

What about the 'G' in ESG?



The concept of ESG (Environmental, Social, and Governance) has been gaining momentum in recent years. Companies' stakeholders demand greater accountability and transparency from businesses as to their impacts on society and the environment. Investors and society are increasingly forceful in their efforts to hold companies – *and their boards* – responsible. Hence, the C-suite should ask themselves – **What about the 'G' in ESG, do we know what lies ahead?**

Transitioning to a (more) sustainable Governance operating model has far-reaching implications. It means new regulatory obligations and reporting regimes, but first and foremost it is a strategic imperative beyond mere compliance. Incorporating ESG considerations into risk management, decision-making, operations, board leadership and company culture will be instrumental in driving the business' sustainability transition.



In the process of undertaking an ESG transformation, the risk management framework stands out as a crucial element for governance considerations. Companies need to consider how ESG-related risks and opportunities should be embedded into processes to ensure efficient and effective risk management and oversight. Governance factors driven by policies and practices that a company has in place, drive ethical behavior, transparency, and accountability.

The World Economic Forum has also stressed the importance of effective corporate governance for ensuring that ESG translates into concrete action. In their report¹ they state that *"in addition to being one-third of the ESG equation, the G is also foundational to the realization of both the E and S. Behind each breach of a company's environmental or social commitments lies ineffective corporate governance, be it inadequate anti-corruption practices, perverse incentive structures, contradictory lobbying activity, or ill-equipped leadership. Further, corporate governance affects the integrity of ESG disclosures, determining whether ESG indicators are ethically pursued and reported."*

¹ https://www3.weforum.org/docs/WEF_Defining_the_G_in_ESG_2022.pdf

The responsibility for the oversight of ESG matters lies firmly with the Board of Directors. They are ultimately accountable for the long-term success of the company, and it is important as part of corporate governance to embed ESG into strategy, risk management and

decision-making. Therefore, companies on the ESG transformation journey require strong ESG leadership and Board members with adequate experience and expertise to engage 'meaningfully' on ESG issues and lead the transformation journey.

How we identify where our clients are on their journey to comply with G



Recognizing that a one-size-fits-all approach may not be suitable, it becomes imperative to examine the existing organizational structure and risk management framework to determine what aligns best with the company's unique needs. This examination involves evaluating the company's maturity on ESG risk management, their ESG ambition and commitments, and ESG leadership. An important question to ask is: **'Is our current risk management framework ESG considerate?'**

Basically, all components of a company's risk management framework will need revision to incorporate ESG risks. ESG factors need to be embedded in the company's internal governance. Determining who will own various ESG-related activities and processes, how the reporting and communication will flow, and how the culture will be driven are among the first steps to be taken to achieve a robust governance foundation. When revising and enhancing the elements of the risk management framework, it is a good practice to iterate through the entire cycle several times for further development and refinement. Depending on your organizational structure and the maturity of your governance and risk management framework, the revising process can be time-consuming and complex.

At KPMG, we have supported several companies with building an effective risk management strategy that properly addresses relevant ESG governance risks relating to their businesses. The mission is to embed ESG governance factors within the existing risk management framework to ensure it becomes fully incorporated in the strategy, decision-making processes, as well as within the culture of the company. KPMG can help you with identifying ESG opportunities for your company and assist with embedding ESG in your risk management and governance frameworks.

Let's be part of the sustainability transition!

Click [here](#) for details on our ESG service offering and meet our ESG experts



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