



# The G in ESG



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# What is the G in ESG?



Much of the focus of the ESG debate has been centered on the 'E' and the 'S'. However, without the 'G', there is a risk that the commitments or activities in these areas will not be 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.

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.



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# 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.

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### 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.



# 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 and cascade 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

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# Good governance in practice



There are two main governance models used by most organisations. The first is Dr. John Carver’s “Policy Governance” model. It provides a framework for boards of directors to fulfil 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.

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- 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.

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- 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.

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

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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.

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**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.**

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## Policy Governance: Four Quadrants

### Executive Limitations

How do we empower our leader within boundaries?



### Ends

What do we want to accomplish?

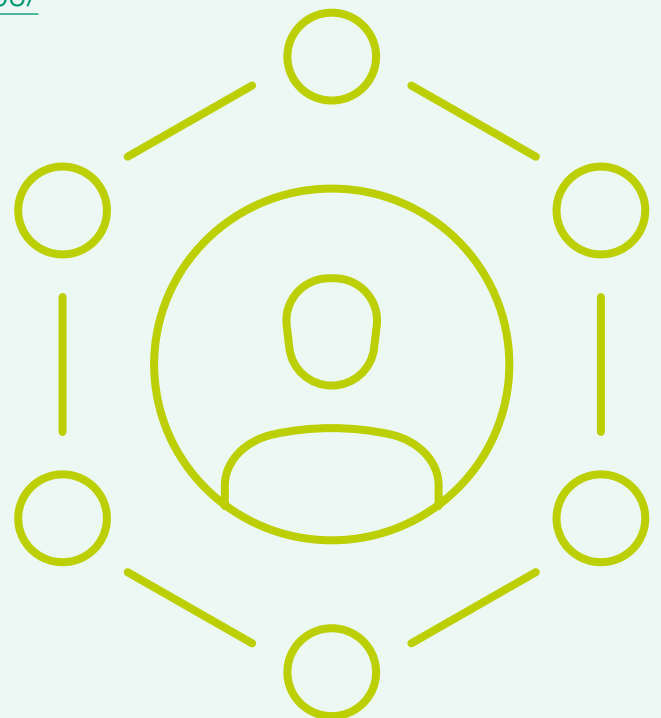
### Board Work

How do we work Together?

### Linkage

How does the board relate to the pastor and staff?

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



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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.

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**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.

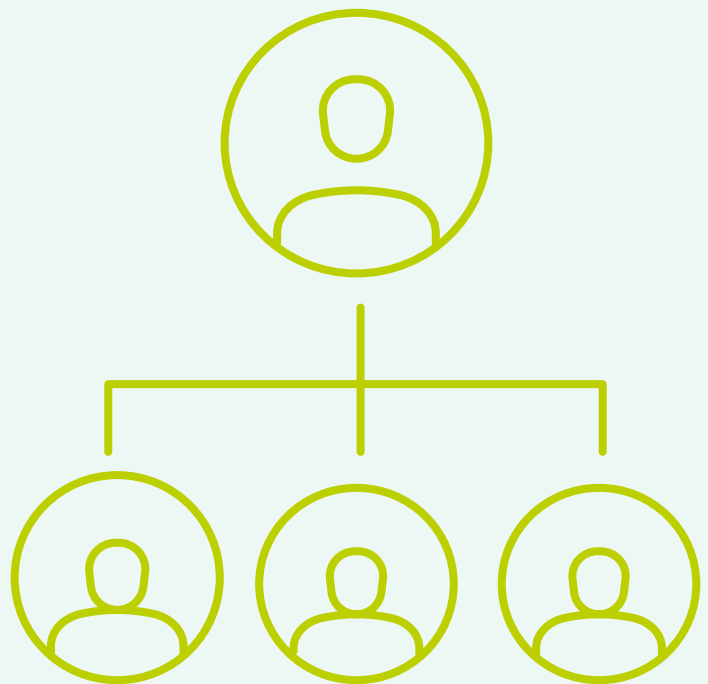
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**3. Third line of defence:**

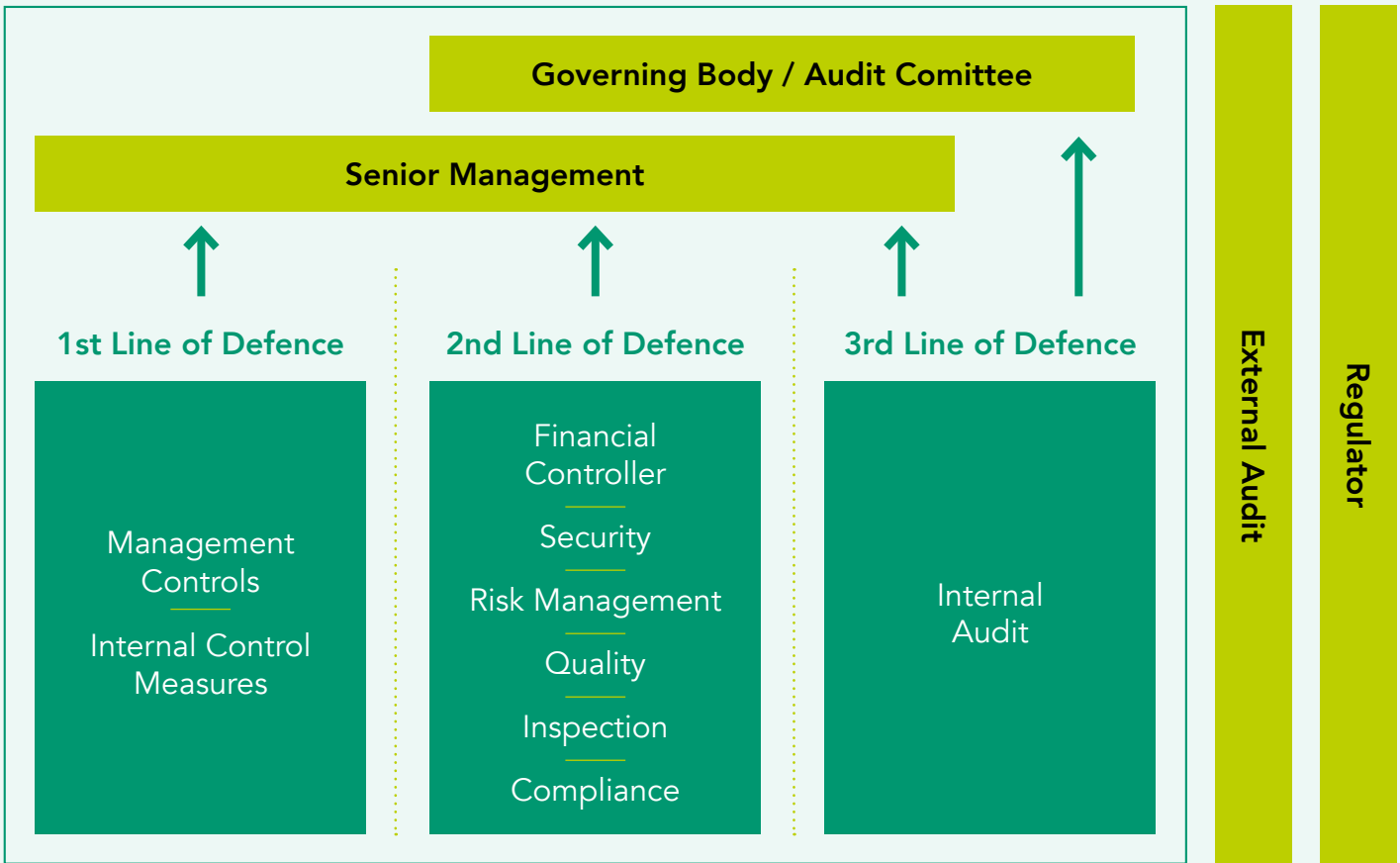
This line is responsible for providing independent assurance and oversight of the first and second lines of defence. It includes internal audit, external audit, and other independent assurance providers.

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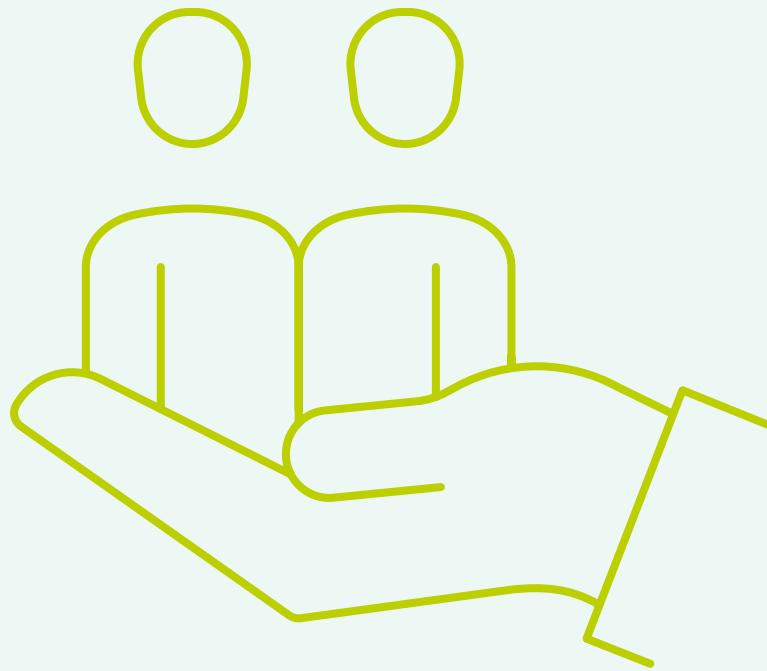
Overall, the three lines of defence model ensures that there is a clear and effective system of risk management and control within an organisation, with clear responsibilities and accountabilities assigned to each line of defence.







<https://www.iaa.org.uk/resources/audit-committees/governance-of-risk-three-lines-of-defence>



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## Further resources

- [https://www3.weforum.org/docs/WEF\\_Defining\\_the\\_G\\_in\\_ESG\\_2022.pdf](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>

## Introduction to the ESG Panel

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 will bring 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.



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## Contributors to this guide

### **Gihan Hyde**

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.

### **Laura Sutherland FCIPR Chart.PR FPRCA**

Laura is a senior strategic communication advisor and innovator. After running her own consultancy, Aura, for 15 years, Laura has been enticed back into agency as development director at 3x1 Group, using her big picture thinking and bringing decades of expertise and contacts to the business.

Her portfolio is primarily corporate and spans aquaculture, finance and sustainability. Issues and crisis management is a fundamental part of client work as is integration of communication across businesses and organisations.

Laura leads the CIPR's Fellows Forum, is Chair of the PRCA's Climate Communication Group and a member of the CIPR's ESG Panel. She's also a former CIPR Board Director and Council Member.

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