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Crafting the 'G' in ESG: Accountability in the Boardroom

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As investment in environment, social and governance (ESG) gains momentum, investors and stakeholders increasingly expect swift and concrete sustainability initiatives from companies across the globe. But boards have lagged behind the ESG fervor. While 40% of directors were found to be ESG conscious with some level of knowledge in the space, only 8% of board directors were found to be competent and capable of effective, embodied action, according to a 2021 study of the top 100 public corporations internationally.

We recently considered the evolving perspectives in ESG, as well as tools and strategies for boards to meet the ESG expectations of their stakeholders.

ESG investment has skyrocketed in recent years. According to the Forum for Sustainable and Responsible Investment, the leading voice in sustainable investing across all asset classes, ESG investments grew 42% in just two years, rising to a total of $17.1 trillion in assets under management.

In addition, President Joseph Biden recently signed The Inflation Reduction Act into law, which will provide tax credits for clean sources of energy, accelerate clean energy production and provide funding for clean energy technology that could have reverberating effects across industries.

With these developments in mind, we believe that an effective ESG strategy should be long-term, sustainable and designed to accomplish each company's individual goals. We suggest three key guidelines for boards to consider when making an effective ESG plan.

What Gets Measured Gets Managed

Gathering verifiable ESG data is a helpful starting point for boards to begin considering investor demands. In a survey done by Boston Consulting Group (BCG), 90% of companies did not measure their emissions correctly, with over half estimating an error rate of 40%.

Boards may also consider using ESG reporting software to help companies efficiently navigate and publish their ESG data to various stakeholders. The BCG survey found that 86% of companies still record and report their emissions manually using spreadsheets. ESG reporting software can simplify the process of ESG data capture, engagement, oversight and disclosure.

Measuring stakeholder needs is another important board initiative. Not every company is the same, and stakeholders in each company will find different ESG metrics relevant across different businesses. Companies can survey stakeholders and consider their perspectives to help inform the company's ESG strategy.

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