

Waiting for G-Force

Why governance is key to the success of ESG

By Obinna Onyeagoro and Irvind Gujral

In the quest for a more sustainable world, Environmental, Social, and Corporate Governance (ESG) principles continue to be a force for change. But experts in the space warn that success will only be realized when participants focus on G – governance. Without governance from the business sector, no environmental or social goals will be met.

Egon Zehnder gathered a dozen experts in a teleconference to discuss the progress of ESG efforts and what is needed going forward to achieve key goals, particularly in the area of energy and environmental sustainability. Our experts talked about governance and the need for standards and leadership to be ingrained in the ESG process.

“Governance is the foundation for delivering everything, including ESG,” said one participant. “You can’t have influence without it.”

“There is no ESG without the G,” agreed another. People may talk a lot about sustainability, but it’s important to have a structure that measures and reports actual progress. “Targets don’t matter unless you’re monitoring internally.”

The truth is, ESG goals will not be easy to meet. It is a global challenge that demands a lot of effort in a relatively short period of time. Experts say it may take 50 years to achieve a “carbon zero” state, but the journey will be complex. Take infrastructure, for example, said one teleconference participant. If 16 percent of today’s emissions are from transportation and 16 percent are from the steel industry, how are we going to replace those elements in our global infrastructure process?

To make any progress on ESG, businesses will need to embrace the need for corporate governance, including leadership and a standard of reporting and measuring results.

However, don’t make it the purview of a Chief Sustainability Officer, warned one expert. “The assignment of a Chief Sustainability Officer takes the pressure off the CEO and CFO, who should be responsible for this and knowledgeable about it.”

Another participant suggested ESG become part of the Chief Risk Officer’s portfolio. “I would call ESG a core function of risk – it’s a first degree of risk,” she said.

All the participants agreed that ESG needs stronger standards of reporting. “One portfolio company I worked with reported in two different ways, one resulting in a net positive and one in net negative,” he said. “From where I sit, the biggest frustration is the standardization of reporting. To get an understanding and foster knowledge, we need to standardize the approach and get it past the accounting standard. But it’s a bit wishful thinking, because different industries have different data that they are reporting.”

But another participant encouraged companies to take that effort upon themselves. “There are standards if you want there to be,” she said. “There are ways to track yourself against your KPIs.” If the will is present, the measurement possibilities are available, she said.

Ultimately, progress at this stage will be measured by individual companies and sectors stepping up to embrace the process. It is a global challenge that is, at the end of the day, quite personal. “We all have to be our own Chief Sustainability Officer,” said one.

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Covid-19 Micro-Website

We have launched a micro-website where this and other informative pieces are posted. This site will be regularly updated: [click here](#) for further details.

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