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Does ESG garner enough attention from your board?

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More investors are using environmental, social, and governance (ESG) risk metrics in their investment decision-making processes, which means boards need to become better educated in ESG and sustainability reporting. Beyond the societal demands for a more equitable, transparent, and inclusive system; the imperative to reverse global warming; and the moral necessity to deliver racial justice, companies have plenty of fiduciary reasons to take notice of ESG and the expectations that corporations will be forces for good in society.

Regulations are emerging to mandate boards take into account ESG issues when making decisions and when reporting; failure to do so could result in litigation or damage to the company's reputation. For instance, the Securities and Exchange Commission approved rules requiring companies to report on their "human capital."[1] Countries and states have passed laws mandating reporting on climate change,[2] diversity and inclusion,[3] privacy protections,[4] and other measures normally associated with ESG. There is also a push to harmonize frameworks and standards governing ESG globally, and that is likely to lead to additional reporting requirements.

These trends mean that boards need to engage more with investors to comprehend which metrics are a priority to them—to not only ensure their company is aligning with its long-term strategy, but to avoid unforeseen issues, said Ty Francis, chief advisory officer at LRN.