

# Is ESG still the foundation for long-term success?

## Following recent rhetoric, where is Governance in ESG?

Regardless of the recent rhetoric around some elements of Environmental, Social, and Governance (ESG), it is still an important consideration of corporate strategy. The days of viewing governance as a mere compliance function are long gone. Today, governance is an integral part of long-term business success, particularly as the world grapples with opposing opinion and unprecedented social, environmental, and economic challenges. It is governance that provides the necessary framework for organisations to manage these challenges in a way that aligns with stakeholder expectations, regulatory requirements, and societal needs.

Notwithstanding the doubling down on anti-ESG sentiment from some in the US, many companies across Europe and the rest of the world continue to embrace ESG as a central pillar of their operations, and governance stands at the very heart of this. Strong governance is no longer only about avoiding scandals, mitigating risks, or ensuring legal compliance. For many companies and their shareholders, it is seen as a driver of sustainable business practices, long-term resilience, and ethical conduct. In this thought paper, we explore how governance plays its part within the ESG framework and how organisations can embed strong governance practices to build the foundation for long-term business success.

### The Changing Role of Governance in ESG

Historically, governance was primarily concerned with the internal structures and processes that ensured compliance, risk management, and operational effectiveness. However, with the rise of ESG, governance has evolved to include a much broader scope. It's no longer just about protecting the organisation's assets, mitigating risks or regulatory compliance; governance has become a strategic tool for embedding ethical values, social responsibility, and environmental stewardship into the very DNA of a business.

Governance provides the scaffolding necessary for businesses to address the complex, interrelated challenges presented by ESG factors. The environmental impact of a company, its treatment of employees, its engagement with local communities, and its corporate culture, are all influenced by the governance structures in place. Without strong leadership and oversight, even the most well-intentioned ESG efforts can falter, failing to align with company objectives or stakeholder expectations.

### Governance as the Cornerstone of ESG

As ESG considerations become more intertwined with financial performance, governance is the linchpin that holds everything together. In the context of ESG, governance helps businesses navigate and manage the increasing pressure to balance sustainable financial growth with social and environmental responsibilities. Effective governance ensures that organisations adhere to the highest standards of responsible business, transparency, accountability, and long-term value creation.

### A company with robust governance structures is better equipped to:

**Align its ESG goals with strategic objectives:** Governance ensures that ESG considerations are integrated into the company's long-term vision and strategy, not treated as a secondary or isolated concern. This alignment helps businesses identify ESG risks and opportunities early on, facilitating initiative-taking and decision-making that supports sustainable growth.

**Ensure accountability and transparency:** Governance frameworks provide mechanisms to track progress, report performance, and hold leadership accountable for meeting ESG targets. Transparency in reporting and decision-making builds trust with stakeholders, ensuring that the organisation's actions match its values and commitments.

**Manage risks effectively:** ESG risks, whether related to environmental sustainability, human rights, or corporate governance, are often complex and multi-dimensional. Strong governance structures ensure that these risks are identified, managed, and mitigated systematically. For example, effective governance can help mitigate climate-related risks by establishing clear policies for emissions reduction or implementing oversight mechanisms to track compliance.

**Drive ethical decision-making:** Governance frameworks help establish a company's ethical guidelines, ensuring that decisions at every level of the organisation reflect core values related to fairness, social responsibility, and sustainability. Leaders and boards of directors play a critical role in promoting these values, influencing everything from supply chain practices to executive compensation.

### Governance and the Future of ESG

As we have witnessed over the past few months, the importance of governance in the ESG space is inextricably tied to evolving global trends and political changes, regulatory shifts, and investor expectations. We may see regional variations in approach where organisations in certain jurisdictions may reduce their emphasis in this area, whilst those in other regions, who embrace ESG, may continue to invest and adopt. In these regions we will still see governance playing a critical role in how companies implement and manage their ESG strategies.

Governance has always been closely tied to regulatory compliance, but in Europe we see a rise of new ESG regulatory frameworks emerging that require businesses to disclose their environmental and social impact. Laws and guidelines such as the EU Corporate Sustainability Reporting Directive (CSRD), The Corporate Sustainability Due Diligence Directive (CSDDD), and the Task Force on Climate-related Financial Disclosures (TCFD) require businesses to integrate sustainability into their governance practices and report on their ESG performance in a standardised way.

## Asesoria's comment

Regardless of your political leanings, it is governance that provides the framework for embedding sustainability, transparency, and accountability into every aspect of business operations. As opinion may polarise for the time being, it is strong governance that will help organisations navigate the complexities of ESG challenges, while remaining focused on long-term value creation.

As the ESG debate continues, businesses must recognise that governance is not just a compliance issue, it is a strategic imperative. By embedding strong ESG governance practices, businesses can build resilience, foster stakeholder trust, and position themselves for long-term success in an increasingly interconnected and politically volatile world. In the end, effective governance is the foundation upon which sustainable and successful businesses are built.

For leaders aiming to strengthen governance within their ESG framework, here are some things to consider for ensuring that governance is not just a compliance function but a strategic asset that propels long-term growth:

### **Align ESG with Business Strategy**

Governance structures must seamlessly integrate ESG objectives with overall business goals. Leaders should ensure that ESG is not treated as a standalone initiative but as part of the company's core strategy. Making ESG a standing agenda item at board meetings and integrate key performance indicators (KPIs) tied to ESG measures into executive compensation plans to incentivise alignment with company-wide objectives, is a good way to ensure this happens.

### **Build a Strong Governance Framework**

A solid governance framework ensures that ESG principles are implemented consistently and effectively across the business. This includes creating clear roles and responsibilities, setting ethical guidelines, and ensuring that systems are in place to monitor and report on ESG progress. To support this, establish a dedicated ESG oversight committee or a Chief Sustainability Officer (CSO) or Virtual CSO role to ensure that ESG practices are aligned with governance structures and are being effectively executed.

### **Embrace Transparency and Reporting**

Stakeholders increasingly demand transparency when it comes to ESG performance. Clear, honest, and detailed reporting helps businesses build trust, attract investors, and demonstrate a commitment to accountability. One way to do this is to adopt globally recognised reporting standards like GRI, SASB, and TCFD to standardise and communicate your ESG goals and outcomes. Ensure that your ESG reports are accessible to all stakeholders, highlighting both successes and areas for improvement.

### **Foster Ethical Leadership Across the Organisation**

Good governance starts at the top. Ethical leadership sets the tone for the entire organisation, creating a culture of integrity, accountability, and responsibility. Leaders should function as role models for ESG practices, making sure they are aligned with both internal values and external regulations. Look to implement leadership training programs on ESG and governance issues to ensure that decision-makers at all levels understand the importance of ethical practices and the role governance plays in driving ESG success.

### **Be Agile in Adapting to Regulatory Changes**

As ESG opinion and regulations evolve, companies must remain agile and ready to adapt to new approaches and legal frameworks. Governance structures should be flexible enough to quickly respond, ensuring regulatory compliance, whilst continuing to stay aligned to business values. Ensure you stay informed and up to date on local and global regulation related to ESG and periodically review the governance framework to ensure it remains aligned with the latest requirements.

### **Create a Culture of Continuous Improvement**

Governance should never be static. It is essential for businesses to create a culture of continuous improvement where ESG practices are regularly reviewed, updated, and enhanced. This mindset ensures that the company remains resilient and capable of handling emerging risks and opportunities related to ESG. By conducting annual reviews of ESG governance practices it can identify gaps, challenges, and areas for growth. Ensure you engage employees, stakeholders, and external experts in the review process to gather diverse perspectives and foster innovation.

### **Final Thought: Leading with Governance for Sustainable Success**

The key takeaway for leaders is clear: governance is more than just a compliance issue, it is a strategic priority that must be embedded in every aspect of the business. It serves as the structural framework that helps companies navigate the complexities of sustainability, regulatory compliance, and stakeholder engagement.

By following these tips, businesses can ensure that their governance practices are robust, transparent, and aligned with ESG goals, paving the way for sustainable, long-term success, regardless of the current political rhetoric.

