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An ESG enhanced-Agile Corporate Governance Framework for Better Business Resilience amid Uncertainty

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ABSTRACT

The novel coronavirus has wreaked havoc on the ecology on a never-before-seen scale. The situation has been unpredictable, with exposure to risk varying significantly across industries, countries, and operational methods. Complex supply networks and global travel have exacerbated these concerns. Organizations with an agile and transparent system have been able to reconfigure and realign during this period of uncertainty. This demonstrates the essential nature of ESG to a business's resiliency. It entails rethinking and redefining strategy and operational procedures to increase and maintain profitability. Integrating ESG considerations into a broader plan can help a firm improve its performance and competitiveness.

As ESG integration becomes more prevalent in business, ESG elements will play a critical role in generating long-term value. Prioritizing stakeholders and creating long-term value is only possible when the entire organization is aligned with the ESG agenda. Additionally, one may note that an organization's road toward sustainability is a slow and pleasant process. Sustainable design to assist firms in managing the risks and opportunities associated with climate change is essential. This paradigm enables businesses to integrate ESG considerations into their strategy, operations, and value chain. Additionally, it helps firms to create comprehensive governance and risk management mechanisms. Organizations can benefit from both natural and intangible benefits associated with this approach, including brand positioning, long-term value-oriented business resilience, market differentiation, and operational efficiency.

Organizations can establish systems and procedures to improve their entire value chain's environmental, social, and governance performance. The highest layer includes vision, mission, and goal planning, emphasizing rigorous governance for risk management and strategy development with appropriate targets and metrics. The second layer is implementation, which includes a detailed implementation roadmap and a list of activities associated with integrating the ESG strategy. The structure's bottom layer is measurement and communication, which focuses on effectively monitoring and conveying ESG performance to various stakeholders.

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Before the COVID-19 epidemic, ESG issues were frequently viewed as a trade-off between good impact and investment objectives. The epidemic has presented the financial sector with an opportunity to control risks, boost returns, and construct a robust economy capable of long-term value generation in the face of crises. ESG funds outperformed traditional indices throughout the pandemic, and ESG characteristics emerged as significant indications of resilience.

Keywords: *Environment Challenges, ESG Strategy, Risk Management, Governance, Business Resilience, Boardroom Dynamics, An Ideal ESG Framework.*

I. INTRODUCTION

As organizations navigate changes brought in by globalization, technology, society, and consumer behavior, incorporating Environment, Social, and Governance (ESG) elements into their core strategy may help create long-term value. ESG covers a broad range of challenges, from human capital and remuneration to climate change, deforestation, water and waste management, and supply chain management. Several of these concerns are interconnected, and many are ever-changing. The significance of ESG concerns varies significantly by industry, size, geographic scope, corporate activities, and business strategy. Due to the breadth of issues that could be included under the term "ESG," company-specific variations, a lack of investor consensus on preferences and priorities, and the dynamic nature of this area, determining how to effectively oversee ESG issues and develop and implement an effective ESG governance structure can be problematic. Simultaneously, ESG issues are being discussed more frequently in boardrooms, and many firms are seeking more board oversight and management accountability for business-relevant ESG challenges.

II. ESG GOVERNANCE IN THE PRESENT PANDEMIC SCENARIO

The pandemic of COVID-19 has compelled businesses and executives to reassess and reframe their definitions of success. Environmental, social, and governance (ESG) issues have risen to prominence as stakeholders want firms to take a more active role in addressing social and economic concerns.[2] As a result, businesses have worked to adapt to, recover from, and strengthen their resilience to the changing environment. CEOs are redoubling their efforts on transformation goals to develop the capabilities necessary to succeed in the post-COVID era, including ESG and supply chain management. CEOs are focused on building trusted, purposeful organizations that address significant social concerns in the middle of health and humanitarian crises. Along with crisis management, CEOs prepare their organizations for long-term growth and success.

While COVID-19 has wreaked havoc on societies and economies, the world is also becoming aware of another menace with far-reaching economic and humanitarian effects. Before COVID-19, climate change reached the top of leaders' agendas worldwide, as seen by the World Economic Forum's 2020 annual conference in Davos, Switzerland. Over a dozen national governments have committed to achieving net-zero carbon emissions by 2020. China, the world's largest emitter of carbon dioxide and responsible for roughly 28% of global emissions, aspires to establish carbon neutrality by 2060. Apart from the physical consequences of climate change, businesses across all sectors are experiencing the economic consequences of the worldwide transition to a low-carbon, net-zero economy.

The ESG space has continued to grow significantly, with investors, regulators, and consumers more aware of and concerned about ESG issues. Investor demand for increased ESG-related disclosure and data is increasing, even in the middle of the epidemic. In Hong Kong, the Hong Kong Stock Exchange's (HKEX) recent announcement of additional ESG disclosure standards is only one of several rules and efforts to promote market development.[3]

Investors are more interested than ever in how companies respond to changes in the economic, social, and environmental landscapes and manage the risks and possibilities associated with those changes.[4] Companies, in turn, must offer the information necessary for investors and other stakeholders to evaluate their performance. This is accomplished through improved corporate reporting, which ensures that the financial markets recognize the benefits of ESG management.

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[2] Total Societal Impact: A New Lens for Strategy - BCG Global. https://www.bcg.com/publications/2017/total-societal-impact-new-lens-strategy

[3] What kind of experience is it for Zhihu to return to Hong https://www.hcfashioner.com/ss69nxcrfeyczrxm7gblnvy3vbn5vddb/

[4] May 2019 - Sustainable Finance. https://sustainablefinanceblog.com/2019/05/

III. Effective ESG governance

ESG is increasingly recognized as a critical issue for businesses, extending beyond charitable concerns and playing a significant role in firms' continued success. Numerous ESG issues, such as climate change, pose risks and opportunities for businesses. As with other financial and operational factors, the Board is expected to exercise effective governance over ESG matters by strengthening oversight, proactively managing ESG risks and opportunities, and fostering ongoing dialogue about ESG issues within the company and with various stakeholders.

Sound ESG governance enables businesses to effectively manage and capitalize on various ESG risks and opportunities for the company's long-term growth. As the company's highest governance authority, the Board should assess the efficacy of its existing governance structure and processes for resolving ESG concerns to provide proper oversight of its critical ESG challenges.

IV. Guiding principles for the proper governance of ESG issues by the board of directors

- Accountability for ESG issues at the board level: - As the ultimate governance authority, the Board is accountable for managing ESG-related risks and opportunities and ensuring resilience in future disruptions in the business landscape caused by ESG issues. Failure to comply with this requirement may constitute a breach of the directors' duty.[5]
- Subject-matter mastery: - Given the breadth of ESG issues, the Board should consider whether its composition is sufficiently varied in terms of expertise, skills, experience, and background to facilitate meaningful conversations and make informed decisions regarding potential ESG threats and opportunities.
- Structure of the board: - Consider how ESG factors can be included in the board's structure and committees. There is no one-size-fits-all structure for all businesses, but it should focus adequate attention on ESG issues and connect the Board and management.
- Assessment of material risks and opportunities: - Ascertain that management regularly examines the materiality of ESG risks and opportunities for the company on a short-, medium, and long-term basis. It enables the company to take actions commensurate with its ESG materiality.

[5] NYC Council Requires Human Services Contractors to Enter .... https://www.littler.com/publication-press/publication/nyc-council-requires-human-services-contractors-enter-labor-peace

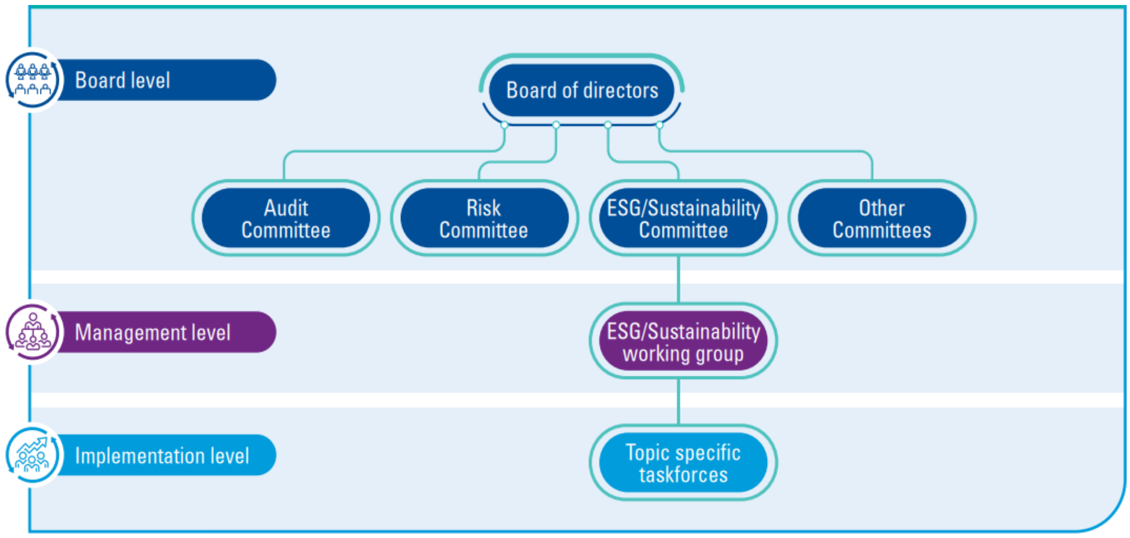
- Integration of strategic and organizational objectives: The Board should ensure that ESG is systemically integrated into strategic investment planning and decision-making processes and risk and opportunity management.
- Incentivization: - The Board should consider adding ESG targets and indicators in executive incentive plans to ensure that management's motivations are aligned with the company's long-term prosperity. Where appropriate, a similar strategy can be extended to non-executive directors.
- Disclosure and reporting: - Significant ESG risks, opportunities, and strategic decisions should be transparently and consistently disclosed to all stakeholders (particularly investors and regulators). These disclosures should be provided in financial files, such as annual reports and accounts, and should adhere to the same disclosure governance standards as financial reporting.
- Exchange: - The Board should engage in regular exchanges and discussions with peers, policymakers, investors, and other stakeholders to foster methodology sharing and stay current on ESG risks, regulatory obligations, and other developments.

V. An ideal ESG governance framework

A well-structured organization ensures that ESG issues are included in planning and execution at all levels of the organization and that the Board receives sufficient and pertinent ESG information via an established management reporting relationship. At the Board level, a specialized ESG committee might be formed to aid in the systematic oversight of critical ESG concerns. Daily management is delegated to a management-level working group, which reports to the committee on the company's ESG performance regularly. For important ESG issues, specific task forces comprised of subject matter experts may be established to facilitate more focused and in-depth discussion and management.

Environmental, social, and governance (ESG) management will become an intrinsic aspect of the overall corporate strategy. Through well-crafted ESG strategies, organizations will harness business opportunities, mitigate risk, and work to overcome social and business obstacles. Additionally, organizations will design a company-wide strategy that cascades to individual businesses and functions with clearly defined goals and objectives. They will periodically evaluate and analyze their ESG sustainability targets and communicate them to relevant stakeholders via various communication channels. By incorporating ESG and exposing risks to stakeholders, businesses may become more resilient and capable of navigating catastrophes with good governance.

VI. STEPS TO BE TAKEN



- ✓ Examine the present Board structure to determine how ESG problems can be addressed during ordinary Board or subcommittee meetings.
- ✓ Either includes ESG responsibilities into existing committees or establish a separate committee to address the issue.
- ✓ Conduct a review of the Board's composition and succession planning to ensure that ESG expertise is included.
- ✓ Consider bringing in outside counsel for unique perspectives and ideas to keep the Board informed about ESG trends and enable informed decision-making.
- ✓ Recognize how management identifies substantial ESG issues and their implications for finance, efficiency, risk management, strategy, and long-term performance.

- ✓ Collaborate with management to identify metrics and key performance indicators that enable the Board to monitor management's performance against established objectives.

VII. Conclusion

The structure and processes that a business establishes to oversee ESG issues will vary depending on many factors, including the size and complexity of its operations (including its supply chain and whether operations are international), its industry, the magnitude of the company's ESG risks and opportunities, the degree to which ESG issues are central to the company's strategy, and the level of director expertise on relevant ESG issues.[6] Corporates should ensure that ESG issues are discussed routinely on the Board of Directors, clarify the Board's oversight roles, and improve information flow.

ESG practices can assist corporations in becoming more resilient by preparing them for the impact of new crises and aiding them in maintaining sound governance, risk management, and control systems. Additionally, it is critical to guarantee transparent and high-quality communication and reporting on ESG performance to earn and maintain stakeholder trust in the current context.

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[6] CA APM Environment Options - Broadcom Inc.. https://techdocs.broadcom.com/us/en/ca-enterprise-software/it-operations-management/application-performance-management/10-7/ca-apm-sizing-and-performance/ca-apm-environment-options.html

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