

OVERTURE

ESG?

THE DEATH KNEEL OF ESG?

NARRATIVE OF GLOOM

THE CHALLENGE

There is much in the public debate about the demise of ESG. Fidelio has a strong track record on advising **Boards** on stakeholder expectations and accountability to stakeholders; we therefore remain close to this issue.

In the **US the rift between Democrat and Republican States** on the environment and diversity issues has attracted much attention. In the UK, the **Corporate Governance Code refresh** has been subject to a rethink prioritising competitiveness over ESG red tape. Equally, politicians seem to be getting cold feet across the world about promoting green agendas; and a number of high profile investors have raised questions about **whether the framework for ESG** is the right one.

THE BUSINESS IMPERATIVE

Ironically, this political and regulatory reversion comes at a time when many companies and Boards are working through major transformations and committing substantial investment and resource to ESG aligned strategies. Fidelio's Board composition and evaluation assignments indicate that Boards are paying more, not less, attention to ESG.

Some of this may well be driven by regulation and shareholder scrutiny but much of it is driven by

sound commercials and good business:

- **Environment** - there is a recognition that climate change is a factor that no business can afford to ignore, and as such requires investment and strategic direction. Companies are being required to disclose transition plans, and many businesses are approaching this in a structured and deliberate way. **Business leaders clearly flag the need for good regulation.** However, as early as COP26 we saw business no longer waiting for governments to reach agreement and as such being prepared to take key steps even in the face of regulatory uncertainty. However, Boards are also acutely aware of the importance of a just transition, and this is where government clearly needs to lead.
- **Society** – here too Boards are devoting time and understanding to ensure a positive impact on society, as well as accountability towards employees. A few years ago, there may have been grumbling about regulatory pressures to increase diversity; today high-calibre Boards will be much more diverse across a number of dimensions. There is recognition that embracing diversity gives access to the widest range of talent, enhances decision-making and avoids groupthink. ED&I matters hugely to employees; greater diversity also enables businesses to engage better with customers and the community. Effective Boards understand that paying attention to the "S" in ESG matters greatly for the licence to operate.
- **Governance** - occasionally Board Members profess to enjoying all aspects of Board work, except for governance which is perceived to be cumbersome. A much more dynamic understanding of governance is, however, rapidly evolving. Here governance is recognised to be an important part of the value equation taking account of shareholder and stakeholder expectations and contributing to risk oversight, as well as setting ambition and enabling opportunity. The value that good governance brings is evidenced by the fact that private companies are voluntarily adopting practices traditionally mandated for their listed peers. This includes independent search processes to identify Board talent beyond a narrow network and external evaluations to enhance Board effectiveness.

THE NEED FOR ESG

A SUSTAINABLE FUTURE

Business has clearly recognised the benefit of a coherent approach to delivering value for both shareholders and stakeholders.

While ESG may seem to be on the back foot, in practice what we are seeing is the rubber hitting the road. In the initial glow of enthusiasm much of the low hanging fruit has been picked. Now both business and society are facing the more complex, at times seemingly intractable, issues.

This is where robust thinking is required, not box ticking. It is in this phase of embedding, while also critically challenging, ESG that good Boards are adding value.

As environmental, geo-political and economic uncertainty increases so too does the importance of Board horizon scanning. An effective Board will be able to link horizon scanning to strategy formation which in turn translates into meaningful parameters and frameworks for the executive leadership. This is effective governance, which needs to take account of the environment and externalities, not because it is mandated but because it makes good business sense.

Whether ESG is the right acronym or not, business understands the need for legitimacy and trust. While some investors and politicians may indeed be wobbling, good businesses are comfortable with long-term decision-making and an effective Board will understand materiality.

ESG or not, business cannot sidestep the key societal and environmental issues of the day. Business cannot flourish at the expense of society or the environment. It's far too early for the death knell of ESG.

ABOUT FIDELIO

FRESH PERSPECTIVE

Fidelio Partners builds and evaluates Board capability aligned to value. Our approach is recognised to be thoughtful and to bring independent perspective. We bring deep insight into shareholder and stakeholder expectations of the Board which informs our advice. Practically Fidelio supports Chairs in Building Better Boards and navigating complex challenge through:

- Effectiveness – Evaluation / Development
- Alignment – Strategy / ESG / Engagement
- Composition – Board and Executive Search / Diversity and Inclusion

To learn more about how Fidelio can support your Board, please get in **touch**.

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BUILDING BETTER BOARDS

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