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ESG GOVERNANCE: SIX WAYS FOR BOARDS TO LEAD THE SUSTAINABILITY TRANSITION

Practical insights from experts

SUMMARY

Accountancy Europe in cooperation with Chapter Zero Brussels, ECIIA and ecoDa published *ESG Governance: Six ways for boards to lead the sustainability transition (2024)*. We interviewed board members and sustainability experts to learn from their experience in implementing the sustainability transition in their organisation. The paper draws on these conversations and provides advice and examples to support and inspire other board members. It complements *ESG Governance: questions boards should ask to lead the sustainability transition (2023)*.

1. ASSERT YOUR LEADERSHIP ON SUSTAINABILITY

Organisations' sustainability transformation requires leadership through strategic direction, awareness building, and engagement throughout the organisation. This can entail shifts in the company's strategy, vision of the future, risk management, and governance practices including how the CEO and management lead and set examples. This is why the sustainability effort starts with the board, as the driver of an organisation's culture and practices.

> "*I see the mindset problem as the biggest challenge in ESG implementation. It starts with leadership."*

Many boards and their companies need a mindset change to fully understand the impacts of climate change, environmental crises and societal challenges on the company and the company's own impact on these factors.

Boards' competencies must also evolve to include environmental, social and governance (ESG) skillsets to understand how sustainability can impact the company's financial performance.

2. BREAK DOWN SILOS

Sustainability transformation is a cross-company issue. However, many companies are still organisationally silo based. The big challenge is how to get the sustainability mindset to every department and team. That is why it is so important to start from the top.

> "*There is a danger that the sustainability office is seen as the 1st line for sustainability just like product management is the responsibility of a product manager. But sustainability is not done just by the sustainability office – it should be done by absolutely everyone. It is pivotal to get people to understand that the sustainability office does not own sustainability. This is something that the whole organisation and every individual must embrace and deliver, and it is about behaviour and corporate values."*

3. MAKE MOST OF THE EXECUTIVE AND SENIOR MANAGEMENT

Although board oversees the strategic direction and decisions of organisations, they are advised, and their decisions are implemented by executives and management. The CEO and the management thus play a crucial role in rolling out the company's ESG efforts such as setting targets, driving the desired culture and behaviour, measuring, and reporting on ESG performance.

> *The board should guide, accompany, support, and make sure that the CEO acts. The CEO and the board will need to decide how much time, budget, and resources need to be dedicated to the sustainability effort. Similarly, as with the creation of a new product or service line, there needs to be a clear sense why we are doing it, how it will benefit us and what the risk is if we do not do it."*

Board members must have the courage to not only question and challenge the management, but to also ask questions that may appear simple or even ignorant.

4. CONSIDER STAKEHOLDERS AS STRATEGIC PARTNERS

Boards should be more rigorous in trying to understand different stakeholders' expectations and to enable making informed, strategic decisions.

> *Stakeholders can help discover issues that company board or its management did not even think of". Therefore, they try to bring the stakeholders' voice closer to the board - "listening to stakeholders is an important part of the double materiality assessment, which can bring enormous value to the organisation's strategic thinking."*

5. APPROACH THE MATERIALITY ASSESSMENT AS A STRATEGIC TOOL

The double materiality assessment is a huge opportunity. It gives companies a view on their competitive advantages and can help position themselves strategically. Boards will play a key role in overseeing the company's material sustainability impacts, risks and opportunities. This means boards need to approach the double materiality assessment as a tool to inform strategic direction rather than simply for reporting or compliance purposes.

Boards are encouraged to be mindful that double materiality assessment is not just a matter for the management team, internal auditors and risk managers but also for themselves and external auditors.

> *Boards need to be aligned about what is material, what is critical, what needs to be reported. Therefore, the board needs to consider having this discussion between these parties."*

6. PREPARE FOR CHALLENGES, TRADE-OFFS, AND DIFFICULT DISCUSSIONS

Integrating sustainability considerations systematically is a challenge for many companies.

> *It's a challenge to ensure ESG is not seen as an optional extra, but as absolutely core to the values and strategy. Otherwise, there is a danger that ESG is seen just as a compliance project."*

That is why aligning financial and ESG KPIs is crucial.

> *Companies usually split financial and sustainability KPIs. However, the real discussions start when you try to connect them and set the targets." These discussions are only a starting point towards a bigger cultural and mindset change and the board's role is to keep a long-term perspective, which includes sustainability and ESG matters."*

The trade-off between short term operational pressures and the long-term strategic perspective is one of the key issues for boards. However, if one does not manage their business for the long run, they won't be in business in the long run.