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EU Regulatory Frameworks for ESG Integration: Assessing Legal Mechanisms and Their Influence on Corporate Governance

Research dissertation presented in partial fulfilment of the requirements for the degree
of LLM in International Commercial Law

Law School, Griffith College Dublin

Paula García Diéguez

2024

CANDIDATE DECLARATION

Candidate Name: Paula García Diéguez

I certify that the dissertation entitled: EU Regulatory Frameworks for ESG Integration: Assessing Legal Mechanisms and Their Influence on Corporate Governance

submitted for the degree of: LL.M in International Commercial Law is the result of my own work and that where reference is made to the work of others, due acknowledgment is given.

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TABLE OF CONTENT

<i>LLM DISSERTATION COVER SHEET</i>	2
<i>CANDIDATE DECLARATION</i>	3
<i>ACKNOWLEDGEMENTS</i>	4
<i>LIST OF TABLES</i>	7
<i>ABBREVIATIONS</i>	8
<i>ABSTRACT</i>	9
1. INTRODUCTION	10
1.1. Methodology.....	12
1.2. The Purpose of this study.....	13
1.3. Research Questions.....	13
1.4. Objectives.....	13
1.5. Limitations.....	14
2. BREAKDOWN OF THE CONCEPT OF ESG	19
2.2. Social.....	23
2.3. Governance.....	28
3. BENEFITS OF HAVING A STRONG ESG CULTURE	31
4. PRINCIPLES AND PRACTICES OF GOOD CORPORATE GOVERNANCE	33
5. ANALYSIS OF KEY LEGISLATION AND DIRECTIVES	38
5.1. NFRD.....	41
5.1.1. Obligations imposed under NFRD.....	41
5.1.2. The transposition of the NFRD into domestic law.....	43
5.1.3. Replacement of the NFRD with the CSRD.....	44
5.2. CSRD.....	45
5.3. SFDR.....	49
5.3.1. Actors subject to the SFDR.....	49

5.3.2.	Obligations imposed under the SFDR	50
5.3.3.	Obligations imposed by the SFDR at the product level.....	51
5.3.4.	Application of the SFDR	52
5.4.	EU Taxonomy Regulation	53
6.	IMPORTANCE OF ESG INTEGRATION IN CORPORATE GOVERNANCE	55
7.	ROLE OF THE BOARD OF DIRECTORS	56
8.	BOARD SUPERVISION OF ESG MATTERS	64
9.	CASE STUDIES.....	66
9.1.	Patagonia.....	66
9.2.	TotalEnergies	68
9.3.	Enron.....	69
10.	CONCLUSION.....	73
	BIBLIOGRAPHY.....	77

LIST OF TABLES

Table 1: Summary of the history of ESG.....	18
Table 2: Examples of environmental practices.....	20
Table 3: Examples of social practices.....	23
Table 4: Examples of governance practices.....	28
Table 5: NFRD vs CSRD.....	46
Table 6: Financial products categorized by the SFDR.....	50

ABBREVIATIONS

AGM	Annual General Meeting
AIFM	Alternative Investment Fund Manager
CEO	Chief Executive Officer
CO2	Carbon dioxide
CSR	Corporate Social Responsibility
CSDDD	Corporate Sustainability Due Diligence Directive
CSRD	Corporate Sustainability Reporting Directive
ESG	Environmental, Social and Governance
EU	European Union
FMPs	Financial Market Participants
FY	Fiscal year
IBIP	Insurance-based investment product
IORP	Institution For Occupational Retirement Provision
NFRD	Non-financial Reporting Directive
NGO	Non-Governmental Organizations
OECD	Organisation for Economic Co-operation and Development
SASB	Sustainability Accounting Standards Board
SFDR	Sustainable Finance Disclosure Regulation
SME	Small and medium-sized enterprises
UN	United Nations

ABSTRACT

This research tries to do a deep comprehension of legal structures and their impact on corporate governance, with a specific focus on the European Union's incorporation of ESG standards into corporate activities. With the growing importance of ESG concerns, the EU has implemented various directives and recommendations to encourage sustainability and ethical behavior within businesses. This study offers a thorough assessment of these EU regulations, examining how they affect corporate governance frameworks and internal procedures.

The study explores various EU rules related to ESG matters, such as the NFRD, the CSRD, SFDR and the EU Taxonomy Regulation assesses their effects on corporate governance frameworks. It investigates the challenges companies face in implementing these regulations and examines the effectiveness of the EU's regulatory strategies in fostering sustainable practices. The importance of EU regulations in molding corporate strategies and promoting sustainability is underscored by the research. By examining how these legal structures impact corporate conduct, the study brings attention to the influence of regulation in encouraging ethical and sustainable business approaches. The results highlight the crucial function of EU rules in harmonizing corporate activities with broader sustainability objectives and improving the overall influence of corporate governance on environmental and social matters.

Finally, this dissertation tends to add knowledge of the impact of regulatory frameworks on corporate governance and sustainability in the European Union. It offers valuable perspectives on the challenges of incorporating ESG standards into business activities and presents a critical analysis of the EU's efforts to encourage sustainable and ethical corporate behavior.

1. INTRODUCTION

This dissertation has been structured in a way that provides a thorough examination of the legal mechanisms and regulatory frameworks within the EU that facilitate the incorporation of ESG standards and how they influence corporate governance. After the introduction, the dissertation presents a comprehensive historical overview of ESG, highlighting the evolution and significance of ESG factors in corporate governance. This provides context for the breakdown of the concept of ESG, which is broken down into three in-depth sections: Governance, Social, and Environmental. Each section focuses on the elements of ESG and how they relate to corporate governance. are then discussed, accentuating the role that strong ESG practices have in creating stakeholder trust and business sustainability. The dissertation's main section, the analysis of key Legislation and Directives, carefully examines important EU laws like the NFRD, CSRD, SFDR and the EU Taxonomy Regulation. This will be followed by the need of integrating ESG principles into company strategies and governance structures. This leads to the discussion of Board Oversight of ESG issues, which examines the role of boards in overseeing the adoption and compliance with ESG. Finally, the dissertation provides valuable findings derived from the analysis of different cases such as Patagonia, TotalEnergies, and Enron that highlight the difficulties and practical applications of ESG rules.

In recent years, ESG issues have gained greater importance as large corporations take on more sustainable responsibilities and individuals perspective become more environmentally conscious. As a result, companies have had to rapidly adjust to European and national level regulations and guidelines addressing various ESG criteria and their integration into company operations. To ensure adherence to ESG governance practices, In order to uphold ESG governance practices, companies need to integrate these standards into their operational and governance frameworks. These guidelines have an influence on several areas of business operations, such as transparent reporting, strategic planning, and board oversight. ESG regulations impact various stakeholders, including investors, employees, customers, and the broader public, as well as the companies themselves.

To retain the trust and backing of stakeholders, companies must go beyond simply meeting these standards; they also must provide clear explanations of their ESG strategy and outcomes. As ESG standards encompass a wide range of areas, their implementation can result

in significant shifts in company strategies, operational procedures and corporate culture. The combination of this will help companies achieve their aims and goals regarding sustainability and ethical governance. The breakdown of the acronym ESG is as follows:

- Environmental standard: Illustrates how the companies operations affect the environment in terms of pollution, the use of natural resources, or CO2 emissions.
- Social standard: explores how companies interact with society, taking into account both external (suppliers, government) and internal (shareholders, employees, and customers) elements.
- Governance standard: It alludes to the collection of rules, regulations, and policies that govern how an organisation is managed. Aspects including board composition and diversity, CEO payment, shareholder rights, transparency, ethics, legal and regulatory compliance, and general company accountability are all included in the category of governance.

Investors are increasingly seeking companies that are both profitable and beneficial to the community in the long term, reflecting a growing understanding of businesses' social and environmental responsibilities alongside financial success. This change is a result of people realising that businesses have social and environmental responsibilities in addition to generating profit. As a result, the inclusion of ESG factors in corporate governance has led to significant changes in how companies conduct business and disclose their operations. In other words, the way companies conduct business and reveal their operations has changed drastically. In order to comprehend the legal frameworks and processes that facilitate this integration, ESG issues must be taken into account. The incorporation of ESG factors into corporate governance processes is becoming more common due to the reliable set of legal mechanisms and laws that the EU has pioneered. At the moment, there is not a law governing ESG as a complete entity, but the EU has implemented legal structures to encourage and promote sustainability, accountability, and transparency in business operations in order to make sure that businesses positively impact social and environmental goals.

The origins of ESG can be identified due to the sustainable development and CSR. At first, the primary criteria employed to evaluate companies were financial ones. Nevertheless, this strategy's deficiencies were made clear by numerous reports of corporate failures and environmental disasters. These incidents have demonstrated how crucial it is for businesses to

adopt a more comprehensive approach and integrate ESG considerations into their regular and day to day business operations. The basis for incorporating CSR into business strategy was laid by the European Commission's "Green Paper: Promoting a European framework for Corporate Social Responsibility," published in 2001. As a result of this framework's evolution, policies and guidelines encouraging ESG integration have been developed.

Moreover, companies benefit in multiple ways from having strong ESG cultures. These include better risk management, improved ability to attract and retain talent, enhanced reputation growth and encouraging innovation. Companies that maintain robust ESG practices are more adaptable and competitive in the marketplace, and better prepared to handle changes in the market and regulations. A company's commitment to ESG can increase its appeal to investors by demonstrating long-term stability and risk management. Environmental considerations have a growing impact on investment decisions made by investors.

Furthermore, it is crucial for the board of directors to actively participate in addressing ESG challenges to guarantee that ESG factors are integrated into the company's strategic planning and decision-making procedures under board supervision, advancement of corporate integrity, and harmonization of actions with ESG commitments. The European Union has played a significant role in establishing a comprehensive framework of laws and directives to encourage ESG integration in companies. The NFRD, CSRD, SFDR, and the EU Taxonomy Regulation are the primary regulatory tools that will be examined in along this dissertation.

1.1. Methodology

This study delves into the incorporation of ESG factors in corporate governance within the context of EU regulations, employing a socio-legal methodology. This method provides a comprehensive understanding of how regulatory frameworks affect corporate governance and practices by blending legal research with socio-economic perspectives in an innovative way.

Implementing a socio-legal methodology is important for several reasons. Firstly, a purely legal analysis may not sufficiently capture the broader implications and practical relevance of ESG legislation in real-world business scenarios. This methodology allows for an examination of how these regulations impact the behaviors, decision-making processes, and overall corporate culture of businesses by incorporating socio-economic perspectives. It emphasizes the practical implementation and challenges of adhering to ESG guidelines by considering the interplay between social norms and regulatory standards. Ultimately, the socio-

legal methodology facilitates an interdisciplinary analysis by integrating insights from business studies, economics, sociology, and law. Understanding the multifaceted nature of ESG integration, including its socioeconomic impact, ethical considerations, and legal compliance, necessitates this comprehensive approach. Through this methodology, the study aims to provide valuable recommendations to stakeholders, corporate leaders, and policymakers on enhancing the effectiveness of ESG regulations and their integration within corporate governance.

1.2. The Purpose of this study

This study aims to examine the legal frameworks and regulatory mechanisms implemented by the European Union and to evaluate the impact of important directives and laws, including the EU Taxonomy Regulation, NFRD, CSRD, and SFDR, on corporate governance practices and structures. It specifically aims to comprehend the ways in which these requirements affect reporting procedures, board supervision, and overall corporate governance frameworks. Furthermore, the research will investigate the challenges that organisations face when trying to comply with regulations and assess how well these rules work to promote ethical and sustainable business practices.

1.3. Research Questions

In order to approach this study and focus it on the aspects I considered most relevant, I have defined a series of questions to have a clear and precise approach to the work. These research questions have been what has allowed me to define and determine the focus and direction of the study.

- What are the key European legal mechanisms and regulatory frameworks that aim to integrate ESG matters into corporate governance?
- What is the impact of these EU regulations in corporate governance structures and practices?
- What challenges might companies face when complying with these ESG rules, and how can these obstacles be mitigated?"
- What lessons about the implementation of ESG legislation can be learnt from case studies of particular companies?

1.4.Objectives

The main objectives of this dissertation are:

- To analyse and evaluate the principal EU directives and legislation related to ESG;
- To assess the potential effects of these regulations on corporate governance and organisational processes;
- To identify and examine into the challenges businesses face when implementing ESG requirements into practice;
- To provide analysis and suggestions based on case studies of specific companies.

1.5.Limitations

In the course of my research, I have encountered several limitations. Firstly, as this study focuses solely on the primary EU regulations, it may not encompass all the relevant legislation concerning ESG. ESG practices are also influenced by various other regulations, directives, and industry-specific rules. Due to this narrow focus, there is a possibility that the regulatory landscape may be incomplete, potentially overlooking significant laws that impact business compliance and behavior. Secondly, obtaining accurate and up-to-date information on how businesses adhere to ESG laws might be challenging. Individuals may not have access to comprehensive data on organizations' compliance or ESG performance, and the information available may be imprecise or inconsistent. This limitation could affect the thoroughness and accuracy of the analysis, making it difficult to assess the overall effectiveness of the rules or form solid judgments on their impact on business activities. Finally, companies vary greatly in size, industry, and resources, which influences how they implement ESG requirements. Large international corporations may have dedicated departments and abundant resources for ESG compliance, while smaller businesses may struggle due to limited resources and experience. This variability may limit the broad applicability of the results compared to if the data were specific to certain industries or company sizes.

2. ESG HISTORICAL BACKGROUND

As already introduced, the term ESG, refers to a set of measures that are used to assess and evaluate the social and environmental impact of an organisation. Due to the sustainable problems in the environment, society, and the financial market, international organisation and

countries worldwide have developed action plans with the main purpose of building a sustainable and comprehensive framework of human society¹. For this reason, the implementation of ESG in the companies has become more important and it plays a fundamental role in companies' decision-making.

Over the course of the 20th century, firms started to embrace equitable and sustainable practices giving rise to the concept of ESG as it is currently known and it started to take shape². Due to social expectations and worries about the environmental impact regarding the business activities, the European Commission published a report in 2001 named “*Promoting a European framework for Corporate Social Responsibility (CSR)*”³. This report highlights the significance of CSR as a voluntary effort where companies incorporate environmental and social issues into their daily operations and relationships with stakeholders. It also emphasizes its importance towards innovation, productivity, and sustainable development inside the EU⁴. The report advocates for a European framework to support CSR, and for businesses to adopt transparent practices, and cooperate with stakeholders. Specifically, it deals with issues regarding human rights, health and safety at work, management of environmental impacts and natural resources, etc.⁵. The main purpose of this report was to encourage companies to voluntarily incorporate environmental and social considerations into their operations and their business plans. In the same year, the fall of the company Enron, an internationally known scandal requested urgent measures to improve business practices and transparency⁶.

It was in the year 2004 when Kofi Annan, the former UN Secretary-General, wrote to more than fifty CEOs to convince them to support a project under the UN Global Compact⁷. A year later, the same initiative released a Report named “*Who Cares Wins*”⁸. This report

¹ Ting-Ting Li, Kai Wang, Toshiyuki Sueyoshi, and Derek D. Wang, 'ESG: Research Progress and Future Prospects' (2021) <<https://www.mdpi.com/2071-1050/13/21/11663>> accessed 28 May 2024.

² Anna Francesca, 'A Brief History of ESG' (The Sustainable Agency, 2024) <<https://thesustainableagency.com/blog/the-history-of-esg/>> accessed 28 May 2024.

³ European Commission, 'Green Paper: Promoting a European framework for Corporate Social Responsibility' (2001) <https://ec.europa.eu/commission/presscorner/api/files/document/print/en/doc_01_9/DOC_01_9_EN.pdf>

⁴ Ibid.

⁵ Ibid.

⁶ Anna Francesca, 'A Brief History of ESG' (The Sustainable Agency, 2024) <<https://thesustainableagency.com/blog/the-history-of-esg/>> accessed 28 May 2024.

⁷ Ibid.

⁸ 'Who Cares Wins, Connecting Financial Markets to a Changing World' (2004) <https://www.unepfi.org/fileadmin/events/2004/stocks/who_cares_wins_global_compact_2004.pdf> accessed 5 June.

introduced the term "ESG" for the first time and demonstrated a critical connection between ESG practices and financial performance⁹. The report covered all relevant parties, including:

- Analysts: are asked to put their best efforts in incorporating ESG factors in their research where appropriate and to further develop the necessary investment know-how, models and tools in a creative and thoughtful way¹⁰.
- Financial institutions: need to make a commitment to effectively integrating ESG aspects into investment and research processes for this to happen in an effective way, the support of the board is fundamental. The formulation of long-term goals, the introduction of organisational learning and change processes, training and incentive systems for analysts are crucial in achieving the goal of a better integration of these issues¹¹.
- Companies: are asked to take a leadership role by implementing ESG principles and policies and to provide information and reports on related performance in a more consistent and standardised format. They should identify and communicate key challenges and prioritise ESG issues accordingly¹².
- Investors: are urged to explicitly request and reward research that includes ESG aspects and to reward those companies that are being well-managed.¹³
- Pension fund trustees and their selection consultants: are encouraged to consider ESG issues in the formulation of investment mandates and the selection of investment managers, considering their fiduciary obligations to participants and beneficiaries. Governments and multilateral agencies are asked to proactively consider the investment of their pension funds according to the principles of sustainable development, considering their fiduciary obligations to participants and beneficiaries¹⁴.
- Consultants and financial advisers: should help create a greater and more stable demand for research in this area by combining research on ESG aspects with industry level research and sharing their experience with financial market actors and companies in order to improve their reporting on these issues.

⁹Anna Francesca, 'A Brief History of ESG' (The Sustainable Agency, 2024)
<<https://thesustainableagency.com/blog/the-history-of-esg/>> accessed 28 May 2024.

¹⁰ Ibid.

¹¹ Ibid.

¹² Ibid.

¹³ Ibid.

¹⁴ Ibid.

- Regulators: are invited to shape legal frameworks in a predictable and transparent way as this will support integration in financial analysis. Regulatory frameworks should require a minimum degree of disclosure and accountability on ESG issues from companies, as this will support financial analysis¹⁵.
- NGOs: can also contribute to better transparency by providing objective information on companies to the public and the financial community¹⁶.

Furthermore, the report intentionally employed the term ESG, as opposed to other terms that are currently in use. It clarified:

“Throughout this report we have refrained from using terms such as sustainability, corporate citizenship, etc., in order to avoid misunderstandings deriving from different interpretations of these terms. We have preferred to spell out the environmental, social and governance issues which are the topic of this report”¹⁷.

Correspondingly, and some relevant aspects included in the report are the list of examples for each E, S, and G, such as climate change and related risks, human rights, and management of corruption and bribery issues¹⁸. It also mentions the fact that ESG factors that are pertinent to investing decisions vary by region and category¹⁹”. The Report also explains the need of strong corporate governance and risk management frameworks in facilitating the successful execution of policies and initiatives targeted at addressing environmental and social issues. It draws attention to how closely the three domains (ESG) are related to one another and shows how effective governance frameworks are necessary to address social and environmental challenges. The paper attempts to present a comprehensive approach to sustainable and responsible business practices by integrating governance with environmental and social issues. It does this by demonstrating that effective governance is a vital enabler for accomplishing environmental and social objectives²⁰”.

¹⁵ Anna Francesca, 'A Brief History of ESG' (The Sustainable Agency, 2024) <<https://thesustainableagency.com/blog/the-history-of-esg/>> accessed 28 May 2024.

¹⁶ Ibid.

¹⁷ Elizabeth Pollman, 'The Making and Meaning of ESG' (ECGI Working Paper Series in Law, 2022) 12.

¹⁸ 'Who Cares Wins, Connecting Financial Markets to a Changing World' (2004) <https://www.unepfi.org/fileadmin/events/2004/stocks/who_cares_wins_global_compact_2004.pdf> accessed 8 June.

¹⁹ Ibid.

²⁰ Ibid.

In 2011, Jean Rogers founded the SASB with the purpose of developing accounting rules that could reflect ESG’s impact on a company’s in a specific industry²¹. For example, companies who offer beverages, would have to account for water security or energy companies had to think about the way their manufacturing equipment affects the environment and identifying the risks and opportunities associated with sustainability targets, and the start of standardised reporting²².

Currently and after a long journey, ESG criteria are very fixed and integrated not only in the management and decision making of the company and its day-to-day life but also in society. People’s concerns about diversity, transparency, sustainability, etc in the workplace have quickly increased and gained power, and since then, the weight and importance on these issues have rapidly increased²³.

Table 1: Summary of the history of ESG²⁴

<p>1950s- 1980s</p> <p>An economist starts the discussion on business ethics and social responsibility. 1960s movements force companies to consider social issues for the first time. In 1971, the first fund that only invests in responsible companies is established</p>
<p>1990s</p> <p>The UN Environmental Program (UNEP) gets financial institutions to commit to their role in creating sustainable economies. The yearly COP conferences begin. And the Kyoto protocol makes lowering gas emissions, and the environment, a shared responsibility.</p>
<p>2000s</p> <p>In 2004, the UN introduces the term ESG in the Who Cares Wins Report. With another report, the two give away to the launching of Principles for Responsible (PRI). Corporate scandals prompt the need for accountability and transparency.</p>
<p>2010s</p>

²¹Anna Francesca, 'A Brief History of ESG' (The Sustainable Agency, 2024) <<https://thesustainableagency.com/blog/the-history-of-esg/>> accessed 28 May 2024.

²² Ibid.

²³‘What Is the History of ESG?’ (The Corporate Governance Institute) <<https://www.thecorporategovernanceinstitute.com/insights/lexicon/what-is-the-history-of-esg/>> accessed 21 July 2024.

²⁴Anna Francesca, 'A Brief History of ESG' (The Sustainable Agency, 2024) <<https://thesustainableagency.com/blog/the-history-of-esg/>> accessed 28 May 2024.

In 2011, the Sustainable Accounting Standards Board (SASB) is founded.

PRESENT

ESG is a very important well-known concept. It is becoming an ordinary component of corporate strategy, and reporting and investment are becoming increasingly popular topics. Environmental sustainability is no longer sufficient in today's society, and consumers have higher expectations of businesses and their commitments.

2. BREAKDOWN OF THE CONCEPT OF ESG

One of the most significant developments in corporate governance, management, and investing during the last 20 years is ESG. It is the main topic of discussion in the most extensive and lively debates of current corporate and law. However, few people are aware of the origins of the term, its creator, or its original meaning and objectives²⁵.

As a general and most common definition, environmental, social, and governance, are a set of criteria which is used to assess and evaluate how committed a company is to sustainable operations²⁶. In practice, these requirements may involve adhering to worker safety practices, finding ways to maximise energy efficiency, or ensuring diversity among board of directors²⁷. ESG is a framework that helps stakeholders understand how a company is managing risks and opportunities related to such criteria²⁸ and are currently considered to be the basis of sustainable investing since they can be used with ease and provide a fair level of objectivity when analysing a company's actions, conduct, and goods²⁹. This section will now proceed to analyse the different components of ESG.

2.1.Environmental

The environmental aspect focuses on how the business minimises its impact and the damage it can cause to the environment and therefore it addresses how companies use energy

²⁵ Elizabeth Pollman, 'The Making and Meaning of ESG' (ECGI Working Paper Series in Law, 2022)3.

²⁶ 'What Is ESG? Definition, Criteria & More' (UrbanFootprint, 2024)

<<https://urbanfootprint.com/what-are-esg-criteria/>> accessed 2 August 2024.

²⁷ Ibid.

²⁸ Kyle Peterdy, 'ESG (Environmental, Social, & Governance)' (Corporate Finance Institute)

<<https://corporatefinanceinstitute.com/resources/esg/esg-environmental-social-governance/>> accessed 2 August 2024.

²⁹ 'Sustainable Investing - ESG Definition | Robeco Global' (Robeco.com - The investment engineers)

<<https://www.robeco.com/en-int/glossary/sustainable-investing/esg-definition>> accessed 21 July 2024

and raw materials—resources necessary for their operations—and how this affects the environment³⁰. These standards cover a wide range of matters, such as how companies affect the handling of waste, pollution, climate change, and the depletion of natural resources³¹. For instance, investing in renewable energy, encouraging the use of sustainable resources, and lowering greenhouse gas emissions are some business measures that will directly reduce the negative impact that the behaviour of the company may cause to the environment.

Table 2: Examples of environmental practices³²

ESG environmental issues	Description	How companies can deal with this issue
Climate change and greenhouse gases	A gradual rise in global temperatures caused on by indirect emissions from activities like deforestation and carbon emissions.	<ul style="list-style-type: none"> • Energy efficiency: This involves improving building insulation, modernising machinery, and simplifying and optimising logistics for transportation. • Renewable energy: Promote and accelerate the transition to renewable energy sources like hydroelectric, solar, and wind power • Carbon offsetting: To compensate for emissions, support renewable energy initiatives like reforestation.
Reduce depletion	Overuse and depletion of natural resources	<ul style="list-style-type: none"> • Circular economy: Create recycling initiatives that utilise materials and

³⁰ Nevena Kostić and Amina Hujdu, 'Building a Sustainable Future, How Environment, Social and Governance Standards Can Benefit Your Business' (2023) 10
https://www.undp.org/sites/g/files/zskgke326/files/202308/building_a_sustainable_future_esg_business_handbook.pdf accessed 21 July 2024

³¹ Ibid.

³² 'How to Prepare Your Board for Environmental, Social and Governance Issues' (iDeals Board,2024)
<https://idealsboard.com/how-to-prepare-your-board-for-environmental-social-and-governance-issues/> accessed 20 July 2024

	such as minerals and fossil fuels.	goods designed for both recycling and reuse. <ul style="list-style-type: none"> • Responsible land use: Remove deforestation from supply chains and direct activities.
Pollution	Contamination of air, water, or soil	<ul style="list-style-type: none"> • Clean technologies: Make investments in green technology, like pollution control systems. • Green procurement: Use eco-friendly and non-toxic materials to reduce and mitigate pollution in the supply chain.

Presenting and analysing various companies that demonstrate an outstanding commitment to environmental responsibility is crucial to improving understanding of the environmental standards and the ways in which the companies integrated them into their operations as well as to encourage other companies to incorporate good practices and innovative strategies that contribute to sustainable environmental outcomes and therefore, set an example for others.

i. Tesco Plc

The 2023 Annual Report of Tesco highlights significant strategic decisions related to sustainability and the planet. The report emphasises aspects such as Tesco's commitment to reducing its environmental impact, showcasing a 55% absolute reduction in emissions from its own operations compared to the years 2015 and 2016³³. This significant improvement is principally attributed to the transition to renewable energy, which has been reinforced by current efforts to improve energy efficiency. All things considered, Tesco's 2023 Annual Report offers a thorough and comprehensive overview of the business's sustainability initiatives, presenting visible advancements and a distinct course for the future. The company's emphasis on decarbonisation, energy efficiency, and renewable energy highlights its commitment to reducing its environmental impact and advancing global sustainability objectives.

³³ TESCO PLC, *Annual Report & Financial Statements 2023* (2023) 20.
<https://www.tescopl.com/media/u1wlq2qf/tesco-plc-annual-report-2023.pdf>

To sum up it can be mentioned that Tesco demonstrates its adherence to ESG principles through its strategic decisions on sustainability, which also conform with legislative frameworks and provide an example for corporate environmental responsibility. Tesco's incorporation of these efforts into its operations not only improves corporate governance but also makes a substantial contribution to the global environmental goals.

ii. Apple, Inc

By creating the Apple Watch, the company's first carbon-neutral product, Apple achieved an important goal and established the foundation for its larger objective of becoming carbon neutral for all of its products by 2030. This accomplishment highlights Apple's commitment to sustainability and environmental innovation. By outlining and prioritising the reduction of carbon emissions through the use of recyclable materials, energy-efficient production practices, and investments in renewable energy, Apple has raised the standard in the technology industry³⁴. This initiative not only demonstrates Apple's environmental consciousness, but it also serves as a model for other companies aiming to meet comparable sustainability goals. Moreover, Apple's sustainability policy, which requires suppliers to calculate and disclose their carbon emissions, shows a strong dedication to environmental care. This stipulation, which has been a component of Apple's Supplier Code of Conduct since 2019, guarantees a comprehensive comprehension of the carbon footprint of the supply chain. Apple assists suppliers in creating decarbonisation plans and promotes the adoption of these practices across their supply chains by offering resources, training, and tools. This approach raises the standards for incorporating sustainability into corporate governance by encouraging responsibility, transparency, and a more substantial change in the sector³⁵. Moreover, it is important to bear in mind that each country in the European Union has its own regulations to deal with these issues.

³⁴ 'Apple Unveils Its First Carbon Neutral Products' (Apple Newsroom, 2023).
<<https://www.apple.com/newsroom/2023/09/apple-unveils-its-first-carbon-neutral-products/>> accessed 13 June 2024.

³⁵ Apple INC, *Apple Environmental Progress Report 2024* (2024) 19
<https://www.apple.com/environment/pdf/Apple_Environmental_Progress_Report_2024.pdf> accessed 20 July 2024.

2.2. Social

This measures how a company views people and connections³⁶ and it concerns the impact companies make on society. By investing in fair and equitable opportunities and circumstances for employees, those working in the supply chain, and local communities, businesses can contribute to equal treatment in society³⁷. When a company uses tools to employee recognition activities in the work team, business unit, or in the whole organisation, there is space for major positive results, including measurable improvements in employee engagement and organisational performance³⁸. Specifically, employee recognition plays a fundamental role for fomenting a positive work environment. There are three main areas of employee recognition for individuals:

- Celebrate careers: Acknowledgment and recognition for "Years of Service" within a company. Give employees prize goods and symbolic pieces, for example, to commemorate their employment anniversary after one, three, five, ten, fifteen, twenty, twenty-five, etc³⁹.
- Appreciate results: Acknowledgment and recognition for "Above and Beyond". This is usually done in a more official manner, and there's usually a reward item involved⁴⁰.
- Encourage good work: Recognition for "Achievements and Ongoing Effort". This is usually informal and comes as a written note, an email, or a sincere face-to-face "thank you"⁴¹.

³⁶ Siti Hirdayu Mohd Radzi, Nadiah Abd Hamid, and Rina Fadhilah Ismail, *An Overview of Environmental, Social and Governance (ESG) and Company Performance* <https://www.researchgate.net/publication/375665001_An_Overview_Of_Environmental_Social_And_Governance_Esg_And_Company_Performance> accessed 24 June 2024

³⁷ Nevena Kostić and Amina Hujdu, 'Building a Sustainable Future, How Environment, Social and Governance Standards Can Benefit Your Business' (2023) 10 <https://www.undp.org/sites/g/files/zskgke326/files/202308/building_a_sustainable_future_esg_business_handbook.pdf> accessed 21 July 2024

³⁸ Kim Harrison, 'Employee Recognition Creates Better Workplace Performance: Here's Detailed Proof' (*Cutting Edge PR*, 1 June 2021) <<https://cuttingedgepr.com/articles/employee-recognition-creates-better-workplace-performance-heres-detailed-proof/>> accessed 24 June 2024

³⁹ Nevena Kostić and Amina Hujdu, 'Building a Sustainable Future, How Environment, Social and Governance Standards Can Benefit Your Business' (2023) 10 <https://www.undp.org/sites/g/files/zskgke326/files/202308/building_a_sustainable_future_esg_business_handbook.pdf> accessed 21 July 2024

⁴⁰ Ibid.

⁴¹ Ibid.

Table 3: Examples of social practices⁴²

ESG social issues	Description	How companies can deal with this issue
Labour practices and workers 'rights	Respect for labour standards and equitable working conditions for workers.	<ul style="list-style-type: none"> • Employee benefits: To promote the financial stability and general well-being of employees, offer benefits like parental leave and retirement initiatives and programs. • Fair wages: Provide just pay that considers the cost of living and market standards in consideration. In such a scenario, conducting yearly compensation evaluations is essential.
Employee diversity and gender equality	Employing personnel with a different background and making sure each person feels appreciated	<ul style="list-style-type: none"> • Diverse hiring practices: Use hiring techniques where you cannot identify the person in order to get rid of prejudice. For instance, it can be beneficial to remove indications of gender. • Diversity education: Offer training courses related to diversity and inclusion.
Health and safety in the workplace	Supplying appropriate training and equipment, reducing risks and hazards, and guaranteeing a safe working environment.	<ul style="list-style-type: none"> • Safety protocols: Provide clear and detailed safety rules and procedures, such as instructions for using machinery or handling hazardous products, that are suited to particular tasks or job positions.

⁴² 'How to Prepare Your Board for Environmental, Social and Governance Issues' (iDeals Board,2024)<<https://idealsboard.com/how-to-prepare-your-board-for-environmental-social-and-governance-issues/>> accessed 20 July 2024

		<ul style="list-style-type: none"> • Safety training: Schedule frequent safety training events, such as workshops on machinery operation safety, fire drills, and first aid instruction. • Reporting: Establish a reporting system that makes it simple for workers to report hazards or accidents at work. An example of this may be anonymous reporting or forms for incidents.
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To have a better understanding, using Tesla, Inc as an example of a company which demonstrates a significant commitment to social responsibility will be shown in this section. Such examples will demonstrate how such a company addresses the different social concerns like diversity, employee relations, community impact, and working conditions in an effective manner. Through an analysis of these situations, we can learn about innovative techniques and approaches and best practices that support social outcomes. This company offers an example for others to follow and highlights the need of incorporating social responsibility into business plans.

i. Tesla, Inc

Tesla provides an Impact Report (2023) in which various ESG-related issues are clearly identified and defined and details the company's activities and behaviours. This clearly makes them have a good reputation as it shows the company's commitment to sustainability and ESG adherence. The following paragraph included in the Report highlights the Company's commitment to Environmental, Health, Safety, and Security practices.

“Everyone across Tesla works to ensure a healthy and safe workplace. We actively engage employees to identify risks before incidents occur and base our programming on three pillars: do the basics right, engage and empower stakeholders and reduce risk. We take a systems-thinking approach and focus on training, collaboration and direct engagements with the people doing the work to build our products”.⁴³

⁴³ *Tesla Impact Report 2023* (Tesla Inc, 2023)
 < https://www.tesla.com/ns_videos/2023-tesla-impact-report-highlights.pdf > accessed 15 July 2024

From the above-mentioned paragraph the following comments can be made:

- Tesla's commitment to safety: It emphasises Tesla's commitment to upholding a safe and healthy work environment, which is essential for optimising employee welfare and operational effectiveness.
- Employee engagement: Tesla shows a collaborative safety strategy by actively involving staff in identifying risks prior to accidents occurring. By using their personal experience, this approach not only gives employees more influence but also improves workplace safety.
- Proactive risk management: Focus on risk identification prior to accidents. This will probably lead to having a safer working environment.

ii. Nike, Inc

For instance, Nike faced significant backlash in the late 1990s and early 2000s because of poor working conditions in the factories that produced its products, often referred to as "sweatshops"⁴⁴. Investigative reports and activist groups exposed problems like poor pay, long hours, dangerous working conditions, and verbal and physical abuse of workers. Nike started by operating sweatshops in Japan before moving to nations like South Korea, China, and Taiwan that offered cheaper labour⁴⁵. Nike moved to less expensive suppliers in China, Indonesia, and Vietnam as these countries' economies developed. Even though Nike has been using sweatshops since the 1970s, the public became more aware of this practice in 1991 when Jeff Ballinger exposed the unfavourable working conditions at Nike factories in Indonesia⁴⁶. The report brought attention to the poor salaries of only 14 cents per hour, which were insufficient to pay for the basics of life. Public indignation over this revelation resulted in large-scale protests during the 1992 Summer Olympics in Barcelona⁴⁷. Nike proceeded to build Nike towns, which are locations that highlight a variety of Nike-based services and experiences, in spite of the criticism, which increased consumer dissatisfaction even more⁴⁸. In addition to the sweatshop problem, Nike was also involved in the child labour debate. In 1996, Life Magazine

⁴⁴'Nike Sweatshop Scandal' (Genius Tutor,2024)

<<https://geniustutor.ai/resources/nike-sweatshop-scandal>> accessed 15 July 2024.

⁴⁵ Ibid.

⁴⁶ Ibid.

⁴⁷ Ibid.

⁴⁸ Ibid.

published an article featuring an image of a young Pakistani boy named Tariq who was apparently earning sixty cents a day by sewing Nike footballs⁴⁹. Beginning in 2001, Nike conducted factory audits and published a report in which it stated that it was unable to ensure that youngsters would not be employed in the production of its goods⁵⁰. However, the company first denied any form of misconduct, but it finally admitted its errors and began to implement changes such as improving labour practices, accountability, transparency, etc in order to recover consumer confidence and public image. Some of the changes carried out by Nike were:

- **Increased Transparency:** Nike started making available detailed information and analyses about its labour practices and working conditions. They also revealed lists of the factories they worked with, being this something uncommon at the time
- **Code of Conduct:** Nike set strong guidelines for labour rights, pay, and working conditions in their Code of Conduct, specifically, Code of Business Conduct-Inside the Lines, Supplier Code of Conduct and Code Leadership Standards, Privacy Policy and Diversity, Equity & Inclusion Strategy⁵¹.
- **Regular Audits and Monitoring:** To make sure that their Code of Conduct was being followed, the corporation started regularly auditing their factories. They announced audits conducted by internal and external parties⁵².
- **Improved Working Conditions:** Protecting workers' rights and creating an engaged workforce need the establishment of reliable, efficient procedures that employees have the opportunity to express complaints about their working conditions and terms of employment. According to Nike's Code Leadership Standards, suppliers must have efficient procedures in place that allow employees to express their complaints in confidence and anonymously without worrying about suffering consequences⁵³.
- **Corporate Social Responsibility Initiatives:** Nike increased the scope of their CSR programs and concentrated on more general social and environmental problems. In the areas where they operated, they introduced initiatives to advance community development, health, and education. For example, FY20 Nike Impact Report, Nike made crucial points on how it protects workers' human rights. The solutions included: Forbid

⁴⁹ Ibid.

⁵⁰ Ibid.

⁵¹ 'Human Rights and Labor Compliance Standards' (Nike)

<<https://about.nike.com/en/impact-resources/human-rights-and-labor-compliance-standards>> accessed 15 July 2024

⁵² Ibid.

⁵³ Ibid.

underage employment and forced labour; allow freedom of association (Forming of workers' union); prevent discrimination of all kinds; provide workers with fair compensation and eliminate excessive overtime⁵⁴.

- Sustainable Practices: By adding environmentally friendly materials and manufacturing techniques into its product ranges, Nike has increased its focus on sustainability. Their reputation among environmentally sensitive customers improved as a result of their dedicated ambitions for lowering the environmental impact of their operations.
- Employee Engagement and Training: Nike made sure that information about their standards and expectations was communicated to both employees and suppliers. In an attempt to help employees, understand their rights and how to enforce them, they sponsored training programs and courses⁵⁵
- Public Relations and Communication: Nike made improvements to their communication strategy by actively interacting with the public, stakeholders, and media to promote their accomplishments and dedication to moral behaviour. They shared their story and emphasised the beneficial improvements they were making on a variety of venues⁵⁶.

All of these efforts combined allowed Nike to regain its validity and trustworthiness while strengthening its leadership position in corporate social responsibility. The company's commitment to transparency and continuous development led to it being able to regain the trust of consumers and enhance its brand image.

2.3.Governance

When referring to governance we are talking about the processes that involve decision-making, reporting, and the logistics of managing a company. Therefore, it concerns all the practices and procedures adopted and implemented within a business to ensure that the laws and standards that have been previously set out by its relevant stakeholders are being fulfilled⁵⁷.

⁵⁴ 'Nike Sweatshop Scandal' (StudySmarter)

<<https://www.studysmarter.co.uk/explanations/business-studies/business-case-studies/nike-sweatshop-scandal/>> accessed 15 July 2024

⁵⁵ 'Human Rights and Labor Compliance Standards' (Nike)

<<https://about.nike.com/en/impact-resources/human-rights-and-labor-compliance-standards>> accessed 15 July 2024.

⁵⁵ Ibid.

⁵⁶ 'How Ethical Is Nike?' (Good On You, 2023)

<<https://goodonyou.eco/how-ethical-is-nike/>> accessed 15 July 2024.

⁵⁷ Nevena Kostić and Amina Hujdu, 'Building a Sustainable Future, How Environment, Social and Governance Standards Can Benefit Your Business' (2023) 10

These standards are the steps that businesses take to guarantee equitable and transparent management, disclosure of information, anti-corruption efforts, diversity facilitation, equal opportunity creation, transparent decision-making procedures, cybersecurity, privacy, etc.⁵⁸.

Table 4: Examples of governance practices⁵⁹

ESG Governance issues	Description	How companies can deal with this issue
Board Diversity	Insufficient individuals from different backgrounds are represented on the board.	<ul style="list-style-type: none"> • Diversity recruitment initiatives: Provide training on unconscious prejudice, build mentorship programs to support those who are under-represented, set specific diversity targets, and implement measures that will improve the recruitment of diverse candidates. • Board succession planning: Incorporate a strategy that identifies and trains diverse candidates for board positions to improve board management succession and planning
Executive Compensation	Overpayment to executives is not in line with the performance of the company.	<ul style="list-style-type: none"> • Performance-based pay: Establish pay plans that are based on performance and tie business executives' salary to quantifiable performance indicators. For example, make bonuses based upon

<https://www.undp.org/sites/g/files/zskgke326/files/202308/building_a_sustainable_future_esg_business_handbook.pdf> accessed 21 July 2024.

⁵⁸ Nevena Kostić and Amina Hujdu, 'Building a Sustainable Future, How Environment, Social and Governance Standards Can Benefit Your Business' (2023) 10

<https://www.undp.org/sites/g/files/zskgke326/files/202308/building_a_sustainable_future_esg_business_handbook.pdf> accessed 21 July 2024.

⁵⁹ 'How to Prepare Your Board for Environmental, Social and Governance Issues' (iDeals Board, 2024) <<https://idealsboard.com/how-to-prepare-your-board-for-environmental-social-and-governance-issues/>> accessed 20 July 2024.

		<p>meeting predetermined financial objectives.</p> <ul style="list-style-type: none"> • Compensation committees: Form independent committees on remuneration that are made up of board members who are not financially associated with executives of the company.
Transparency and disclosure	Reports on sustainability and finances are not adequately transparent.	<ul style="list-style-type: none"> • Reporting frameworks: Adopt sustainability reporting frameworks to guide the company’s disclosure efforts. • Stakeholder engagement: Interact with stakeholders such as employees and shareholders to find out what they think about transparency and to find out what they expect to achieve.

Ensuring good governance in a company is also a way of attracting investors as the trust and loyalty to the company will increase. The company Johnson & Johnson includes in their website a Code of Business Conduct & Ethics for Members of the Board of Directors and Executive Officers in which it includes the different responsibilities of Directors and Executive Officers. For example, regarding conflicts of interest, they highlight the following:

“Every Director and Executive Officer has a duty to avoid business, financial or other direct or indirect interests or relationships which conflict with the interests of the Company or which divide his or her loyalty to the Company. A conflict or the appearance of a conflict of interest may arise in many ways. Each Director and Executive Officer must deal at arm's length with the Company and should disclose to the Chairman, Vice Chairman or Lead Director any conflict or any appearance of a conflict of interest on his or her part. Any activity which even appears to present such a conflict must be avoided or terminated unless, after such disclosure to the Board, it is determined that the activity is not harmful to the Company or otherwise

improper. The end result of the process of disclosure, discussion and consultation may well be approval of certain relationships or transactions on the ground that, despite appearances, they are not harmful to the Company. But all conflicts and appearances of conflicts of interest are prohibited, even if they do not harm the Company, unless they have gone through this process⁶⁰”.

Therefore, maintaining the integrity of corporate governance—which is in part accomplished by avoiding conflicts of interest—represents one of the most crucial components of ESG. Directors and executives have an obligation to disclose any potential conflicts of interest in order to maintain transparency and maintain the trust of stakeholders. Effectively managing conflicts of interest ensures that decisions are made with the best interests of the organisation and its stakeholders in mind. This protects the firm's reputation while also fostering long-term value creation, sustainable business practices, and an accountable culture.

3. BENEFITS OF HAVING A STRONG ESG CULTURE

As it has already been mentioned, the importance of an efficient ESG program in modern companies is becoming more widely acknowledged. Strong ESG activities help businesses attract and keep talented employees, attract funding, foster a feeling of community and build customer trust. These initiatives could result in innovation, long-term value generation, and improved operational efficiency. What are the main benefits for companies to implement a strong ESG culture?:

- **Improved transparency and trust:** By disclosing detailed information about their ESG performance, companies demonstrate commitment to transparency, which helps build stakeholder trust. This can be particularly important in the modern business environment where investors, customers, partners, employees, and others increasingly demand sustainable, ethical corporate behaviour⁶¹.
- **Decreased costs:** A strong ESG program can decrease expenses. Examples include lower costs in operations, e.g., energy, water, materials, and waste, in human

⁶⁰ ‘Code of Business Conduct’ (Johnson & Johnson, 2024)

<<https://www.investor.jnj.com/governance/corporate-governance-overview/code-of-business-conduct--ethics/>>
accessed 7 May.

⁶¹‘The Benefits of ESG Investing: How Socially Responsible Investing Can Drive Outperformance’ (Wealth Management)

<https://us.rbcwealthmanagement.com/documents/170410/170426/18-WG-774_Etergino+Group_Benefits+of+ESG+Investing+Flyer_evite.pdf/2f645a56-155e-4b55-8bc2-3e1a61fc84b6>
accessed 23 May 2024.

resources (HR), e.g., higher productivity and easier talent attraction, avoiding non-compliance penalties, more accessible access to capital, etc.⁶².

- **Stronger competitive advantage**: Investors are likely to invest in companies that disclose their ESG performance. Partners and customers are increasingly looking for responsible companies to do business with. Employees want to work for and stay with companies committed to building a positive impact on people and the planet⁶³.
- **Better risk management**: Preparing ESG programs will help companies identify and manage potential risks and opportunities. For example, a company that discloses information about its carbon emissions may be able to identify opportunities to reduce those emissions, mitigate the associated risks, and lower costs⁶⁴.
- **Competitive returns**: Although investors often worry that ESG investing can diminish returns, a 2015 report by Oxford University and Arabesque Partners finds that it is in the best economic interest for corporate managers and investors to implement sustainability considerations into their decision-making processes⁶⁵. Specifically, good ESG quality can help a company to develop a competitive advantage, which can then drive outperformance. For example, Coca-Cola successfully improved their ESG quality and produced superior performance as a direct result when the company reduced the water intensity of their production process by 20% over the last decade⁶⁶. These results highlight the substantial impact that sustainable product innovation has on a company's revenues. Therefore, by shedding light upon ESG issues in their corporate sustainability frameworks, companies will ultimately be able to realise cost savings through innovation, resource efficiency, and revenue enhancements via sustainable products, which should lead to margin improvements and higher returns⁶⁷.

⁶²'The Benefits of ESG Investing: How Socially Responsible Investing Can Drive Outperformance' (Wealth Management)
<https://us.rbcwealthmanagement.com/documents/170410/170426/18-WG-774_Etergino+Group_Benefits+of+ESG+Investing+Flyer_evite.pdf/2f645a56-155e-4b55-8bc2-3e1a61fc84b6>
accessed 23 May 2024.

⁶³ Ibid.

⁶⁴ Ibid.

⁶⁵ Ibid.

⁶⁶Gordon L Clark, Andreas Feiner, and Michael Viehs, *From the Stockholder to the Stakeholder: How Sustainability Can Drive Financial Outperformance* (Your SRI, 2015) 16.

⁶⁷ Ibid.

4. PRINCIPLES AND PRACTICES OF GOOD CORPORATE GOVERNANCE

The OECD has defined the concept of corporate governance as follows:

*“Corporate governance guides how a company is directed and its relationships with its shareholders and stakeholders. With the right structure and systems in place, good corporate governance enables companies to create an environment of trust, transparency and accountability, which promotes long-term patient capital and supports economic growth and financial stability. OECD work on corporate governance is guided by the G20/OECD Principles of Corporate Governance, the global standard in this area”*⁶⁸.

For instance, good corporate governance refers to a framework and procedure that enhances corporate responsibility and business performance over the long run by taking stakeholder interests into consideration and basing decisions on legal requirements, moral principles, and ethical standards. To achieve this there are several important aspects that companies need to consider:

- Effectiveness comes from Corporate Culture, Ethics, Values, Systems, Business processes, policies and corporate organisational structures that aim to support and encourage company development, more effective and efficient management of resources and risks, corporate accountability to shareholders and other stakeholders⁶⁹.
- A set of principles, policies and company management systems that are implemented for the realisation of efficient, effective and profitable company operations in running the company’s organisation and business to achieve strategic goals that meet the principles of good business practice and its implementation in accordance with applicable regulations, care for the environment and based on high socio-cultural values⁷⁰.

⁶⁸ Sigit Irianto and Widyarini Indriasti Wardani, ‘Responsibility of the Board of Directors in Decision Making of the Company Based on the Doctrine of Business Judgement Rule’ (2023) Proceedings of the 5th International Conference on Law, Economics, and Health (ICLEH 2022

< <https://www.atlantis-press.com/proceedings/icleh-22/125985833> > accessed 5 August 2024.

⁶⁹ Ibid.

⁷⁰ Sigit Irianto and Widyarini Indriasti Wardani, ‘Responsibility of the Board of Directors in Decision Making of the Company Based on the Doctrine of Business Judgement Rule’ (2023) Proceedings of the 5th International Conference on Law, Economics, and Health (ICLEH 2022

< <https://www.atlantis-press.com/proceedings/icleh-22/125985833> > accessed 5 August 2024.

⁷⁰ Ibid.

- Rules and structures guiding the management of the company to generate value for stakeholders such as the government, shareholders, company leadership, and employees, as well as for the company itself⁷¹.

Furthermore, the G20/OECD Principles of Corporate Governance provide guidance to policymakers on how to assess and enhance the corporate governance framework's legal, regulatory, and institutional aspects in order to promote financial stability, economic efficiency, market integrity, and sustainable growth. As the main international benchmark for good corporate governance, the Principles have a global reach and reflect the experiences and ambitions of a wide variety of jurisdictions with varying legal systems and at different stages of development. All OECD and G20 members have expressed a strong desire for the Principles to provide guidance on sustainability and resilience for businesses⁷². They will also assist businesses in managing social and environmental risks by providing insights on disclosure, stakeholder roles and rights, and company board responsibilities.

First, they help companies improve access to finance, particularly from capital markets. By doing so, they promote investment, innovation, and productivity growth, and foster economic dynamism more broadly⁷³. Second, they provide a framework to protect investors, which include households with invested savings. A formal structure of procedures that promotes the transparency and accountability of board members and executives to shareholders helps to build trust in markets. Thirdly, they preserve the sustainability and resilience of businesses, which in turn improves the overall economy's sustainability and resilience⁷⁴. Moreover, they look to increase investor trust and confidence by providing transparent information and strengthened investor rights. As well as to assist companies to improve the access to financial markets in an environment where investor expectations are constantly changing and evolving. By encouraging stewardship codes and the disclosure of conflicts of interest by advisory services, such as proxy advisors and providers of Environmental, Social, and Governance indexes, the Principles will aid in dealing with the increasing significance of institutional investors⁷⁵.

⁷¹ Ibid.

⁷² OECD, *G20/OECD Principles of Corporate Governance 2023* (OECD Publishing, Paris, 2023).

⁷³ Ibid

⁷⁴ Ibid

⁷⁵ Ibid.

Additionally, these principles contain updated suggestions that consider the growing significance of corporate debt as well as bondholders' function in the capital markets. It is the responsibility of policy makers, regulators, international organisations, and market participants to effectively implement the Principles in order to ensure that countries and companies together continue to benefit from the advantages of an effective corporate governance. In order to support the Principles' global implementation, the OECD will continue to collaborate closely with all pertinent national authorities and other partners⁷⁶.

As mentioned above, the G20/OECD Principles of Corporate Governance helps and support companies in implementing efficient corporate governance practices. These principles have been internationally recognized and are the following:

- Ensuring the basis for an effective corporate governance framework:

Regulation I.A of the OECD establishes that *"the corporate governance framework should promote transparent and fair markets, and the efficient allocation of resources. It should be consistent with the rule of law and support effective supervision and enforcement"*. This principle highlights the necessity of a strong institutional, legal, and regulatory environment to support corporate governance. It emphasises how crucial it is to have laws and rules that support honest and transparent markets and guarantee the effective use of resources.

- The rights and equitable treatment of shareholders and key ownership function:

Regulation II.A.1 of the OECD establishes that: *"Basic shareholder rights should include the right to: a) secure methods of ownership registration; b) convey or transfer shares; c) obtain relevant and material information on the corporation on a timely and regular basis; d) participate and vote in general shareholder meetings; e) elect and remove members of the board; and f) share in the profits of the corporation"*. This principle guarantees fair treatment along with safeguarding of shareholders' interests. It has provisions for both the protection of shareholders' interests and their power and capacity to influence on significant company choices.

- Institutional investors, stock markets, and other intermediaries:

⁷⁶ OECD, *G20/OECD Principles of Corporate Governance 2023* (OECD Publishing, Paris, 2023).

Regulation III.A of the OECD states that; "*Institutional investors acting in a fiduciary capacity should disclose their corporate governance and voting policies with respect to their investments, including the procedures that they have in place for deciding on the use of their voting rights*". This principle highlights how important it is for these organisations to have procedures that promote good governance and make their policies and actions transparent.

- Disclosure and transparency:

Regulation V.A of the OECD states that the; "*Disclosure should include, but not be limited to, material information on: a) the financial and operating results of the company; b) company objectives; c) major share ownership and voting rights; d) remuneration policy for members of the board and key executives, and information about board members, including their qualifications, the selection process, other company directorships, and whether they are regarded as independent by the board; e) related party transactions; f) foreseeable risk factors; g) issues regarding employees and other stakeholders; h) governance structures and policies*". It is essential that all relevant information about the company be disclosed accurately and transparently. Ensuring stakeholders have access to crucial information is a fundamental principle that facilitates the making of informed decisions.

- The responsibilities of the board:

Regulation VI.A of the OECD states that; "*Board members should act on a fully informed basis, in good faith, with due diligence and care, and in the best interest of the company and the shareholders. They should also be able to exercise objective independent judgement on corporate affairs*". The board plays a key role in setting the company's strategy and supervising the management. The board's duties are outlined in this principle, which guarantees that they behave in the best interests of the company and its shareholders.

- Sustainability and resilience:

Corporate sustainability and resilience should be promoted by the corporate governance framework, which should provide incentives for companies and their investors to manage risks and make decisions in this way. This perspective is important because businesses are the basis of economies since they generate money, innovate, create jobs, and supply basic products and services. Businesses need to adjust to quickly evolving regulatory and corporate environments in light of the global commitments made to transition to a low-carbon, sustainable economy in

accordance with the Paris Agreement and Sustainable Development Goals⁷⁷. Furthermore, a lot of businesses and investors are proactively making plans for a sustainable future by setting voluntary targets or making other preparations⁷⁸.

Companies and investors may analyse and manage possibilities and risks related to the different changes that may appear when there is a strong corporate governance structure in place. Consequently, this strengthens the economy's overall resilience and sustainability.

Concerns about material climate change and other sustainability issues, as well as human capital management, are becoming more and more of a focus for investors⁷⁹. For example, the EU has adapted their capital market regulations implementing several directives and regulations such as the NFRD or the CSRD, among others, in order to promote a robust and sustainable corporate sector. By limiting excessive fees and guaranteeing investors obtain the information they need for effective capital allocation, these laws seek to strike a compromise between investor access and market efficiency⁸⁰. It is important to take into consideration that communication between the parties such as executives, directors, investors, etc is crucial in order to a company's sustainability and resilience.

The increasing focus on sustainability in society has heightened the significance of incorporating ESG factors into investment strategies and business practices. ESG integration involves considering environmental, social, and governance criteria when making decisions in business and investment. These criteria are crucial for assessing the sustainability and ethical implications of investing in a company or business.

As mentioned above and due to the rapid evolution of companies in terms of the implementation of ESG criteria, they have been forced to create a series of regulations for better clarity and also promote transparency, sustainability and business practices. ethics. In this way, we are trying to ensure that companies evaluate and disclose environmental, social and governance factors that influence their impact on climate-related financial risks, sustainable business practices and compliance with regulatory standards⁸¹. Europe has emerged as a pioneer

⁷⁷ OECD, *G20/OECD Principles of Corporate Governance 2023* (OECD Publishing, Paris, 2023).

⁷⁸ Ibid.

⁷⁹ OECD, *G20/OECD Principles of Corporate Governance 2023* (OECD Publishing, Paris, 2023).

⁸⁰ Ibid.

⁸¹ 'Your Need to Know Summary of ESG Regulations and Frameworks' (Key ESG)

<<https://www.keyesg.com/article/your-need-to-know-summary-of-esg-regulations-and-frameworks>> accessed 16 July.

in developing comprehensive regulatory frameworks to embed ESG considerations into corporate practices.

5. ANALYSIS OF KEY LEGISLATION AND DIRECTIVES

This particular Section analyses the different European legislation related in a direct or indirect way to ESG. Specifically, it looks at:

- NFRD: it entered into force on 6 December 2014 and it requires that big public interest businesses (such as banks and listed enterprises) provide information about environmental issues, social issues, employee issues, human rights, and anti-corruption and bribery every year⁸². Since 2018, the NFRD reporting requirements have been in force. The CSRD is progressively taking the place of the NFRD;
- CSRD: it entered into force on 5 January 2023. Member states of the EU had until June 16, 2024, to incorporate it into their national laws. More qualitative and quantitative ESG reporting requirements are imposed by the CSRD on in-scope companies. These companies must provide information about the effects of their activities, supply chains, commercial partnerships, and value chains on the environments, societies, and human rights⁸³. The scope of ESG reporting requirements is greatly expanded by the CSRD, including for listed SMEs⁸⁴. If they are part of the value chain of an in-scope company, non-listed SMEs could also be asked to submit information to that particular company⁸⁵. In order to give those companies that are affected impactedtime to get prepared for the changes, the CSRD requirements are being implemented gradually;
- SFDR: it was adopted on 27 November 2019. Financial advisors and other FMPs, such as investment firms, are required to provide sustainability disclosures in accordance with the SFDR⁸⁶.
- the EU Taxonomy Regulation, which became progressively effective on July 12, 2020 imposes further reporting obligations on companies covered by the SFDR, CSRD, and NFRD. The EU Taxonomy Regulation aims to establish objective standards for evaluating whether economic endeavours may be seen to significantly contribute to the

⁸² Article 19 (a) and 29 (a) NFRD

⁸³ Article 19 (a) and 29 (a) CSRD

⁸⁴ Article 2(1) CSRD

⁸⁵ Article 29 b (2) CSRD

⁸⁶ Article 3 SFDR

six environmental goals listed in the regulation. Delegated acts, which specify technical screening requirements, complement it. The Taxonomy Climate Delegated Act describes the technical standards that must be met in order to evaluate whether an economic activity qualifies as if it is adapting to climate change⁸⁷. Since January 1, 2022, it has been in effect. In order to ascertain whether an economic activity can be deemed to be significantly contributing to the remaining four (non-climate) environmental objectives included in the EU Taxonomy Regulation, the European Commission adopted a proposed Environmental Delegated Act⁸⁸ on June 27, 2023. According to Article 9 of the EU Taxonomy Regulation, the non-climate environmental objectives, which include:

- i. The sustainable use and protection of water and marine resources.
 - ii. The transition to a circular economy.
 - iii. Pollution prevention and control.
 - iv. The protection and restoration of biodiversity and ecosystems.
- the Climate Law Regulation: entered into force on 29 July 2021 aims to guarantee that all EU policies related to energy, transport, energy, and the environment are focused on achieving carbon neutrality within EU borders by 2050⁸⁹. It requires Member States and EU institutions to put policies into place with the goal of reaching carbon neutrality and to keep track of their progress in this direction⁹⁰. One national climate target is to achieve carbon neutrality by 2050, as stated in the Climate Action and Low Carbon Development Act 2015, as revised by the Climate Action and Low Carbon Development (Amendment) Act 2021; and
 - the Gender Balance on Corporate Boards Directive⁹¹: entered into force on December 2022. Member states of the EU have two years to incorporate this Directive into their national laws. By June 30, 2026, individuals of the under-represented sex must hold 33% of all director positions or 40% of non-executive director positions, so that listed

⁸⁷ Article 7 Taxonomy Regulation

⁸⁸ 'Taxonomy Regulation' (European Commission)

<https://finance.ec.europa.eu/regulation-and-supervision/financial-services-legislation/implementing-and-delegated-acts/taxonomy-regulation_en> accessed 27 July 2024.

⁸⁹ 'European Climate Law' (European Commission)

<https://climate.ec.europa.eu/eu-action/european-climate-law_en> accessed 27 July 2024

⁹⁰ Ibid.

⁹¹ Directive (EU) 2022/2381 of the European Parliament and of the Council of 7 December 2022 on improving the gender balance among directors of listed companies and related measures [2022] OJ L315/44

EU corporations comply with the requirement and will have to report annually on their board composition and, if the objectives have not been met, take the necessary measures to achieve them⁹². Small and medium-sized enterprises with fewer than 250 employees are excluded from the scope of this Directive⁹³

- the proposed Corporate Sustainability Due Diligence Directive:⁹⁴, which aims to foster sustainable and responsible corporate behaviour in companies' operations and across their global value chains⁹⁵. The new rules will ensure that companies in scope identify and address adverse human rights and environmental impacts of their actions inside and outside Europe⁹⁶. The corporate due diligence obligation is established by this directive. Identifying and resolving possible and actual negative impacts on human rights and the environment in the company's activities, those of its subsidiaries, and, when relevant to their value chain(s), those of its business partners, constitute the fundamental components of this duty. Furthermore, the Directive mandates that big companies adopt and implement a transition plan for mitigating climate change that is in line with the Paris Agreement's 2050 climate neutrality target as well as intermediate targets under the European Climate Law, using their best efforts⁹⁷;
- a proposed regulation creating the European Green Bond Standard which would act as a voluntary "gold standard" for businesses and government agencies using green bonds to obtain funds on the capital markets to finance significant expenditures⁹⁸;
- a potential EU social taxonomy system that would be used as a classification scheme to assess the social sustainability of an economic activity, and⁹⁹;
- a potential EU regulation intended to control how ESG rating agencies operate¹⁰⁰.

⁹² Suzanne Kearney, 'New Gender Balance Targets on Boards of EU Listed Companies' (Arthur Cox Insights Blog, 25 November 2022) <<https://www.arthurcox.com/insights/new-gender-balance-targets-on-boards-of-eu-listed-companies/>> accessed 27 July 2024

⁹³ Ibid.

⁹⁴ Proposal for a Directive of the European Parliament and of the Council on Corporate Sustainability Due Diligence and Amending Directive (EU) 2019/1937 [2022] COM(2022) 71 final.

⁹⁵ Article 1 CSDDD

⁹⁶ Directive (EU) 2024/1760 of the European Parliament and of the Council of 13 June 2024 on corporate sustainability due diligence and amending Directive (EU) 2019/1937 and Regulation (EU) 2023/2859 [2024] OJ L221/1.

⁹⁷ 'Corporate Sustainability Due Diligence - European Commission'

<https://commission.europa.eu/business-economy-euro/doing-business-eu/sustainability-due-diligence-responsible-business/corporate-sustainability-due-diligence_en> accessed 27 July 2024

⁹⁸ European Commission, 'Strategy for financing the transition to a sustainable economy' (2021).

⁹⁹ Platform on Sustainable Finance, 'Final Report on Social Taxonomy' (February 2022).

¹⁰⁰ European Commission, 'Sustainable Finance Factsheet' (2023).

5.1.NFRD

The NFRD became effective on 5 December 2014 and the corresponding deadline for EU Member States to implement the Directive into national law was by 6 December 2016¹⁰¹. Such Directive applies to large EU “public interest”¹⁰² entities (i.e. listed companies, credit institutions, insurance companies and other entities designated as such by Member States because of their significant public relevance¹⁰³). Such rule requires companies to file the non-financial information statement, individually or on a consolidated basis, if they meet the following requirements¹⁰⁴:

- a) The average number of workers employed by the company or the group, as applicable, during the year is greater than 500.
- b) They are either deemed to be public-interest entities in accordance with the audit legislation, or meet, for two consecutive years, at each of their year-end dates, at least two of the following tests:
 - (i) asset items must amount to more than €20,000,000.
 - (ii) Annual net revenues must exceed €40,000,000.
 - (iii) The average number of workers employed during the year must be greater than 250.

5.1.1. Obligations imposed under NFRD

Under Article 1 of NFRD those entities who comply with the abovementioned requirements;

“shall include in the management report a non-financial statement containing information to the extent necessary for an understanding of the undertaking's development, performance, position and impact of its activity, relating to, as a minimum, environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters, including:

- i. a brief description of the undertaking's business model;*

¹⁰¹ ‘Overview of the EU Non-Financial Reporting Directive’ (Dechert LLP, 16 June 2020) <<https://www.dechert.com/knowledge/onpoint/2020/6/overview-of-the-eu-non-financial-reporting-directive.html/1722065871463>> accessed 27 July 2024

¹⁰² Some Member States have enlarged the notion of “public interest entities” – for instance, Denmark, France and Spain have extended the NFRD to non-listed entities that exceed certain size thresholds.

¹⁰³ Cleary Gottlieb, ‘The Corporate Sustainability Reporting Directive’ (Alert Memorandum, 21 May 2021) <<https://www.clearygottlieb.com/-/media/files/alert-memos-2021/the-corporate-sustainability-reporting-directive.pdf>> accessed 28 July 2024

¹⁰⁴ Article 1 NFRD

- ii. *a description of the policies pursued by the undertaking in relation to those matters, including due diligence processes implemented;*
- iii. *the outcome of those policies;*
- iv. *the principal risks related to those matters linked to the undertaking's operations including, where relevant and proportionate, its business relationships, products or services which are likely to cause adverse impacts in those areas, and how the undertaking manages those risks;*
- v. *non-financial key performance indicators relevant to the particular business”.*

Considering the provisions of Regulation 1 of the NFRD, a briefing carried out by the European Parliamentary Research Service on the operation of existing EU legislation in practice helps the reader do an analysis and make a more concise description of the different obligations stated throughout the Report¹⁰⁵:

- Environmental: measures to prevent and minimise carbon emissions, circular economy and recycling practices, sustainable use of resources and protection of diversity.
- Social and personnel issues: working hours, work-life balance, absenteeism figures, occupational safety, social and trade union dialogue, training, accessibility measures for the disabled and gender equality policies.
- Human rights: information on corporate procedures for preventing, reporting, and redressing possible abuses.
- Fight against corruption and bribery: protocols applied by the company in the fight against fraud and money laundering, as well as the contributions made to entities dedicated to eradicating them.
- Commitment to transparency: accreditation of the company's commitment to sustainable local development, ethical criteria in the choice of subcontractors and suppliers, consumer safety and fiscal hygiene.

The NFRD imposes mandatory reporting responsibilities, with the exception of policy-related obligations, which follow a "comply or explain" framework¹⁰⁶. For example, a company

¹⁰⁵ Nora Hahnkamper-Vandenbulcke, 'Non-financial Reporting Directive' (European Parliamentary Research Service (2021) <[https://www.europarl.europa.eu/RegData/etudes/BRIE/2021/654213/EPRS_BRI\(2021\)654213_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2021/654213/EPRS_BRI(2021)654213_EN.pdf)> accessed 30 May 2024

¹⁰⁶ Maedhbh Clancy and Suzanne Kearney, 'Ireland: Environmental, Social and Governance Regulation Comparative Guide' (Arthur Cox, 31 August 2022)

that had not yet introduced policies concerning environmental matters will have to provide a clear and reasoned explanation for not having done so¹⁰⁷.

As a global analysis and summary, the NFDR has played a fundamental role regarding transparency, accountability and sustainability within the companies. The fact that it requires big businesses to publish detailed non-financial information regarding ESG issues encourages socially conscious investing and empowers and enables stakeholders to make informed choices. This guarantees transparency within as well as, it mandates large companies to disclose comprehensive non-financial information on ESG factors, enabling stakeholders to make informed decisions and promoting socially responsible investing. This transparency also builds trust and credibility, ensuring companies are accountable for their broader societal and environmental impacts. By determining ESG reporting, the NFRD creates a basis across the EU, preventing companies from ignoring these issues because of competitive pressures. Moreover, companies that comply with the NFRD are protected from legal risks and reputational harm, and the value of the company increases toward investors and consumers who are becoming more and more ethical and more aware of these issues. Considering all the different aspects, the NFDR is a crucial legal framework within the European Union which guarantees businesses to make constructive contributions to the environment and society, encouraging a more open and sustainable business environment.

5.1.2. The transposition of the NFRD into domestic law

The European Union enacted the NFRD into Irish legislation on August 31, 2017¹⁰⁸. Large companies, as defined by section 280H of the Companies Act 2014, are those that employ more than 500 people on average and are not eligible for any exemptions or dispensations regarding accounting disclosures under Irish law. These regulations impose reporting obligations concerning non-financial information on these companies¹⁰⁹. The reporting requirements related to diversity are applicable to large "traded companies," as defined in regulation 6 (1). Following this and considering regulation 6 (2);

¹⁰⁷ Caroline Sweeney, 'Environmental, Social and Governance (ESG) and Sustainable Development: The Legal and Regulatory Framework in Ireland' (2023).

¹⁰⁸ Maedhbh Clancy and Suzanne Kearney, 'Ireland: Environmental, Social and Governance Regulation Comparative Guide' (Arthur Cox, 31 August 2022).

¹⁰⁹ European Union (Disclosure of Non-Financial and Diversity Information by certain large undertakings and groups) Regulations 2017. S.I. No. 360 of 2017.

“A diversity report shall include—

- i. a description of the diversity policy applied in relation to the company’s board of directors with regard to aspects such as age, gender or educational and professional backgrounds,*
- ii. the objective of that diversity policy,*
- iii. how that diversity policy has been implemented by the company, and*
- iv. the results of that policy in the financial year”.*

It is important to highlight Section 6 (1) (2) due to its legal implications of the diversity reporting requirement for large traded companies as they are significant and important. The regulation promotes a higher standard of transparency and accountability by requiring these companies to disclose comprehensive information about their diversity policies, objectives, implementation strategies, and outcomes¹¹⁰. From the legal point of view, this enables the integration of different business policies with the social expectations and ideals concerning inclusion and diversity. Companies are forced to show their commitment to promoting and supporting inclusive and diverse matters and this adds a performance-based element, requiring companies to demonstrate real and actual progress. In addition, the law guarantees that diversity is not limited to a particular perspective but it defines particular elements such as age, gender, educational background, and professional experience. To encourage real efforts towards diversity, companies should keep in mind that non-compliance can lead to fines of up to €5,000 and/or imprisonment for a term of up to 6 months¹¹¹ as well as significant damage to the company's reputation. To sum up, the purpose of these regulatory requirements is to promote a more diverse and equitable company environment by implementing significant changes in corporate culture and that people are not discriminated against and evaluated for example because of their gender or race.

5.1.3. Replacement of the NFRD with the CSRD

A number of deficiencies have been identified concerning the NFRD’s substantive content and implementation¹¹². An initial impact assessment published by the European Commission in 2020 on the proposed revision of the NFRD indicates that the Directive’s

¹¹⁰ Section 149 Companies Act 149

¹¹¹ S.I. No. 360/2017, regulation 8.

¹¹² Caroline Sweeney, ‘Environmental, Social and Governance (ESG) and Sustainable Development: The Legal and Regulatory Framework in Ireland’ (2023).

reporting requirements do not generate “*enough publicly available information about how non-financial issues, and sustainability issues in particular, impact companies, and about how companies themselves impact society and the environment*”¹¹³. Likewise, it was acknowledged that “*companies face uncertainty and complexity when deciding what non-financial information to report, and how and where to report such information*”, and that ultimately, this results in “*unnecessary and avoidable costs*”¹¹⁴.

Therefore, and to address the weaknesses of the NFRD, the CSRD was developed. However, the NFRD will stay in effect with the purpose of giving time to the companies to gradually implement and comply with the new obligations imposed by the CSRD¹¹⁵.

5.2. CSRD

The CSRD replaces and builds on the NFRD by introducing more detailed reporting requirements and expanding the number of companies that have to comply. Adopted by the European Commission in November 2022, the CSRD entered gradually into force in January 2023 and EU Member States have until 16 June 2024 to transpose the CSRD into domestic law¹¹⁶. Considering Article 5 CSRD, the rules will start applying between 2024 and 2028:

- From 1 January 2024 for large public-interest companies (with over 500 employees) already subject to the non-financial reporting directive, with reports due in 2025.
- From 1 January 2025 for large companies that are not presently subject to the non-financial reporting directive (with more than 250 employees and/or €40 million in turnover and/or €20 million in total assets), with reports due in 2026.
- From 1 January 2026 for listed SMEs and other undertakings, with reports due in 2027. SMEs can opt-out until 2028.

Despite their relative importance and the role they play in the European economy, non-listed SMEs as well as micro-enterprises are excluded from the direct scope of the CSRD. For reasons of proportionality, an extension of the scope of application to these companies was

¹¹³ European Commission, ‘Inception Impact Assessment: Revision of the Non-Financial Reporting Directive’ (2020).

¹¹⁴ Ibid.

¹¹⁵ Caroline Sweeney, ‘Environmental, Social and Governance (ESG) and Sustainable Development: The Legal and Regulatory Framework in Ireland’ (2023).

¹¹⁶ CSRD

rejected at a very early stage in the legislative process¹¹⁷. However, this Directive requires all large corporations as well as listed small and SMEs to provide comprehensive sustainability reporting¹¹⁸. In other words, the CSRD only requires companies that fulfil any of the following criteria to report on sustainability:

- All listed companies on the EU regulated market, included listed SMEs (but not micro-enterprises)
- All large companies that exceed two of the three following criteria:
 - 250 employees during the financial year
 - Balance sheet of more than EUR 20 million
 - Net turnover of more than EUR 40 million
- Non-EU companies generating a net turnover of more than EUR 150 million and having a subsidiary in the EU that follow the criteria applicable to EU companies or a branch in the EU generating more than EUR 40 million net turnover¹¹⁹.

The companies which are affected by the CSRD are required to reveal their business plan and strategy, as well as how sustainability affects them¹²⁰. Additionally, they must provide as much information as they can on how their operations, supply chains, business relationships, and value chains affect the environment, society, and the ability to exercise human rights both inside and outside of the EU¹²¹. The main purpose of the CSRD is to make it possible for relevant stakeholders, including consumers, investors and civil society organisations, to determine and evaluate the different companies and projects. Subsequently, the information provided by the companies should be “*relevant, comparable, reliable, and accessible*”¹²².

In spite of that, it may be the case that companies face serious difficulties to obtain the required and necessary information from companies in their value chain to mitigate this situation, articles 19a (3) and 29a (3) of the CSRD provide that, during the first three years of

¹¹⁷ Commission Staff Working Document Impact Assessment Report Accompanying the document Proposal for a Directive of the European Parliament and of the Council on corporate sustainability reporting COM(2021) 189 final SWD(2021) 150.

< <https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A52021SC0150>> accessed 27 July 2024.

¹¹⁸ Ibid.

¹¹⁹ Article 2 of the CSRD

¹²⁰ Maedhbh Clancy and Suzanne Kearney, ‘Ireland: Environmental, Social and Governance Regulation Comparative Guide’ (Arthur Cox, 31 August 2022) and Article 19 (a) CSRD

¹²¹ McCann Fitzgerald, ‘Parliament adopts the Corporate Sustainability Reporting Directive’ (2022).

¹²² EBU, ‘Sustainability Rulebook: The Corporate Sustainability Reporting Directive’ (2023)

its operation, where undertakings are unable to obtain and provide all the necessary information regarding their value chain, they may outline in their management report:

- the efforts they have undertaken to obtain the necessary information,
- the reasons why all of the necessary information could not be obtained, and
- their plans to obtain the necessary information in the future.

Furthermore, listed SMEs considering that have different circumstances will have different requirements and will have sustainability reporting requirements that are *"proportionate to their capacity and resources and relevant to the scale and complexity of their activities"*¹²³. It is relevant mentioning that non-listed SMEs are not directly covered by the CSRD considering Article 1(4); *"Non-listed SMEs do not fall within the scope of this Directive. However, they may be required to provide necessary information to large companies subject to this Directive if they form part of the value chain of such companies."*

Table 5: NFRD vs CSRD

Aspect	NFRD	CSRD
Scope	Large public-interest entities with over 500 employees (Article 1)	All large companies and all companies listed on EU-regulated markets (except listed micro-enterprises) (Article 1)
Application Date	Applicable since 2017 (Directive 2014/95/EU)	Gradual implementation starting from 2024 (for financial year 2023) (Article 4)
Reporting standards	Companies can choose their own reporting standards (Article 19a (1))	Mandatory use of European Sustainability Reporting Standards (ESRS) (Article 19b)
Content of Reports	Environmental, social, and employee matters, human rights, anti-corruption, and bribery matters (Article 19a (1))	Expanded to include business model, strategy, risk management, targets, role of board, due diligence processes, and more detailed reporting on environmental and social issues (Article 19a (1))

¹²³McCann Fitzgerald, 'Parliament adopts the Corporate Sustainability Reporting Directive' (2022).

Assurance Requirement	No mandatory assurance required (Article 19a (1))	Mandatory limited assurance (with potential for reasonable assurance in the future) (Article 19a (1))
Audit	No mandatory external audit (Article 1 and 2)	Certified by an accredited independent auditor or independent assurance provider and published in a specific section of the undertaking's annual management report (typically the directors' report).
Digital Reporting	Not specified	Digital 'tagging' of information to make it machine-readable (Article 19d)
Reporting Frequency	Annually, as part of the management report (Article 19a (1))	Annually, as part of the management report; enhanced frequency and scope (Article 19a (1))
Supervisory Mechanism	Member States to decide on supervision (Article 23)	Increased supervision by national authorities and the European Commission (Article 19a (2))
Description of Requirements	General requirements (Article 19a)	Detailed and specific requirements (Article 19a)
Climate and Sustainability Targets	General reporting on sustainability policies (Article 19a)	Detailed reporting on climate and sustainability targets and progress (Article 19a (1))
Risk Management Disclosure	Basic disclosure of risks (Article 19a (1))	Comprehensive disclosure of risk management practices and their impact on sustainability (Article 19a (1))
Governance Reporting	General governance information (Article 20)	Detailed governance reporting, including the role of the board in sustainability matters (Article 19a (1))

Environmental Matters	General environmental policies and impacts (Article 19a)	Detailed reporting on environmental impact, climate change mitigation, and adaptation strategies (Article 19a (1))
Social Matters	General social policies, including employee matters and human rights (Article 19a)	Detailed reporting on social impact, including workforce diversity, working conditions, and community engagement (Article 19a (1))
Governance Matters	General governance practices (Article 20)	Detailed governance structures, roles and responsibilities, board diversity, and ethical business conduct (Article 19a (1))

5.3. SFDR

In accordance with the European Commission's Action Plan on Financing Sustainable Growth, the SFDR was enacted on November 27, 2019. In connection with the EU Taxonomy Regulation (addressed in the following section), it seeks to harmonise sustainability reporting requirements across the EU's financial services sector by prescribing the sustainability disclosures required from financial advisors and FMPs, as defined under article 2 of the SFDR. The main aim of the SFDR is to assist investors who are concerned about sustainability in making better informed investment decisions by improving the information's comparability, transparency, and consistency¹²⁴.

5.3.1. Actors subject to the SFDR

As defined under Article 2 of the SFDR, the SFDR applies to financial advisors and FMPs. FMP's include:

- an insurance undertaking which makes available an insurance-based investment product (IBIP);

¹²⁴ Caroline Sweeney, 'Environmental, Social and Governance (ESG) and Sustainable Development: The Legal and Regulatory Framework in Ireland' (2023).

- an investment firm which provides portfolio management;
- an institution for occupational retirement provision (IORP);
- a manufacturer of a pension product;
- an alternative investment fund manager (AIFM);
- a pan-European personal pension product (PEPP) provider;
- a manager of a qualifying venture capital fund registered in accordance with Article 14 of Regulation (EU) No 345/2013;
- a manager of a qualifying social entrepreneurship fund registered in accordance with Article 15 of Regulation (EU) No 346/2013;
- a management company of an undertaking for collective investment in transferable securities (UCITS management company); or
- a credit institution which provides portfolio management;

5.3.2. Obligations imposed under the SFDR

Participants in the financial market and financial advisors are subject to a number of legislative requirements under the SFDR in order to increase transparency about sustainability risks, results, and preferences. Obligations at the entity level (regarding the policies and processes of FMPs and financial advisors) and at the product level (regarding the financial products that FMPs offer and that financial advisors advise upon¹²⁵).

According to Article 3 of the SFDR, financial advisors and FMPs must disclose on their websites the policies they have established for incorporating sustainability risks into their investment decision-making processes and investment/insurance advice respectively.

Some of the disclosure obligations imposed under Article 4(1)(a) provide that where FMPs consider principal adverse impacts of investment decisions on sustainability factors, they must publish and maintain on their websites a statement concerning the due diligence policies they have in place with respect to those impacts. Alternatively, where an FMP does not consider principal adverse impacts, they must provide clear reasons for not doing so, including, where relevant, information as to whether and when they intend to consider such adverse impacts in

¹²⁵ Caroline Sweeney, 'Environmental, Social and Governance (ESG) and Sustainable Development: The Legal and Regulatory Framework in Ireland' (2023).

the future (article 4(1)(b)). Article 4(2) outlines the information that must, at a minimum, be included in the statement required under article 4(1)(a)¹²⁶.

5.3.3. Obligations imposed by the SFDR at the product level

Financial products are categorised by the SFDR according to their sustainability goals and characteristics. The essential features and disclosure obligations for each category—Article 6, Article 8, and Article 9 products—are included in the following table¹²⁷, together with the specific SFDR articles that require the different disclosures. Through the understanding and comprehension of these differences, stakeholders and investors can evaluate different financial products' sustainability with greater efficiency and guarantee that EU legislation is followed.

Table 6: Financial products categorized by the SFDR

Category	Description	Disclosure Requirements
Article 6 Products	Products that have no ESG-related focus and make no ESG or sustainability claims	<ul style="list-style-type: none"> Companies are required to provide information about how sustainability risks are incorporated into their investment choices and how those risks affect profits.
Article 8 Products	Products that promote environmental or social characteristics but do not exclusively target sustainable developments.	<ul style="list-style-type: none"> Pre-contractual disclosures: how environmental or social characteristics are met (Art 8(1)). Information on good governance practices: Making sure companies stick to good governance practices (Art 8(1)). Website disclosures: Methods used, guidelines for due diligence and sustainability-related impacts on the website (Art. 10 (1)). Periodic reports on the products impact on sustainability (Art 11(1)).

¹²⁶ Ibid

¹²⁷ SFDR and Caroline Sweeney, 'Environmental, Social and Governance (ESG) and Sustainable Development: The Legal and Regulatory Framework in Ireland' (2023).

Article 9 Products	Products that specifically target sustainable developments.	<ul style="list-style-type: none"> • Pre-contractual disclosures: Information on how the sustainable investment objective is achieved (Art. 9(1)). • Information on any designated benchmark: disclosure on the designated benchmark and its alignment with the sustainable objective (Art. 9 (1)). • Periodic reports: Periodic disclosures on the sustainability-related impact (Art.11 (2)). • Website disclosures: Methods used, guidelines for due diligence and sustainability-related impacts on the website (Art. 10 (1)).
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5.3.4. Application of the SFDR

The SFDR came into force on 10 March 2021 on a phased basis. The Phase 1 SFDR requirements have been applicable since this date. They include¹²⁸:

- the implementation of a policy concerning the integration of sustainability risks into the investment decision-making process,
- the updating of remuneration policies to ensure the integration of sustainability risks,
- the inclusion of sustainability related disclosures on websites and fund offering documents, and
- the inclusion of periodic reporting in annual reports concerning sustainability.

The Phase 2 SFDR requirements demand compliance to the RTS, which have been in force since 1 January 2023¹²⁹.

¹²⁸ Mason Hayes & Curran LLP, 'Sustainable Finance Disclosures Regulation: Where Are We Now?' (Mason Hayes & Curran, 5 July 2024) <<https://www.mhc.ie/latest/insights/sustainable-finance-disclosures-regulation-where-are-we-now>> accessed 6 August 2024.

¹²⁹ Ibid.

5.4. EU Taxonomy Regulation

The EU Taxonomy Regulation entered into force on 12 July 2020 and is a key component of the EU's framework for sustainable finance and a crucial instrument for enhancing market transparency as it facilitates the alignment of investments with the goals of the European Green Deal with the economic activities most needed for the transition¹³⁰. Under Article 1 “*this regulation establishes the criteria for determining whether an economic activity qualifies as environmentally sustainable for the purposes of establishing the degree to which an investment is environmentally friendly*”. Considering Article 1 it can be seen that this Regulation develops on the disclosure and reporting requirements included in the NFRD, CSRD, and SFDR, serving as a significant complement to them. In particular, it provides objective criteria for determining whether an investment in an economic activity, which is classified as environmentally sustainable in reality, is not¹³¹.

The taxonomy is a categorisation scheme that establishes standards for economic endeavours in harmony with the 2050 net zero trajectory and the more general environmental objectives beyond climate change¹³². The EU Taxonomy Regulation contributes significantly to the EU's efforts to increase sustainable investment by giving investors' confidence, protecting private investors from greenwashing, assisting companies in becoming more environmentally conscious, and reducing market fragmentation¹³³.

For instance, it is fundamental to mention Article 3 of this Regulation due to its direct relationship with ESG criteria. Specifically, the aforementioned articles of the EU Taxonomy Regulation states that an economic activity shall be considered environmentally sustainable in the cases where it:

- a) **contributes substantially** to one or more of the **environmental objectives** set out in article 9 of the Regulation (in accordance with articles 10-16 of the Regulation), namely:
 - i. Climate change mitigation,
 - ii. Climate change adaptation,

¹³⁰ European Commission ‘EU Taxonomy for Sustainable Activities’ <https://finance.ec.europa.eu/sustainable-finance/tools-and-standards/eu-taxonomy-sustainable-activities_en> accessed 30 July 2024.

¹³¹ Caroline Sweeney, ‘Environmental, Social and Governance (ESG) and Sustainable Development: The Legal and Regulatory Framework in Ireland’ (2023).

¹³² Ibid.

¹³³ Ibid.

- iii. The sustainable use and protection of water and marine resources,
 - iv. The transition to a circular economy,
 - v. Pollution prevention and control, and
 - vi. The protection and restoration of biodiversity and ecosystem;
- b) **does not significantly harm** any of the above environmental objectives¹³⁴;
- c) is carried out in **compliance with minimum safeguards** as laid down in article 18 of the Taxonomy Regulation; and
- d) **complies with technical screening criteria**¹³⁵ established by the European Commission in accordance with articles 10(3), 11(3), 12(2), 13(2), 14(2) or 15(2) of the EU Taxonomy Regulation.

Therefore, and to highlight the most important points, the SFDR, the NFRD, the CSRD, and the EU Taxonomy Regulation together constitute a powerful influence in reforming corporate governance structures and procedures in the European Union. These regulations are driving companies to fundamentally reconsider their governance models to prioritize transparency, accountability, and sustainability by integrating ESG factors into their core operations.

The EU's regulations prioritise improving transparency and accountability in corporate governance. For instance, the SFDR mandates comprehensive reporting on the incorporation of sustainability risks and the assessment of significant adverse effects on sustainability aspects. This degree of openness guarantees that companies are responsible for their ESG performance, not only to regulators but also to a wider array of stakeholders such as investors, customers, and the general public. The NFRD and CSRD go even further in promoting transparency by mandating that companies disclose extensive information on a broad range of non-financial matters, such as environmental protection, social responsibility, human rights, anti-corruption, and board diversity. These reporting obligations aim to give stakeholders a clear and thorough understanding of the company's ESG performance and governance practices. The focus on transparency ensures that companies are held responsible not just for their financial performance, but also for their social and environmental impact.

¹³⁴ In accordance with Article 17 of the EU Taxonomy Regulation

¹³⁵ Technical Screening Criteria makes reference to a set of principles and measurements applied to assess whether an economic activity, as defined by the EU taxonomy, may be classified as ecologically sustainable

These regulations have a major influence on corporate governance by necessitating adherence to specific reporting and disclosure standards. For example, the EU Taxonomy Regulation mandates that companies evaluate and reveal the consistency of their operations with the EU's sustainability benchmarks. Consequently, this regulation brings added intricacy to reporting, as companies are now obligated to furnish comprehensive details on how their activities support environmental goals like mitigating and adapting to climate change. Companies are now mandated by the CSRD to provide more comprehensive and standardized non-financial reports, necessitating them to divulge detailed information about their sustainability risks, impacts, and opportunities. This change demands companies to allocate resources towards developing new methods and procedures for collecting, evaluating, and disclosing ESG data. It is the duty of the board of directors to guarantee the strength of these procedures and to ensure that the company's disclosures adhere to the strict requirements outlined in EU regulations.

These regulatory frameworks are fundamentally aimed at advancing sustainable business practices by ensuring that corporate governance is in line with the EU's overarching sustainability objectives. Through mandating companies to incorporate ESG factors into their governance frameworks and operations, these regulations promote the adoption of more sustainable and socially responsible strategies by businesses. This not only assists companies in meeting regulatory obligations but also establishes them as frontrunners in the worldwide movement towards sustainability. Incorporating sustainability into corporate governance encourages companies to innovate and explore new avenues that add to the creation of long-term value. Addressing ESG concerns allows companies to reduce risks, enhance their reputation, and generate fresh revenue streams by offering sustainable goods and services. Consequently, the regulatory drive for sustainability not only serves the society and the environment but also bolsters companies' long-term robustness and competitiveness within the EU.

6. IMPORTANCE OF ESG INTEGRATION IN CORPORATE GOVERNANCE

As it has already been said on several occasions, having a solid and good corporate governance with good ESG reports will directly add value to a firm, investors can use them to

evaluate a company's conduct as well as its potential for future financial success¹³⁶. ESG provides valuable information that is primarily employed for managerial purposes, enabling for a multidimensional examination that helps businesses adjust their business strategies as needed¹³⁷.

A report published in June 2014 by de the Asset Management Working Group of the United Nations Environment Programme Finance Initiative “*Integrated Governance: A new model of governance for sustainability*”¹³⁸ outlines the various ways in which board committees might include sustainability into their functions and responsibilities¹³⁹:

- Governance committee: Monitor the latest developments in sustainability and how they affect the company. Provide training for directors in sustainability; Examine the sustainability policies of the company.
- Audit committee: Recognise the opportunities, hazards and advantages and disadvantages associated with disclosing the company’s sustainability performance; Guarantee the quality and timeliness of company disclosures related to sustainability; Keep an eye on sustainability research and development, and make sure that new sustainability standards are followed.
- Compensation committee: Link material sustainability issues to ESG targets; Integrate sustainability executive performance evaluations and compensation; Engage with investors on sustainability and compensation.
- Nominations committee: Include sustainability in the process of nominating directors and include it in board evaluations of performance.

7. ROLE OF THE BOARD OF DIRECTORS

The development and progress of a company cannot be separated from good management which refers to good corporate governance. Good corporate governance will be realised if the organs of the company act in accordance with their respective functions and

¹³⁶ Siti Hirdayu Mohd Radzi, Nadiah Abd Hamid, and Rina Fadhilah Ismail, *An Overview of Environmental, Social and Governance (ESG) and Company Performance* <https://www.researchgate.net/publication/375665001_An_Overview_Of_Environmental_Social_And_Governance_Esg_And_Company_Performance> accessed 30 June 2024.

¹³⁷ Ibid

¹³⁸ UNEP Finance Initiative, 'Integrated Governance: A Guide to Effective Corporate Governance in the Financial Sector'

<https://www.unepfi.org/fileadmin/documents/UNEPFI_IntegratedGovernance.pdf> accessed 19 July 2024.

¹³⁹ Veena Ramani, 'How Corporate Boards Can Engage on Sustainability Performance'.

duties¹⁴⁰. Business decision making is an important part of a company. This decision-making is carried out by the board of directors as a form of discretion and also a reflection of the independence of a company, so that based on this, all decisions of the board of directors for the benefit of the company must be protected by law¹⁴¹.

An efficient board first establishes the purpose of the business and then develops a plan of action to carry it out, supported by the values and actions that define the company's culture and operational procedures. It will be able to describe the key patterns and elements influencing the company's long-term performance and future viability, such as environmental effects or technological change, and how these, along with the company's main risks and uncertainties, have been managed and controlled. A company's purpose is the reason for which it exists¹⁴². The board is responsible for establishing and reinforcing the company's objective and purpose.

A clear and defined purpose aids in the development of a company's operational procedures, strategy, and risk management plan. Engaging with employees, clients, and the general public can frequently become easier for businesses with a defined purpose. Boards must have a long-term perspective and be accountable for the company's health¹⁴³. In addition to evaluating stakeholder and shareholder interests from the standpoint of the company's long-term sustainable growth, an effective board will manage the conflict between short-term interests and the long-term implications of its choices.

Effective directors will understand their duties both collectively and individually. Considering Irish legislation, Directors' duties are formally set out in sections 171–177 of the Companies Act 2006. Directors are expected to act in a manner consistent with their statutory duties, and to uphold the highest standards of integrity and support the chair in instilling the appropriate values, behaviours and culture in the boardroom and beyond.

¹⁴⁰ Sigit Irianto and Widyarini Indriasti Wardani, 'Responsibility of the Board of Directors in Decision Making of the Company Based on the Doctrine of Business Judgement Rule' (2023) *Proceedings of the 5th International Conference on Law, Economics, and Health (ICLEH 2022* < <https://www.atlantis-pub.com/proceedings/icleh-22/125985833> > accessed 15 July 2024.

¹⁴¹ Ibid.

¹⁴² Financial Reporting Council, 'Guidance on Board Effectiveness' (July 2018) <https://www.frc.org.uk/library/standards-codes-policy/corporate-governance/corporate-governance-code-guidance/> > accessed 18 July 2024.

¹⁴³ Financial Reporting Council, 'Guidance on Board Effectiveness' (July 2018) <<https://www.frc.org.uk/library/standards-codes-policy/corporate-governance/corporate-governance-code-guidance/>> accessed 18 July 2024.

Therefore, determining how to effect board oversight of ESG issues and how to develop and implement an effective ESG governance structure can be challenging due to the wide range of issues that could be encompassed within the term ESG, company-specific variations, the lack of investor consensus on preferences and priorities, and the ongoing development of this area. Simultaneously, boardroom discussions about ESG issues are becoming more frequent¹⁴⁴, and numerous companies have considered giving the board more authority over and management accountability for ESG matters that are pertinent to their businesses.

In order to help boards prepare to address and face the constant changes regarding ESG matters, there are four leading practices for boards to consider.

Monitoring culture

The focus on the culture of a company needs to be continuous and efficient. With regard to the several factors that influence culture, the board plays a significant role. The first step in doing this is developing the organisation's ideal culture. Though management is ultimately responsible for realising that vision, integrating it into daily operations, and occasionally spearheading change, the board must also employ strict, unbiased, and fact-based techniques for evaluating, supervising, and tracking culture¹⁴⁵. To ensure that the culture of the company continues to support the company's performance, it can be helpful for the organisation to periodically reflect on whether the culture is still appropriate in an environment that is constantly changing. It is expected of the board to evaluate and monitor the culture to ensure that it is in line with the goals and values set by the company. In order to facilitate future monitoring, the first step is to set an initial target¹⁴⁶. One way to keep an eye on culture would be to track and identify the basic characteristics that define a positive culture, and associate them with a dedication to the company's ideals. Some common attributes of a healthy culture may be: honesty, openness, respect, recognition, adaptability, accountability or integrity, among others¹⁴⁷.

¹⁴⁴DFIN Solutions, 'Board Oversight of ESG: Now and in the Future' (October 2020) <<https://www.dfinolutions.com/sites/default/files/documents/2020-10/Board%20Oversight%20of%20ESG%20Now.pdf>> accessed 18 July 2024.

¹⁴⁵EY, 'Governing Culture: Practical Considerations for the Board and Its Committees' (January 2019) <https://assets.ey.com/content/dam/ey-sites/ey-com/en_uk/topics/assurance/ey-governing-culture-practical-considerations-for-the-board-and-its-committees-january-2019.pdf> accessed 30 July 2024.

¹⁴⁶EY, 'Governing Culture: Practical Considerations for the Board and Its Committees' (January 2019) <https://assets.ey.com/content/dam/ey-sites/ey-com/en_uk/topics/assurance/ey-governing-culture-practical-considerations-for-the-board-and-its-committees-january-2019.pdf> accessed 30 July 2024.

¹⁴⁷Wilson Perumal, 'Defining the Characteristics of a Healthy Culture' (26 October 2016) <<https://www.wilsonperumal.com/blog/defining-the-characteristics-of-a-healthy-culture>> accessed 30 July 2024.

Decision- making

The decision of the composition of the board is much more important and relevant than it seems. For example, it does not make any sense for all board members to be experts in the same thing, but the ideal way to ensure that the decisions taken are better considered is to have a board in which there are people with different backgrounds, ages, experience, etc. This diversity, although it can sometimes be complex when it comes to making decisions as people may have completely different opinions as it may result in difficult to reach agreements and take decisions, at the same time provides different overviews and perspectives for the decision-making process. Therefore, once those seats are numbered and then occupied, much of the decision making to follow has already been predetermined¹⁴⁸. It is worth mentioning that Article 19(b) CSRD requires companies to report on their governance practices and this also includes that the board is making sure that ESG principles are integrated within the company.

Moreover, it is important to bear in mind that a large number of complicated decisions require judgement and experienced leaders' choices might become distorted under particular circumstances¹⁴⁹. Factors known to distort judgement are conflicts of interest, emotional attachments, unconscious bias and inappropriate reliance on previous experience and decisions¹⁵⁰.

It is convenient for Boards to clearly specify and detail who is responsible for overseeing ESG matters across their entire organisation and within its committees along with the steps that must be taken to implement these responsibilities. When it comes to overseeing the specific risks, opportunities, and goals alongside its overall ESG aims, board members need to be cautious. Boards can minimise the risk of poor decisions by investing time in the design of their decision-making policies and processes, including the contribution of committees and obtaining input from key stakeholders and expert opinions when necessary¹⁵¹. The board must meet on a regular basis to efficiently fulfil its responsibilities and allow give enough time to aboard the different matters considering respective national laws which will determine the

¹⁴⁸ Michael Useem, 'Corporate Governance Is Directors Making Decisions: Reforming the Outward Foundations for inside Decision Making' (2004) *Corporate Ownership and Control*, volume 2, 129.

¹⁴⁹ Ibid.

¹⁵⁰ Financial Reporting Council, 'Guidance on Board Effectiveness' (July 2018) <<https://www.frc.org.uk/library/standards-codes-policy/corporate-governance/uk-corporate-governance-code/>> accessed 30 July 2024.

¹⁵¹ Ibid.

frequency of the meetings that are imposed by law, although the Board can meet whenever the members consider it necessary. When an important decision is made in the board and taken into practice, the board may find it helpful to assess the decision's merits and the efficiency of the decision-making process if it considers it essential to do so and this is a component of the board assessment procedure¹⁵².

However, it is not always easy to make decisions and reach agreements and this can lead to a blockage in the company's decision-making. Some of the risks which may involve poor decision-making and that should be avoided for the good of the company and the atmosphere within the board may be:¹⁵³:

- A dominant personality or group of directors on the board, inhibiting contribution from others
- Insufficient diversity of perspective on the board, which can contribute to 'group think'
- Excess focus on risk mitigation or insufficient attention to risk
- A compliance mindset and failure to treat risk as part of the decision-making process
- Insufficient knowledge and ability to test underlying assumptions
- Failure to listen to and act upon concerns that are raised
- Failure to recognise the consequences of running the business on the basis of self-interest and other poor ethical standards
- A lack of openness by management, a reluctance to involve non-executive directors, or a tendency to bring matters to the board for sign-off rather than debate
- Complacent or intransigent attitudes
- Inadequate information or analysis
- Poor quality papers
- Lack of time for debate and truncated debate
- Undue focus on short-term time horizons
- Inadequate notification

¹⁵² Ibid.

¹⁵³ Ibid.

Relations with stakeholders

Some years ago, in 1983 to be specific, Freeman and Reed gave a definition of what should be considered a stakeholder; “*an individual or group who can affect the achievement of an organisation’s objectives or who is affected by the achievement of an organisation’s objectives*”¹⁵⁴. This definition of a stakeholder is wide and inclusive, acknowledging that stakeholders include people who are affected by an organisation's goals and actions alongside those who directly influence it. This double perspective emphasises how interconnected organisational dynamics are, with both internal and external actors—from employees, customers, and shareholders to communities, authorities, and even the environment—having a significant impact on whether an organisation achieves its objectives. Recognising that stakeholders have the potential to influence and be influenced by organisational results, means that organisations will promote accountability, openness, and sustainability over the long run.

In addition, an effective board will recognise and appreciate the value of having good communication with employees, shareholders, and other important stakeholders as this is what will make the company succeed. The way the board addresses this will provide important information about the company's culture¹⁵⁵. Board effectiveness can be asserted to promote the protection of the interests of all the stakeholders of a firm within which the shareholders integrate to a particular group¹⁵⁶.

As a result, businesses are obligated by EU regulations to incorporate ESG factors into their strategic and operational decision-making processes. For example, the SFDR requires financial market participants to reveal how they integrate sustainability risks into their investment decisions. This has significant implications for corporate governance, as companies are now required to take ESG risks into account along with traditional financial risks when making strategic decisions. Boards of directors are increasingly responsible for supervising ESG issues to ensure that sustainability is not just an afterthought, but a crucial element of the company's strategic vision and operational planning. The NFRD and its replacement, the CSRD, expand this demand to encompass a wider variety of businesses, requiring them to disclose the management of ESG risks and opportunities and their influence on the company's

¹⁵⁴ Samantha Benn, Richard Abratt and Brian O’Leary, ‘Defining and Identifying Stakeholders: Views from Management and Stakeholders’ (2016) 47 South African Journal of Business Management 1.

¹⁵⁵ Financial Reporting Council, ‘Guidance on Board Effectiveness’ (July 2018)

¹⁵⁶ Nicolas Garcia-Torea, Belen Fernandez-Feijoo and Marta de la Cuesta, ‘Board of Director’S Effectiveness and the Stakeholder Perspective of Corporate Governance: Do Effective Boards Promote the Interests of Shareholders and Stakeholders?’ (2016) 19 BRQ Business Research Quarterly 246.

long-term strategy. This requires a change in the decision-making process at the top levels of the company, guaranteeing that ESG considerations are integrated into the company's governance structures and guide important business decisions.

Relations with shareholders

Corporate boards and managers are expected to serve as long-term stewards of shareholders' investments in the company and hence, long-term shareholders should also anticipate that the board and management will respond promptly to matters and concerns that impact the company's long-term value and are of general interest to them¹⁵⁷. Clearly, the Chair plays a crucial role in communicating the opinions of key shareholders to the board and in creating and developing positive relationships with them but there may be situations in which shareholders may seek to have a stronger voice in the company's strategic direction and decision making. and that this type of empowerment necessarily involves the assumption of a degree of responsibility for the goal of long-term value creation for the company and all of its shareholders¹⁵⁸. Ensuring that each shareholder can perform their stewardship responsibilities efficiently is crucial. The AGM and shareholder meetings are the formal means of doing this¹⁵⁹. For instance, Section 181(1) (a) of the Companies Act 2014 in order to ensure there is sufficient time to consider the issues, the notice of the AGM and related papers should be sent at least 21 working days before the AGM. Whereas in Spain for example the Ley de Sociedades de Capital establishes in its Article 176 a notice period for the celebration of an AGM of at least one month. During the AGM, the chairs of the nomination, audit, and compensation committees should be open to questions and requests. The chair should encourage them to make a statement on the activities and achievements of the committee over the year. This might contain information on interactions with shareholders on important issues. The chair is encouraged to provide a personal report on the effectiveness and leadership of the board in the annual report, as the board has a crucial role to play in representing the company to its major stakeholders¹⁶⁰.

¹⁵⁷ 'Principles of Corporate Governance' (*The Harvard Law School Forum on Corporate Governance*, 8 September 2016)

<https://corpgov.law.harvard.edu/2016/09/08/principles-of-corporate-governance/> accessed 1 August 2024.

¹⁵⁸ Ibid.

¹⁵⁹ Financial Reporting Council, 'Guidance on Board Effectiveness' (July 2018)

¹⁶⁰ Financial Reporting Council, 'Guidance on Board Effectiveness' (July 2018)

Relations with other key stakeholders

An effective and competent board understands that for a business to succeed in the long run, engaging with employees and building and maintaining good relationships with suppliers, customers, and other stakeholders is crucial. Occasionally, boards will have to make difficult decisions that will benefit certain stakeholders at the expense of others; these decisions are made with the company's long-term interests in mind and the board should be able to develop and defend the decisions taken and explain how the company has planned to mitigate any effects on impacted stakeholders as well as how those impacts have been taken into consideration¹⁶¹. Scientists have demonstrated that many stakeholders, including clients, suppliers, employees, and shareholders, can interact directly with the organisation and utilise its resources¹⁶². These actors will have a direct impact on the performance of the organisation since they play an important role in the activities of the company. Consequently, they expect some sort of advantage due to its contribution and if this does not happen it may lead to stakeholders acting in ways that negatively impact the organisation's management. It is important to mention that even though they do not have a direct voice inside the company the community, media, NGOs, and activists are examples of other stakeholders who are not immediately associated with the organisation and are not directly involved in the processes of resource distribution or supply but that have a very important role regarding reputation and image¹⁶³.

Relations with the workforce

Changes in workforce engagement have been more an evolution than a revolution, with many companies amending existing practices that have been in place for several years¹⁶⁴. Ensuring that the company's policies and procedures regarding the workforce align with its values and purpose and promote the appropriate culture is essentially one of the main aims which the Board needs to consider. Reviewing hiring and retention, promotion and advancement, performance management, training and development, reskilling, and flexible

¹⁶¹ Financial Reporting Council, 'Guidance on Board Effectiveness' (July 2018)

¹⁶² Gita Lasyte, 'The Role of Stakeholders in Corporate Governance Theoretical Approach' (*Contemporary Research on Organization Management and Administration*, May 2019)

¹⁶³ Ibid.

¹⁶⁴ Financial Reporting Council, 'Workforce Engagement Lies at the Heart of Good Corporate Governance' (27 May 2021)

<<https://www.frc.org.uk/news-and-events/news/2021/05/workforce-engagement-lies-at-the-heart-of-good-corporate-governance/>> accessed 19 June 2024.

working rules and practices are just a few examples of the policies and practices that affect employee experience and influence behaviour¹⁶⁵.

Communication between the workforce and the company is often referred to as the “employee voice”¹⁶⁶. One of the most important components of an ethical and encouraging corporate culture is having procedures in place that encourage employees to express their concerns. Policies that promote anti-bribery and anti-corruption laws, as well as whistleblowing policies provide effective protection against reprisal and therefore are a crucial part of this¹⁶⁷. Businesses must foster an atmosphere where employees feel comfortable to voice their concerns. However, it is true that employees may fear receiving bad press, being passed over for incentives or promotions, and maybe losing their job. Therefore, it is important that leaders make sure that doing so has no negative consequences for the individual.

By the same token, a director chosen from among the workers will offer the workforce's perspective in the boardroom. Along with having the same obligations as the other directors, they should be able to participate in discussions about more general topics¹⁶⁸. The effective application of this strategy will require assistance and training, for instance, in understanding business economics and decision-making.

8. BOARD SUPERVISION OF ESG MATTERS

The division of duties for ESG oversight among the board and its committees is not a "one-size-fits-all" process, and it is subject to change over time. Every company's unique set of conditions determines how board oversight is implemented, including¹⁶⁹:

- the company’s business and industry;
- board composition and culture;
- board committee structure, composition, scopes of responsibility, and workloads;
- existing company processes and practices relating to the oversight of the enterprise risk management (ERM) program;

¹⁶⁵ Financial Reporting Council, ‘Guidance on Board Effectiveness’ (July 2018)

¹⁶⁶ Ibid.

¹⁶⁷ Ibid.

¹⁶⁸ Ibid.

¹⁶⁹ Deloitte, ‘An Alternate Universe: The Small, Young Company Board’ (July 2021)

<<https://www2.deloitte.com/us/en/pages/center-for-board-effectiveness/articles/an-alternate-universe-the-small-young-company-board.html>> accessed 23 June 2024.

- ESG-related functional areas;
- the significance of particular ESG issues to the company; and
- management-level expertise and staffing.

Establishing internal processes and procedures that are suitable for the organisation, along with an oversight structure and related responsibility (for example, through committee charters and/or corporate governance principles), is crucial for companies and after that, companies should create relevant disclosures to ensure that stakeholders and investors understand the manner in which the board is monitoring these matters and that the oversight is supported by the appropriate documents and procedures¹⁷⁰.

To manage the many companies are creating specialised governing bodies or committees focusing on sustainability in order to handle the increasing complexity and significance of ESG issues. These bodies usually consist of top executives and board members who have the knowledge and power to spearhead ESG efforts within the company. The establishment of these committees is a reflection of the growing understanding that ESG matters need specialist monitoring and are essential to the company's long-term viability and adherence to EU laws.

Under the SFDR, companies must provide information on how they manage sustainability risks, especially as outlined in Article 6, which calls for transparency in integrating sustainability risks into investment decisions. Moreover, Article 4 compels companies to release a statement about their due diligence policies concerning the significant negative impacts of investment decisions on sustainability factors. Meeting these requirements often involves establishing specialized committees or governance structures to supervise and effectively manage these risks, ensuring that the company's approach aligns with investor expectations and regulatory requirements. Likewise, the CSRD places strict requirements on reporting, as described in Article 19a which mandates that companies divulge comprehensive details about their governance arrangements, including the board's roles and responsibilities regarding sustainability issues. This obligation further encourages the formation of specialized ESG committees within the board framework, as these entities play a vital role in ensuring

¹⁷⁰ Harvard Law School Forum on Corporate Governance, 'ESG Governance: Board and Management Roles & Responsibilities' (10 November 2021) <<https://corpgov.law.harvard.edu/2021/11/10/esg-governance-board-and-management-roles-responsibilities/>> accessed 18 July 2024.

effective implementation, monitoring, and alignment of the company's ESG strategies with regulatory mandates and stakeholder anticipations. Through formalizing these governance frameworks, firms can more effectively manage ESG risks, boost transparency, and exhibit their dedication to sustainability, all of which are increasingly crucial within the EU's regulatory landscape.

9. CASE STUDIES

Throughout the research, it has been mentioned that due to the emergence of ESG concerns at both the European and national levels, countries have been required to implement various legal actions over the years. To gain a more practical understanding of these situations, presenting a range of instances and scenarios from prominent companies will offer a clearer illustration of how these legal measures have impacted and improved the effectiveness of companies, as well as how companies have dealt with significant challenges arising from poor management and successfully integrated ESG issues into their operations.

9.1. Patagonia

In 2011, the Patagonia team discovered that some of the suppliers that provide materials to Patagonia's suppliers in Taiwan were involved in illegal hiring practices. The issue was detected through the program "Raw materials supplier social responsibility Programme", which was initiated to monitor and train suppliers on social issues¹⁷¹.

Patagonia's goal was to ensure that its suppliers are hiring migrant workers with "No fees". To achieve this goal, it implemented five key initiatives:

- A dedicated Team: Patagonia established a team to deal directly with suppliers who use migrant labour. They employed a CSR specialist at their US headquarters and a manager of corporate and social responsibility situated in Taiwan¹⁷².
- A partnership with Verité (Labour rights NGO): Patagonia partnered with Verité specialising in supply chain risk assessments to conduct in-depth migrant worker

¹⁷¹ Ayoub Zeghari, 'Lessons from Patagonia: Tackling ESG Supply Chain Risks & Modern Slavery' (20 January 2023)

<<https://medium.com/@ayoub.zeghari/lessons-from-patagonia-tackling-esg-supply-chain-risks-modern-slavery-762c4c8eba9c>> accessed 1 August 2024.

¹⁷² Ibid.

assessment on Taiwanese suppliers. The assessment revealed that these illegal practices were widespread among Patagonia's suppliers¹⁷³.

- **Supporting Suppliers:** Patagonia did not ask suppliers to change their practices immediately, it encouraged them to adopt the new standard through a step-by-step approach, enforcing suppliers to repay any recruitment fees that were above the legal limits and to cover the cost of any future recruitment fees¹⁷⁴.
- **Engaging with public actors:** *Patagonia engaged with public stakeholders, such as Taiwan's Workforce Development agency to address forced labour issues and collaborate to improve the system for all companies procuring from Taiwan.*
- **Collaboration with other brands:** Patagonia made its "Migrant worker Employment standard" publicly accessible to other corporations in the textiles and apparel sector to implement across their supply chain¹⁷⁵.

Claimed for its focus on corporate social responsibility and environmental sustainability, Patagonia fosters a culture of honesty and integrity among its staff. The company offers a supportive work environment and benefits that underscore its dedication to its employees. This approach cultivates an environment where employees feel appreciated and aligned with the company's mission, while also ensuring fair wages and comprehensive perks. Such organizations build a devoted and driven workforce by providing significant healthcare, subsidized childcare, and opportunities for professional and personal development. Patagonia's operational approach revolves around a strong emphasis on employee well-being, which mirrors the company's overarching values of environmental stewardship, social responsibility, and excellence. This is clearly articulated on the company's website where they express the following:

*"Our own employees—the nearly two thousand people who work directly for us in our offices, stores and distribution center—are paid fairly and enjoy good benefits, including generous health care, subsidized child care (in Ventura and Reno), flexible work schedules and paid time off for environmental internships. Many employees share our values, care about quality and are active in environmental and community causes"*¹⁷⁶.

¹⁷³ Ibid.

¹⁷⁴ Ibid.

¹⁷⁵ Ibid.

¹⁷⁶ Patagonia's official website

<<https://www.patagonia.com/our-footprint/corporate-social-responsibility-history.html>>

9.2. TotalEnergies

The French Supreme Court's 2023 ruling on TotalEnergies is a significant milestone in the legal field. This case provides a valuable example of the detailed scrutiny that the legal system is applying to corporate ESG reporting and processes.

In January 2020, a coalition of NGOs and local authorities sued TotalEnergies, joined later by the local authorities of Paris, New York, Poitiers, and Amnesty International led a criminal case in Paris against TotalEnergies' board of directors and main shareholders for their contribution to climate change and its fatal impact on human and non-human lives. In the context of intensifying climate disasters and just three days before TotalEnergies' Annual General Meeting, this legal action could set a precedent in the history of climate litigation as it opens the way to holding fossil fuel producers and shareholders responsible before criminal courts for the chaos caused by climate change¹⁷⁷.

Issues to take into consideration:

1. TotalEnergies' governance structure and reporting on ESG matters were being questioned because of its adequacy and alignment with the company's declared climate goals and commitments.
2. The climate strategy of TotalEnergies was questioned by NGOs who argued that it did not meet the required targets set by international agreements such as the Paris Agreement, questioning its effectiveness and ambition.
3. The company's management of human rights issues, especially in areas with confirmed human rights violations, was also a focal point of the legal action.

Legal Analysis

The French Supreme Court upheld the lower court's decision that TotalEnergies' ESG practices and reporting were insufficient. There are some key points to take into account

¹⁷⁷ Bloom Association, 'NGOs and Climate Change Victims File Criminal Case Against TotalEnergies Board of Directors and Shareholders' (May 2024.) <<https://www.bloomassociation.org/en/ngos-and-climate-change-victims-file-criminal-case-against-totalenergies-board-of-directors-and-shareholders/>> accessed 14 April 2024.

- The company's governance framework was lacking adequate preparation to deal with ESG issues, necessitating the implementation of enhancements in governance practices to better oversee and integrate ESG factors into decision-making processes.
- The decision upholds the idea that businesses should be responsible for fulfilling their ESG obligations. It shows how laws are changing to guarantee that corporate behaviors match publicized ESG objectives and global benchmarks. Companies are required to show concrete efforts and outcomes instead of just expressing ambitious intentions.
- The significance of precise and thorough disclosure in ESG reporting is underscored by this case. It emphasizes that companies are obligated to offer transparent and detailed information regarding their ESG practices, risks, and strategies in order to improve transparency and enable stakeholders to make well-informed decisions using trustworthy information.
- The global nature of ESG expectations is underscored by the court's focus on integrating corporate strategies with international standards, such as the Paris Agreement. There is an increasing requirement for companies operating internationally to adhere to global sustainability targets and show compliance with international agreements.
- This case will lead to a rise in the amount of companies prioritising the enhancement of their ESG strategies and governance frameworks. Companies may have to allocate additional resources to ESG reporting systems, enhance internal controls concerning ESG risks, and ensure that their operations are in line with international sustainability guidelines in order to mitigate legal issues.

9.3.Enron

Enron Corporation was a prominent and leading energy corporation that went bankrupt in 2001 as a result of significant accounting fraud¹⁷⁸. Executives misled investors and stakeholders by hiding debts and inflating profits using complicated financial arrangements and special purpose companies. Enron's fraudulent financial reporting was made possible in part by Arthur Andersen, the company's auditor, who did not report these problems¹⁷⁹. Significant financial losses, employment losses, and Arthur Andersen's dissolution were the outcomes of the controversy. As a result of the repercussions, the Sarbanes-Oxley Act of 2002

¹⁷⁸ Peter Bondarenko, 'Enron Scandal, Summary, Explained, History & Facts' (Britannica, July 2024) <<https://www.britannica.com/event/Enron-scandal>> accessed 18 May 2024.

¹⁷⁹ Ibid.

was enacted, introducing strict requirements aimed at improving corporate governance, financial transparency, and accountability in order to prevent future instances of corporate fraud¹⁸⁰.

Legal Failures and Implications:

- The management of Enron was not properly supervised by the board of directors, allowing executives to engage in risky and unethical behavior without repercussions due to the lack of oversight by the board. Additionally, the board failed in their responsibility to safeguard the interests of shareholders. This failure emphasises how crucial active and independent boards are to corporate governance since they make sure that CEO decisions reflect the interests of stakeholders and shareholders¹⁸¹.
- Arthur Andersen, the auditor of Enron, was aware of the fraudulent accounting procedures but still engaged in the fraud by approving audits. Andersen's failure to function independently and ethically highlighted the need for stricter auditor regulations and oversight¹⁸². Enron's fraudulent accounting methods were facilitated by his participation, which was enabled by the company's neglect to meet its auditing responsibilities. Enron broke accounting regulations and provided false information to investors regarding the actual financial condition of the company. This underscores the significance of truthful and precise financial reporting in upholding investor trust and market integrity¹⁸³.
- Serious oversight deficiencies and shortcomings in the legal system were exposed by the Enron scandal. Enron's illicit activities went without consequences for an extended period of time because of inadequate regulations and inspection processes. The incident led to significant legal reforms aimed at enhancing corporate transparency and accountability.
- The collapse had devastating consequences for workers, pensioners, and investors who suffered from job loss and loss of investments. It revealed systemic issues with the

¹⁸⁰ Ibid.

¹⁸¹ Michael Useem, 'Corporate Governance is Directors Making Decisions: Reforming the Outward Foundations for Inside Decision Making' (Corporate Ownership & Control, Volume 2, 2004) 130
< <https://virtusinterpress.org/IMG/pdf/cocv2i1p10.pdf>> accessed 18 May 2024.

¹⁸² Ibid. 130-131

¹⁸³ Michael Useem, 'Corporate Governance is Directors Making Decisions: Reforming the Outward Foundations for Inside Decision Making' (Corporate Ownership & Control, Volume 2, 2004) 130-131
< <https://virtusinterpress.org/IMG/pdf/cocv2i1p10.pdf>> accessed 19 May 2024

protection of stakeholders, as these individuals lacked adequate legal safeguards for their concerns¹⁸⁴.

Moreover, and in response to the Enron scandal, the U.S. Congress enacted the Sarbanes-Oxley Act (SOX) in 2002 and lawmakers realised that there needed to be stronger regulations governing corporate behaviour¹⁸⁵. The main purpose of this Regulation was to improve financial transparency and reduce accounting fraud in publicly traded companies so that scandals like Enron's would not happen again.

The corporate governance flaws uncovered in the Enron scandal led to important conclusions about enhancing governance procedures. One crucial lesson learned was the significance of impartial board oversight. Enron's board failed to properly oversee management, enabling the company's fraudulent activities. This underscored the importance of boards being truly independent from management to effectively scrutinize management decisions and provide unbiased oversight. The inclusion of independent members is pivotal to bolstering the board's oversight and monitoring of executive actions.

One other important lesson was that audit committees needed to be strengthened. The audit committee's poor performance in identifying and addressing Enron's false accounting methods exposed serious flaws in this crucial monitoring role. Reforms in response have made it mandatory for audit committees to be made up entirely of independent directors who have experience in finance. These committees now have more power and accountability for managing the financial reporting and auditing procedures, which makes it possible for them to monitor a company's financial health more successfully. The Enron scandal also highlighted the need for better executive accountability.

The fact that Enron executives were either directly involved in or complicit in fraudulent activities revealed a lack of accountability at the most senior levels of the company. This has been addressed by reforms that require stricter internal controls, mandate regular performance evaluations, and link executive pay to the long-term success of the business. That

¹⁸⁴ Ibid. 133

¹⁸⁵ The History of Sarbanes-Oxley (SOX) and its importance to business today (March 2022) <<https://www.benfordbrown.com/the-history-of-sarbanes-oxley-sox-and-its-importance-to-businesses-today#:~:text=In%20the%20aftermath%20of%20the.businesses%20across%20the%20United%20States>> accessed 19 May 2024

way, the executives will be held responsible for their conduct and that their incentives are in line with the company's ethical standards and overall success.

Disclosure and transparency turned out to be yet another crucial area in need of modification. Enron's financial statements were complex and complicated, making it difficult for regulators and investors to understand the company's actual financial situation. As a result, financial reporting is now required to provide more information, including comprehensive details about related-party transactions, off-balance-sheet arrangements, and risk factors. These changes aim to give more in-depth information about the operational risks and financial health of a business.

The challenges faced by Enron's whistle-blowers also demonstrated the need for stronger protections against these people. As a result, reforms have concentrated on creating strong whistle-blower protection laws, guaranteeing that people can come forward with reports of immoral or unlawful activity without worrying about losing their jobs or suffering other types of reprisals. This promotes the reporting of wrongdoing and contributes to the development of a more secure atmosphere for whistle-blowers¹⁸⁶.

The emergence of such scandals highlighted the necessity of establishing rigorous moral principles and ethical conduct expectations. Enron's emphasis on profits over ethical behavior in the near future significantly contributed to its downfall. Implementing comprehensive ethical guidelines and codes of conduct that offer specific guidance for moral behavior, along with regular employee training and enforcement protocols, have been integral in cultivating a culture centered on integrity within organizations.

When shaping modern corporate governance, the Enron scandal has played a crucial role. It has provided valuable lessons on the importance of unbiased oversight, robust audit committees, executive accountability, transparency, protection for whistleblowers, ethical values, and ongoing evaluation of governance processes. These insights have led to significant changes aimed at promoting ethical and efficient corporate environments, as well as legal reforms that have contributed to enhancing corporate responsibility and transparency. Nevertheless, in order to address emerging challenges and safeguard the integrity of the

¹⁸⁶ Directive (EU) 2019/1937 of the European Parliament and of the Council of 23 October 2019 on the protection of persons who report breaches of Union law [2019] OJ L305/17.

business sector, continuous attention to detail and adjustments to regulatory frameworks are essential.

10. CONCLUSION

The in-depth examination of important EU regulations like the EU Taxonomy Regulation, the NFRD, the CSRD, and the SFDR has given me the opportunity to obtain a deep understanding of the changing regulatory environment that oversees ESG integration in the European Union. The results of this study emphasize the EU's strong dedication to advancing sustainability through a more complex and rigorous regulatory structure, aiming to incorporate ESG factors into the fundamental aspects of corporate activities throughout the continent.

The research traces the historical development of ESG practices, showing how they mirror a larger societal movement toward sustainability and ethical corporate conduct. The increased significance of ESG in both policy-making and business strategy highlights its shift from a specialized concern to a fundamental principle of contemporary corporate governance. The regulatory actions of the EU have been crucial in this change, requiring companies to not just acknowledge but actively include ESG considerations in their decision-making.

This study has shown that companies can gain substantial advantages from strong ESG practices, such as improved reputation, better risk management, and greater access to capital. Companies that successfully integrate ESG principles are more capable of dealing with the intricate regulatory landscape, meeting stakeholder expectations, and attaining sustainable long-term growth. The EU's regulatory framework aims to prompt companies to embrace top-notch ESG practices by enforcing rigorous reporting and disclosure standards, thereby contributing to broader environmental and societal objectives.

The findings indicate that strong ESG practices can provide significant benefits to companies, including enhanced reputation, improved risk management, and increased access to capital. Companies that effectively incorporate ESG principles are better equipped to navigate complex regulatory requirements, meet the expectations of stakeholders, and achieve sustainable long-term growth. The regulatory framework of the EU is designed to encourage companies to adopt high-quality ESG practices by implementing stringent reporting and disclosure standards, thereby supporting broader environmental and societal goals.

Future ESG integration policies will probably integrate required laws with voluntary programs, and case law will provide important context for understanding the legal implications of ESG practices. This research has also emphasised the importance and role of the board of directors to supervise ESG issues in order to guarantee responsibility, accountability, transparency, and moral business practices. Everything being considered, this study emphasises how crucial it is for corporate governance to incorporate ESG considerations in order to manage risks, take advantage of opportunities, and match business plans with public expectations.

A number of important suggestions are made in order to improve the incorporation of ESG factors into corporate governance more thoroughly. The aim of these different suggestions is to strengthen corporate sustainability cultures, enhance regulatory frameworks, and solve current issues and challenges. By applying these strategies, businesses can more successfully align their operations with ESG objectives, guaranteeing long-term resilience and conformity with changing regulations.

1. For Policymakers: In order to effectively encourage ESG integration, policymakers should keep improving and updating regulatory frameworks. New rules should be introduced to address developing ESG challenges, and current ones should be updated. Better compliance and comparability will be made possible by ensuring uniformity and clarity in ESG reporting standards across jurisdictions, which will aid businesses and investors in navigating the complex ESG landscape with more knowledge. Legislators should support voluntary programs that enable businesses to innovate and go above and beyond basic compliance, even when statutory restrictions are crucial. Rewards for businesses showcasing excellent ESG practices have the potential to spur wider adoption.
2. For Boards: ESG factors should be given the highest priority by boards in their strategic planning and decision-making procedures as this can make the difference between having a good corporate governance strategy within the company or not. This can be achieved by establishing explicit ESG objectives, incorporating ESG measures into performance reviews, and methodically addressing ESG opportunities and hazards. By creating specialised committees, giving board members ESG training, and routinely assessing ESG performance, boards can improve their oversight of ESG issues. Ensuring that corporate governance incorporates ESG factors requires strong board monitoring and supervision. Furthermore, it is imperative for corporations to initiate

proactive communication with various stakeholders such as employees, clients, investors, and local communities in order to comprehend their ESG requirements and integrate their suggestions into the company's overall strategies. Transparency promotes trust and improves a company's reputation.

3. For Investors: Investors should evaluate the long-term sustainability of investments, analyse the ESG risks associated with them, and evaluate the ESG performance of companies when incorporating ESG considerations into their investment assessments and decision-making processes. They should also interact with businesses on ESG matters, advocating for improved ESG procedures and holding them responsible for their ESG commitments. Investors can improve long-term value and effect positive change by actively owning and stewarding their investments.
4. For Academic and Researchers: Future investigations should focus on the long-term impacts of ESG integration on stakeholder trust, company performance, and sustainability. These kinds of studies can offer insightful information about the long-term advantages and difficulties of ESG practices. Furthermore, comparative studies conducted in various jurisdictions can provide insight into how successful different regulatory strategies are at integrating ESG. Comprehending the advantages and disadvantages of various models can help shape policy formulation and business operations.

To finalise , the EU's approach to ESG regulation is a significant step forward in global sustainability efforts and is essential. By requiring thorough integration of ESG principles and enforcing strict reporting standards, the EU is promoting corporate transparency and accountability while also establishing a standard for global regulatory practices. Research indicates that the effectiveness of these regulatory frameworks relies heavily on companies' dedication to integrating ESG principles into their governance structures and daily practices. As the regulatory environment evolves, companies that proactively adopt ESG will be better prepared to succeed in a sustainable economy, while those that fall behind may face increasing regulatory pressures and risks to their reputation.

This study has allowed me to see and examine from first hand the need for ongoing adaptation and innovation in corporate governance to address the challenges and opportunities presented by the EU's changing ESG landscape and how important it is for companies to keep

up to date and implement different strategies in order to count with a good corporate governance and ESG strategy within the company.

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