Governance (ESG) Expert Panel brings together public relations and ESG specialists to articulate and reinforce the role of communications in shaping, delivering and expediting organisational sustainability, while combating greenwashing.

The panel aims to identify and promote the roles and responsibilities of the public relations professional, support the industry with continuing professional development and understanding of ESG and build key networks between stakeholder groups and markets.

Contributors to this guide

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Gihan is the award-winning CEO & Founder of CommUnique, the ESG Strategy and Communications Advisory Firm. CommUnique is B.Corp certified making it the first Arab, female-founded organisation to be certified in Europe.

She is the recipient of the UK's "CEO of the Year" award, recipient of "The top black leaders in the UK to watch" award, and one of the most influential "40 over 40" communications professionals in the world according to Campaign Magazine and is LinkedIn Top ESG Voice 2023. She is an equity growth Board advisor to B.Corp UK and Money 20/20, mentor on Accenture's Fintech Lab Innovation and is the Chartered Institute of Public Relations Director of ESG Communications Training.

Prior to founding "Communique" Gihan led some of the largest ESG diversity and employee change communications departments including BP Workplace Sustainability, Barclays Internal audit, HSBC Asset Management, M&S HR, and the Riyadh Metro Project.

Chris Tucker

Since leaving Barclays where she was Director of Public Relations, Chris has set up her own PR consultancy working with clients in several different sectors – from fintech to overseas development to crisis management and ESG. She also provides training in media relations, financial PR and crisis communication. Chris is a Course Leader for the Chartered Institute of Public Relations (CIPR) Diploma. She also developed and leads the CIPR's Crisis Communication Diploma and Chairs the CIPR's Crisis Communications Network and is a member of the CIPR's ESG Panel.



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