

Embracing ESG in the board: A strategic imperative

Board Leadership Centre



In recent years, the global business landscape has undergone a transformative shift, with an increasing emphasis on environmental, social, and governance (ESG) factors. This paradigm shift reflects a broader recognition that businesses are not only economic entities but integral parts of a global ecosystem with substantial responsibilities to the environment, society, and ethical governance. ESG and sustainable development are crucial factors in responsible business practices, and long-term value creation. Therefore, it is important to understand the strategic imperative of embracing ESG at a board level, through exploring the complex dimensions of this and the implications for long-term success.

The emergence of ESG as a strategic imperative

ESG considerations have shifted from a compliance checkbox exercise to a strategic necessity, driven by consumer preferences, investor expectations, and global challenges. This evolution is reshaping how companies operate, with consumers prioritizing ethical practices and investors recognizing the impact on financial performance. The urgency to address ESG impacts is heightened by ongoing global developments, such as climate change, social inequality, evolving governance standards and the need to ensure sustainable business practices for long-term success. Boards can respond by actively embracing ESG in decision-making, moving beyond passive acknowledgment. This proactive approach positions organizations for sustained success in a business environment valuing ethical, sustainable practices. Furthermore, stakeholders are increasingly looking for companies to boost their ESG maturity by incorporating ESG-related processes and controls. This includes integrating stakeholder considerations and ESG priorities into corporate strategy and disclosures.

Setting the ESG agenda

Boards play a pivotal role as guardians of the organizational strategy, influencing the future direction of the company. The core of this responsibility involves aligning ESG goals with the fundamental aspects of the company, its mission, values, and long-term vision.

The board's responsibilities surpass routine decision-making; it plays a pivotal role in seamlessly integrating ESG considerations into the overarching corporate strategy. This integration signifies a departure from viewing ESG as a standalone initiative, positioning it as a vital component of the company's identity. By aligning ESG goals with broader organizational objectives, the board not only ensures compliance but also cultivates a culture where sustainability becomes a guiding principle for strategic decisions.

Fundamentally, the board's strategic vision and commitments are crucial in incorporating ESG considerations into the core of the company's purpose and future direction.

Oversight and accountability

In the complex landscape of ESG integration, the board plays a vital role in overseeing the shift from aspirations to tangible actions. To successfully integrate ESG considerations into broader business practices, it's crucial for the Board to maintain robust governance mechanisms. Boards, as custodians of corporate governance, bear the responsibility of ensuring that ESG strategies move beyond ambitious thinking to active implementation. This stewardship extends to holding management accountable for executing ESG initiatives, involving continuous performance reviews, rigorous evaluation of risk mitigation strategies, and fostering a corporate culture of transparency and accountability.

ESG risks: Beyond compliance

In risk management, addressing ESG-related risks requires more than just compliance; it requires a proactive understanding of how ESG factors impact the organization. It goes beyond meeting regulatory standards, driving a strategic approach to anticipate and tackle potential challenges. Boards play a crucial role in actively identifying, assessing, and managing ESG risks, aiming to safeguard the company from reputational damage and operational disruptions. Boards can lead the way for an organization that not only meets regulatory standards but also positions itself as resilient in the face of the evolving ESG landscapes, ensuring sustained success and responsible corporate citizenship.



Engaging with stakeholders: A collaborative approach

The success of an ESG strategy hinges on active engagement with key stakeholders, shareholders, employees, customers, and the broader community. Boards play a pivotal role in fostering transparent communication to comprehend expectations, address concerns, and integrate valuable feedback into decision-making. This collaborative approach ensures that the ESG strategic direction aligns with both external stakeholders and internal organizational values. By nurturing a culture of open dialogue, boards guide a strategic direction that meets evolving stakeholder expectations and solidifies the organization's commitment to sustainable and responsible business practices.

Shaping the company culture

The board leads a cultural shift toward sustainability, responsibility, and ethical behavior within the organization, which is crucial for effective ESG initiatives. By instilling values prioritizing ESG considerations, the board establishes a culture aligned with its ESG objectives. Focusing on sustainability and ethical behavior ensures successful ESG integration, positioning the organization as a responsible corporate citizen committed to enduring values.

Transparent reporting

Transparent communication is vital for effective ESG governance. Boards must ensure stakeholders receive clear insights into the company's progress and the impact of ESG initiatives. This commitment to transparency is crucial for building trust and enhancing the organization's reputation. By providing clear information, Boards foster openness and accountability, meeting stakeholder expectations and establishing the organization as trustworthy. Through transparent communication, boards showcase ESG governance and contribute to cultivating a positive perception, reinforcing the organization's commitment to ethical and sustainable practices.

Embracing ESG at the board level

Embracing ESG is vital for boards as it aligns with a broader shift toward responsible business practices, ensuring long-term value creation and sustainable development. Boards play a critical role in integrating ESG seamlessly into organizational strategy, fostering a culture of accountability and transparency. Their considerations encompass setting ESG agendas, providing oversight, managing associated risks, engaging stakeholders collaboratively, and fostering a cultural shift toward sustainability. By prioritizing ESG, boards position organizations as ethical and sustainable, meeting stakeholder expectations and navigating a business landscape where ESG is not merely a framework but a guiding principle for resilience and purpose-driven success.

Navigating ESG integration: Key considerations for the board

To embrace ESG at the board level, the following points can be considered as a starting point for driving sustainable development from the board level.

ESG oversight:

- Evaluate the need for an individual or committee at the board level responsible for ESG/climate change.
- Consider whether ESG oversight should be managed by a dedicated committee or integrated with existing committees.
- Reflect on the potential establishment of a board-level ESG/sustainability committee or a management-level committee.

ESG integration:

- Consider strategies for defining and embedding an ESG-centric culture within the company's core.
- Assess the effectiveness of existing processes and systems in identifying and aligning emerging risks with long-term ESG oversight and strategy.
- Explore avenues to enhance oversight of broader workforce diversity, equity, and inclusion across all corporate functions.

References

- [ESG Governance: Board and Management Roles & Responsibilities](#)
- [The Board's Role in Sustainability](#)
- [A board member's guide to ESG](#)
- [Building ESG expertise in the boardroom](#)
- [Board Oversight of Sustainability and ESG](#)
- [Understanding the Board's ESG Mandate](#)
- [Sustainability in the Spotlight: Board ESG Oversight and Strategy](#)

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