

ESG Literacy and Competency for directors

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Worthwhile read for: Executive members, Board members

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You can't open a paper or an online news feed without reading some mention of ESG. Whether it's new tech to help gamify sustainable investment, an ASIC Information Sheet addressing greenwashing on emissions reduction commitments; or reports that the ESG wave has peaked (which it hasn't) - everyone has an opinion. Amongst all this noise, it's easy to get confused about where to start your corporate ESG journey and how to execute it well. This article provides guidance on how to start your director ESG journey.

Isn't it just for 'dirty' industries?

The short answer is no. Whilst certain sectors have a heavier carbon footprint, that is only part of the ESG equation. Every organisation will have a social and environmental impact within the community it operates in. ESG is more than climate change, greenhouse gas emissions reduction and fossil fuels, though they are a very critical part of the sustainability challenge.

The ESG acronym intersects with every human activity and thus there are many opportunities to communicate your organisational purpose, as it relates to sustainability, to your stakeholders. Another way of approaching the issue is to think - *planet, people, profit*.

Opportunities create value and this is where boards who actively engage with sustainability can look long term to secure enterprise value in an uncertain future. There are also many risk exposures such as a physical risk (adverse weather events) and transitional risks (loss of markets or investors). Those directors who hope the 'ESG trend' will fade away will be disappointed and left behind. Whilst there will be differing areas of focus for different industries and stakeholders, sustainability is something every board will need to address.

Unpacking the acronym

ESG is a nebulous term, and it has been appropriated to apply to everything from ethical investing and funds management, to community enrichment programs, to green hydrogen. It is up to your organisation to define what environmental and social governance means for your stakeholders. For example, a restaurant and catering business might choose to focus on sustainable produce and supply chains as the key tenant of its ESG strategy. Whereas, a delivery business might adopt a strategy of clustering suburbs to reduce vehicle mileage and emissions and then seek to communicate this with customers to secure their support - even if it means they might experience a slight delay in delivery. Of course, manufacturing or resource industries have a different profile and impact and would adopt a more comprehensive strategy focussed on emissions and social impacts.

With ESG, the governance part of the acronym is key to every organisation. Without effective governance, organisational ability to capture opportunities and avoid risks is significantly diminished. As with any aspect of organisational success, effective governance forms the bedrock of stability and if lacking, your board is ill equipped to embark on an ESG strategy. If your governance is still maturing, this is where we suggest your board starts, whilst also looking ahead to ESG and other challenges. Setting governance to one side, this article focuses on the environmental and social aspects of ESG.

Approaching your ESG journey

There is no one size fits all strategy to buy off the shelf, but the good news is there is a process to follow which will assist in creating a structure around your ESG strategy. However, a warning to directors, organisations which jump straight to reporting are setting themselves up to fail because they will be basing reports on assumptions and best guesses. At Effective Governance we work with boards and management to establish a structured ESG governance framework. Taking a holistic approach, the process starts with impact analysis and data gathering to understand the baseline data and to provide accurate information to work with. If there is an absent understanding of environmental and social impact and the extent of that impact, any strategy and reporting is based upon assumptions and with the heightened regulatory focus on greenwashing by ASIC, it poses an unnecessary risk.

Stakeholder mapping and input is also a key component in preparing for strategy development. Once the ESG strategy has been adopted, it must be integrated with the organisational strategy, and boards need to consider KPIs linked to this strategy. In addition, resourcing the execution of the ESG strategy and integrating responsibility across the whole of organisation is critical to success. Then follows measuring performance through gathering data (on agreed metrics) to report against agreed KPIs. Preparing the first ESG report will involve verifying data sources and truth to compare against baseline data, as well as considering what is included in the publication. Organisations which are transparent about what might not have gone so well and lessons learnt, will find themselves building trust with customers investors and regulators.

What next?

The key to the acquisition of any new knowledge is curiosity. Directors with a growth mindset will avail themselves of opportunities to learn about environmental and social issues, the impact of these and to test management on organisational performance and opportunities. If your board would like to start their ESG journey, please contact our [Corporate Advisory and Governance team](#).

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