

Governance as the Cornerstone of ESG Success: Risk Management, Transparency, and Long-Term Business Resilience

Rokibul Hasan Chowdhury¹, Dr. Farzana Nazera², Dr. Mohamed Kaisarul Haq³

¹MBA Aspirant, NTI International University and College Malaysia

²Program Leader, Spectrum International University College, Malaysia

³Adjunct Professor, Cape Breton University, Canada; & Spectrum International University College, Malaysia

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ABSTRACT

The beginning of the ESG Corporate reporting began as a compliance driven report and is now an instrument of long-term value creation: Environmental, Social and Governance (ESG) frameworks started as the compliance-based input. Despite this development, many companies still face challenges with piecemeal ESG adoption without integration into central governance and risk processes. This paper focuses on governance as the linchpin of ESG success and considers how board oversight, enterprise risk management (ERM), stakeholder engagement, and transparency mechanisms turn environmental and social initiatives into sustainable business strategies.

Based on an integrative literature review of ESG governance and illustrative evidence from leading technology firms (such as Apple, Dell, Microsoft and Google), the article discusses how governance-led ESG activities foster sustainable product innovation by improving employee well-being, building stakeholder trust and complying with regulations. Our analysis emphasizes that the level of accountability at the board, managerial incentivization alignment, materiality tests and standardized freed disclosure frameworks (e.g., CSRD, ISSB) are institutions that contribute to managing ESG risks, lowering cost of capital and improving organizational flexibility.

The results imply that increased ESG effectiveness is not so much the result of single environmental or social initiatives, but rather due to strong governance architectures which integrate sustainability into strategic decision-making and financial planning. The paper makes a contribution to ESG literature by focusing away from disclosure outcomes and towards the internal governance processes that will deliver sustainable value creation and business resilience in the long term.

Keywords: ESG governance; enterprise risk management; stakeholder engagement; transparency; business resilience.

INTRODUCTION

Over the last ten years, Environmental, Social and Governance (ESG) consideration has moved from being auxiliary sustainability disclosures to central drivers of corporate strategy. An increasing amount of regulatory oversight, more intense investor activism and higher societal demands have therefore changed the way firms are assessed with an emphasis being put on long-term resilience, ethical behavior and risk-adjusted value creation. In this connection, governance has appeared as the structural basis that facilitates successful environmental and social considerations integration into organizational decision making.

While ESG frameworks are prevalent, the implementation gap continues to be a constant feature. Lots of companies make grand ESG promises, but staking those promises into things like actual operational processes,

risk management frameworks and capital-allocation decisions is really damn hard. Previous studies argue that the discrepancy may be in part due to weak governance mechanisms, lack of board accountability, insufficient stakeholder engagement and lack of reporting uniformity. As a result, ESG efforts may become more about tokenism or compliance and less of a true strategic performance-and-resilience lever.

This, combined with recent regulatory movements (eg the European Union's so-called Corporate Sustainability Reporting Directive [CSRD], and standards of the new International Sustainability Standards Board [ISSB]) has raised the stakes for credible, comparable and decision-useful ESG information. These frameworks make clear that governance is a precondition to credible ESG reporting and highlight board oversight, data accuracy and integration with enterprise risk management (ERM). As such, governance is now more than just a check box exercise but has become a strategic tool in determining how an organization recognizes, prioritizes and addresses ESG-related risks and opportunities.

In addition to regulatory push, some of the front-runners led by companies—especially in technology-intensive industries—are using governance-based ESG strategies to innovate and differentiate. Circular product design, carbon-neutral production, employee well-being programs and organized stakeholder engagement are becoming centers of competitive advantage instead of cost. But how governance facilitates these outcomes still has been a neglected topic in the academic discourse.

Research Gap and Contribution

This paper helps to fill this void by considering governance as the building block of ESG effectiveness and analyzing how governance mechanisms facilitate the translation of ESG aspirations into operational and strategic outcomes. In particular, the study makes contributions to the literature in three respects:

Conceptually, it is a framework that sees governance as the integration point between ESG and enterprise risk management, stakeholder engagement and long-term value creation.

Grounded in empirical research, the book draws on evidence from the largest technology firms to demonstrate how governance-driven ESG practices facilitate sustainable product innovation, employee welfare, and regulation adherence.

More concretely, it provides a framework to boards and management and policymakers on how to embed ESG into strategic planning instead of isolating it as just another sustainability function.

By exploring the endogeneity of outcomes to ESG disclosure and focusing on internal governance and execution mechanisms, this paper adds to scholarly knowledge about how ESG strategies enable the firms ability to adapt or transform in a regulatory environment characterized by complexity and stakeholder scrutiny.

LITERATURE REVIEW

Governance Theory and ESG Integration

The lens of governance theory facilitates an understanding of how organizations influence the behavior of managers such that it is aligned with long-term objectives by means of accountability, control and transparency. In the past corporate governance has been preoccupied with addressing agency problems through board monitoring, executive pay schemes, audit committees and shareholder rights. Environmental, social and governance (ESG) factors have since gained significant ground over the issue by moving from minimal board room and management level oversight to the broader strategic handling of non-financial risk and long-term value drivers (King 2023).

Recent research portrays governance as the integrative system between ESG and is responsible to instill environmental and social concerns in corporate strategy, capital allocation, performance management processes (Santos et al., 2023). Structures of governance such as alignment mechanisms (i) board with ESG or sustainability committees, with responsibility for these issues; (ii) outlines in the company policy control on

sustainability risks and risk management and (iii) is there executive compensation tied with ESG performance appear as significant correlates of corporate levels of more “hard” and less symbolic adoption of ESG. In the absence of these mechanisms, ESG often exists in silos, underfunded, undeveloped and poorly enforced

Transparency and accountability also form the backbone of governance theory in the ESG framework. Regulations such as those associated with the Corporate Sustainability Reporting Directive (CSRD) and ISSB standards all highlight governance responsibility for data integrity, internal controls and provable disclosures. Academics claim that good corporate governance is able to lower greenwashing, increase comparability of disclosure and investor’s trust due to the fact that “it embodies and democratizes a sense that the corporation’s claims regarding social responsibility are credible; they can be audited” (PRI, 2024; PRI, 2025).

In the end, governance theory situates governance less as a compliance function and more as an enabler of success, aligning ESG objectives with sustainable organizational resilience and value generation.

Stakeholder Theory and the Social Dimension of ESG

Stakeholder theory broadens the goals of the corporation out from those solely directed towards maximizing shareholder value, asserting that a firm’s competitive adequacy is impelled by its ability to manage relationships with multiple actors through time, including employees, customers, suppliers and local communities etc (Polonsky 1994). In the ESG framework, for example, stakeholder theory serves as the conceptual base towards some competitive advantages by identifying legitimacy, trust and relational capital as three fundamental sources of a “Social” advantage.

The current ESG agreement is that the stakeholder dialogue moved from a philanthropically based or CSR driven model to an engineered and C-Level governance process. The practices of stakeholder mapping, materiality assessment and structured dialogue allow companies to identify ESG factors that are not only important from a social perspective but are also financially relevant (PRI, 2024). As an element of governance, stakeholder engagement increases transparency, supports better decision making and improves the social license to operate.

Employee well-being and mental health have become particularly prominent in stakeholder considerations, most notably within knowledge-intensive industries. The economic data show that well-being of employees correlates positively with productivity, engagement, and retention, contributing directly to the competitiveness of organizations (Enhesa, 2025). As a consequence, governance models have incorporated workforce-related indicators into ESG KPIs (key performance indicators), executive evaluations and reporting obligations, in particular under the CSRD.

The literature does, however, warn against tokenism in stakeholder involvement encouraging consultation that has no substantive impact on strategic outputs. There is need for an effective stakeholder governance process that has clear accountabilities, escalation procedures and aligns with the organizational vision in order to translate engagement into measurable ESG performance (Santos et al., 2023).

Enterprise Risk Management (ERM) and ESG Risk Integration

The ERM theory views ESG issues as strategic risks and opportunities that should be improved, addressed and managed systematically in the enterprise. Unlike conventional interest in financial and operational risks, ESG-related risks (such as climate risk, human rights infringements, supply chain disruptions, reputational harm) have become more relevant to firm performance and its long-term existence (PRI 2024).

The ESG literature increasingly highlights the mainstreaming of ESG factors in ERM frameworks as a fundamental responsibility of governance. Embedding ESG risks in company-wide risk registers, stress tests or scenario analyses and internal control systems will improve an organization’s capacity to anticipate disruptions and respond in a timely manner. This incorporation moves ESG from a sustainability function at the periphery to an integral dimension of strategic risk governance (Santos et al., 2023).

In addition, ERM-aligned ESG governance helps regulators and capital markets by increasing data quality, consistency, and assurance while at the same time enabling better compliance and market outcomes. Investors depend on dependable ESG disclosure to gauge exposure and resilience to long-term risks, [and] companies with advanced levels of ESG integration in the space of risk management profit from lower information asymmetry and reduced cost of capital (PRI, 2025).

Good governance is a key factor in the success of ERM as it provides for board oversight, executive responsibility and cross-functional integration. Hence, ERM further substantiates the contention that governance is an instrument through which ESG risk management becomes translated into sustainable added value.

Sustainable product innovation

Organizations face increasing demands to make sustainability a core element of their research, design and manufacturing processes. Sustainable product innovation produces items which minimize environmental damage while achieving peak social value from production to disposal (King, 2023).

Dimensions of sustainable product innovation

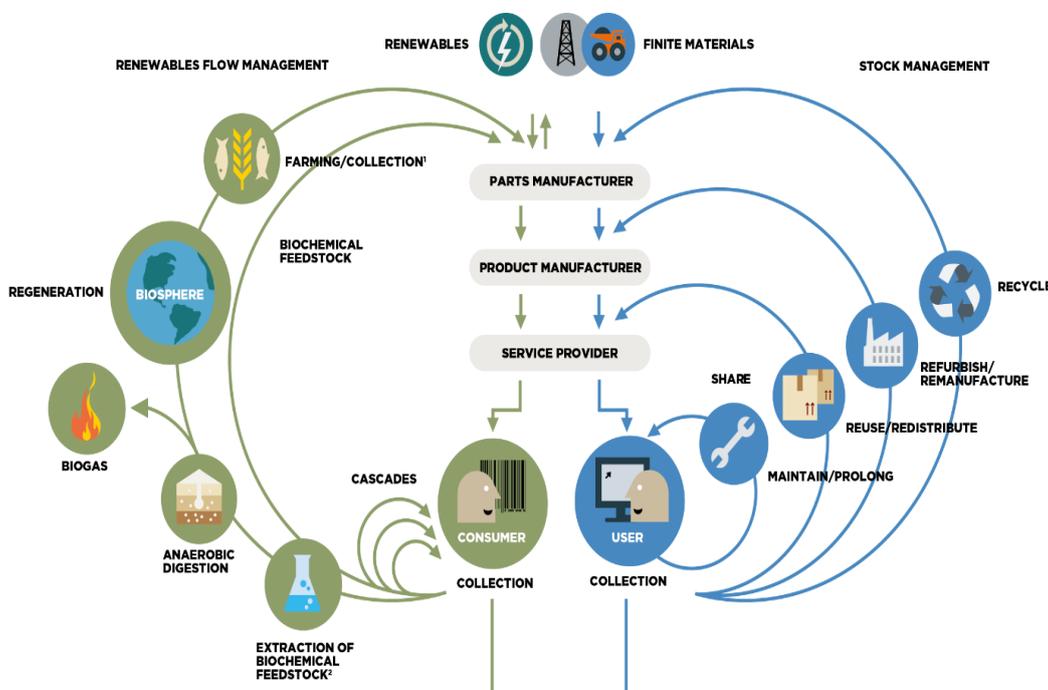


Figure 1: Circular Economy Lifecycle Diagram (Source: Ellen MacArthur Foundation 2021)

This model shows how sustainable product innovation, reducing waste and energy intensity across the supply chain

- Energy efficiency involves designing products and building infrastructure which needs the least amount of power throughout manufacturing and operational use.
- Non-toxic materials paired with safe materials protect consumer health through the substitution of hazardous materials with environmentally friendly recyclable and biodegradable alternatives.
- Using recycled or renewable materials and designing products for maintenance, restoration and product recycling.
- The implementation of modular design strategies and take-back initiatives and software maintenance capabilities for product lifecycle management.

Table 1: Sustainability actions in technology industry.

Company	Sustainability Actions	Details / Impact
Apple	Apple gets carbon neutrality on Apple Watch Series 9 models by using 100% renewable electricity and 30% recycled materials with low emission shipping methods.	A 75% reduction in carbon emissions and use verified carbon credits to cover the remaining emissions. Apple uses 100% recycled aluminum for casings and recycled textiles (Apple, 2023).
Dell (Concept Luna)	The Concept Luna prototype from Dell Technologies, partnering with Intel.	The project designs laptops with modular components which enables simple maintenance operations to minimize electronic waste and environmental impact. The company holds multiple patents for its new products which incorporate recycled aluminum and bioplastics and improve product energy efficiency and recycling systems. The global e-waste problem which produces 54 million metric tons annually can be solved through circular-design solutions that extend the life of materials (King, 2023)
Google & Microsoft	Google and Microsoft likewise integrate sustainability into hardware and operations.	Google implements recycled materials in their Nest devices and Pixel phones and Microsoft shows material reuse through their "Ocean Plastic Mouse" product. The two companies work to enhance data-center energy efficiency through carbon-intelligent scheduling which matches workloads with renewable energy availability. The joint efforts between organizations have resulted in EPEAT and Energy Star standards becoming more widely accepted in the market (Google, 2021)

(Adopted from Apple (2023); Google (2021); King (2023).)

Impact to business

The creation of new environmental products through innovation leads to better energy efficiency because it removes dangerous substances and makes resources work more effectively. The method distinguishes itself from typical innovation approaches because it incorporates environmental protection criteria into design requirements from the beginning.

The sustainable practices implementation in supply chain management leads to enhanced competitiveness through cost reduction, better reputation and higher customer satisfaction. Sustainability-focused innovation enables businesses to achieve customer value alignment because consumers actively seek green products while showing a willingness to pay extra for sustainable options. Organizations can use sustainability as an innovation catalyst by implementing it as a strategic instead as compliance (King, 2023; Singh & Pandey, 2025).

Challenges

Organizations face a decision between product life cycle extension and sales period management and between current R&D spending and future cost reduction. The shift from linear “take-make-dispose” systems needs cultural change to establish circular economic systems. Organizations must uphold ethical consistency in their green initiatives because public trust disappears when they violate ethical standards in labor practices and privacy protection. The companies use transparent disclosure methods and obtain third-party certification from SCS Global Services (Apple, 2023; King, 2023; Santos et al. ,2023).

Green Marketing Strategies

The American Marketing Association defines sustainable marketing through activities that develop products for promotion and distribution using environmentally friendly methods which deliver superior results than traditional methods (Singh & Pandey, 2025).

The technology industry now makes green marketing essential because sustainability has become a fundamental expectation from society. The industry views green marketing as a strategic requirement because companies focus on their climate action work and their efforts to protect resources and decrease electronic waste.

Core elements of green marketing strategies

- The company creates environmentally friendly products through its design process which includes using recycled materials and energy-efficient components and verified sustainability certifications like Energy Star and Fair Trade.
- Modern businesses implement renewable energy systems in their manufacturing facilities and zero-waste production methods which they present through their brand narratives (Apple, 2023; Google, 2021).
- The company demonstrates its dedication through its use of recyclable and biodegradable packaging materials and its delivery optimization system which uses recycled paper instead of plastic fillers (Sustainability Magazine, 2024).
- The most successful promotional methods use actual environmental advantages instead of using basic green visual elements. According to Polonsky (1994) authentic green offerings need to fulfill customer requirements while minimizing environmental damage.

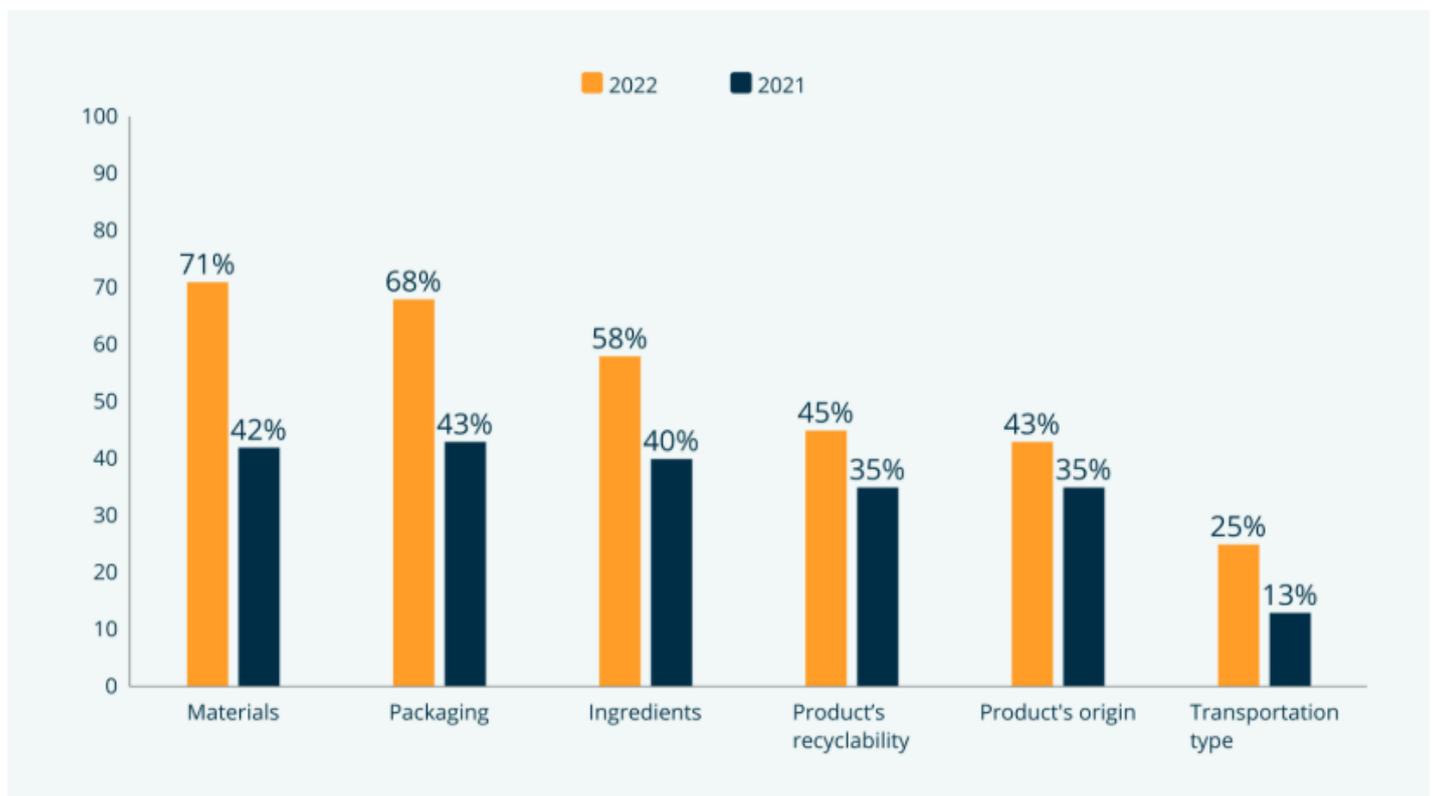


Figure 2: Aspects of sustainability that consumers look (Adopted from Capterra, 2022)

Green marketing in the technology industry

Green Marketing Mix (4Ps)

Sustainable Business Strategy

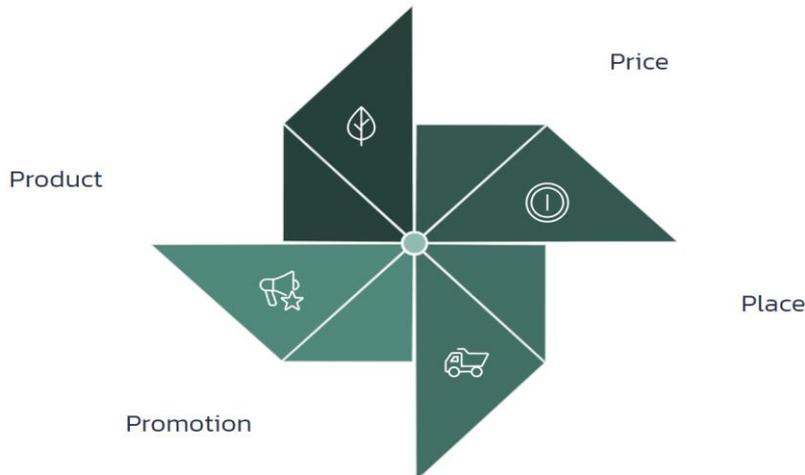


Figure 3: Green marketing mix for sustainable product. (Adopted from: Polonsky, 1994.)

Each marketing mix must integrate sustainability eco-products, value driven pricing, sustainable distribution and green-focused communication.

Table 2: Green marketing strategies of major technology companies.

Company	Strategies & Actions
Apple	Apple integrates environmental responsibility into its brand story through its product launch events by showing recycled materials and renewable energy systems and compact packaging solutions. The 2022 “Mother Nature” campaign of the company conducted a clear climate audit to show its dedication to environmental action through measurable results (Campaign Live, 2023).
Google	Google operates as a carbon-neutral business through its past achievements while it continues to work toward its goal of running on 24/7 carbon-free energy by 2030 (Google, 2021).
Microsoft	Microsoft has established similar environmental goals to reach carbon negativity and water positivity by 2030 while promoting Azure cloud services as more energy-efficient than traditional on-premises computing systems (UNFCCC, 2023).
Fairphone, Dell & HP	The smaller company Fairphone promotes ethical sourcing and repairability as its main selling features but Dell and HP focus on recycling initiatives and trade-in programs to promote circular consumption (King, 2023).

(Adapted from : Apple, 2023; Google, 2021; King, 2023; UNFCCC, 2023)

Impact to business

Research shows that young consumers choose brands based on their ethical values and green marketing helps companies achieve financial success by creating brand differentiation and improving their image (Singh & Pandey, 2025).

The technology market stands out because product specifications are identical yet sustainability functions as a key competitive advantage that leads to enterprise and government contracts which enforce ESG compliance.

Credibility remains critical. Organizations today demonstrate actual progress through measurable data by using frameworks like Global Reporting Initiative and CDP disclosures instead of inspirational statements. Apple and Google provide environmental reports and third-party audits for their marketing advantage.

Challenges

Measuring green marketing direct effect on consumer behavior is difficult. Although many customers claim to prefer sustainable products, price and convenience often dominate decisions (Singh & Pandey, 2025). To remain effective, sustainability must integrate with conventional value propositions of quality and affordability.

The main issue with greenwashing remains its risk to consumers. The regulatory bodies now demand environmental claim evidence because businesses must demonstrate their "100 % recyclable" claim functions properly in real-world recycling facilities. All industrial sectors now follow standard operating procedures which include transparent documentation and independent validation practices.

Employee wellbeing and mental health

The ESG framework includes social dimension which focuses on organizational management of employee relations and supplier interactions and community engagement. Employee well-being together with mental health has become strategic pillar to achieve sustainability. A business needs to support its employees in order to become sustainable according to Enhesa (2025).

A workforce that stays healthy and actively participates in work activities produces better productivity & creative thinking and employee retention which directly benefits business competitiveness. Research shows that employee happiness leads to better work performance because University of Oxford studies found happier workers produce 13% more output (Enhesa, 2025). Stress and burnout result in employee absence, job departure and create negative workplace attitudes.

The situation demands urgent action because research shows workplace conditions result in mental health issues for 84% of workers according to the U.S. Surgeon General's Workplace Mental Health Report and the American Psychological Association states work-related stress affects more than half of employees who need employer mental health assistance (U.S. Surgeon General, 2022; American Psychological Association, 2022). Knowledge-intensive industries such as technology need to protect their human capital because these sectors depend on their employees as their most valuable asset for success.

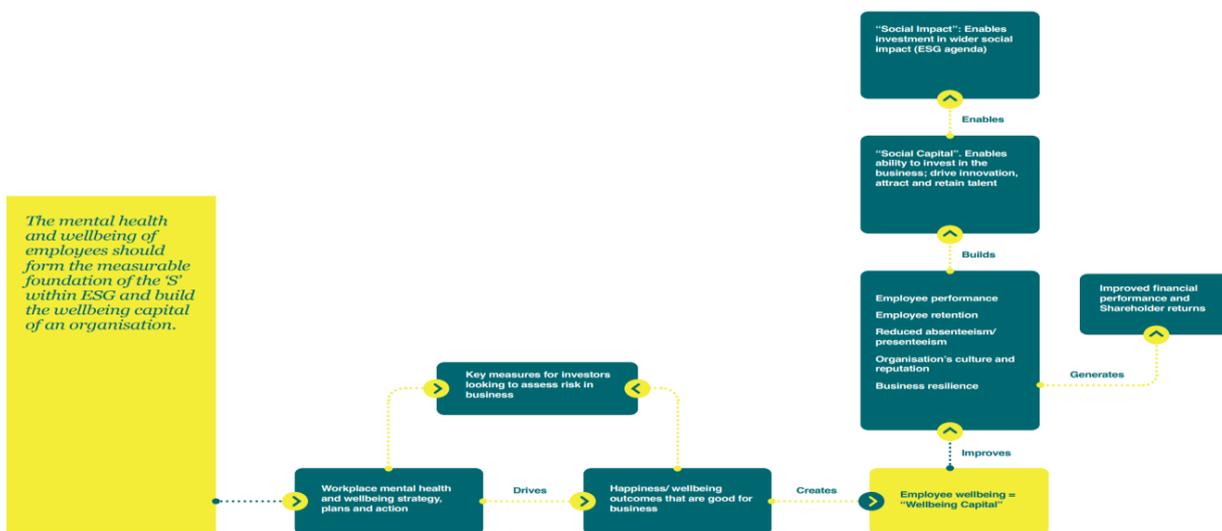


Figure 4: Workplace Mental Health Framework (Adopted from: Mind Forward Alliance, 2024).

The figure shows the structures on which well-being initiatives become measurable ESG outcomes.

Tech industry focus

The workplace offers flexible work options and wellness programs yet requires staff members to maintain high performance during extended work hours.

Table 3: Well being initiatives across technology industry

Well-being initiative	Description
Comprehensive mental health benefits.	Microsoft CARES serves as Microsoft’s Employee Assistance Program which offers 24 free counseling sessions per year together with continuous crisis support. Major companies provide financial support for therapy services as well as mindfulness applications and coaching programs
Flexible work and time off	Flexible scheduling has become an essential practice which supports employee well-being. Microsoft established "holistic health days" which employees can use to rest or recover their mental health because the company understands psychological well-being has the same value as physical health. The organization enables employees to achieve better work-life balance through its practice of shutdown weeks and hybrid work structure.
Workplace culture and Manager training	Leadership behaviors function as key elements which establish the level of well-being for people. Microsoft requires all managers to complete “caring manager” training after finding that direct supervisors have the greatest impact on mental health. The communication approach focuses on empathy and team members receive workable assignments and feel included in the team. Employee-resource groups and peer networks further normalize open discussion of mental health.
Wellness and learning programs	Technology companies give their staff members access to wellness programs that unite physical exercise options such as gym facilities and yoga sessions with digital mindfulness resources through Headspace and Calm subscription services. Microsoft uses a complete model which demonstrates that mental and physical health and financial stability and social connections form a single system of sustainability.
Support for remote and diverse workforces	Remote workers benefit from right-to-disconnect policies and online social activities which enable them to preserve their workplace relationships. The organization provides materials and language support to teams who work in various geographic areas. The MindForward Alliance advocates embedding mental-health metrics into ESG reporting so that well-being becomes a measurable “S”-pillar outcome.

(Adapted from: Kawamoto, 2023; Microsoft, 2023; MindForward Alliance, 2024)

Impact to business

Integrating employee well-being into strategy produces measurable returns. Workers who maintain their health and motivation levels achieve higher engagement and creativity and loyalty (Enhesa, 2025). The companies Salesforce and Adobe which excel at work-life balance become more attractive to top candidates and build better corporate reputations.

The monitoring of workforce health by investors serves as evidence for both good corporate governance and successful risk management practices. Enhesa (2025) states that European regulations need companies to reveal their workforce-well-being metrics. The European Corporate Sustainability Reporting Directive (CSRD) now evaluate mental health policies through their scoring systems.

Challenges

Organizations monitor employee engagement scores and turnover rates as performance indicators but these metrics do not reveal the complete extent of their effects (Enhesa, 2025). The effectiveness of benefits depends on how well they align with existing cultural practices because people will not use them if their use goes against their cultural values. Leaders who practice self-care create an environment which motivates their team members to follow their example.

The implementation of hybrid work systems produces mixed results because workers face decreased travel requirements but their professional and personal boundaries become more blurred which results in extended work hours. Digital shutdown policies together with meeting-free days represent modern solutions to handle this issue.

Organizations now implement Chief Wellness Officers and managerial bonus systems based on well-being metrics to elevate health status into strategic priority (MindForward Alliance, 2024).

The role of stakeholder engagement in ESG strategy (S in ESG)

The "Social" pillar under the ESG framework transcends the traditional philanthropy or corporate social responsibility (CSR). It also entails logical participation and assimilation of different stakeholder issues in the corporate strategy. We consider stakeholder engagement both as a strategic contribution and as an operational action that creates value, reputation and reduction of risk.

Who are the people who have a stake?

It has some of these ESG stakeholders who include employees, senior management, board of directors, and contractors among others which are internal. Others are extrinsic such as investors, customers, suppliers, non-governmental organizations and regulators in local communities.

Stakeholder Influence and Dependence

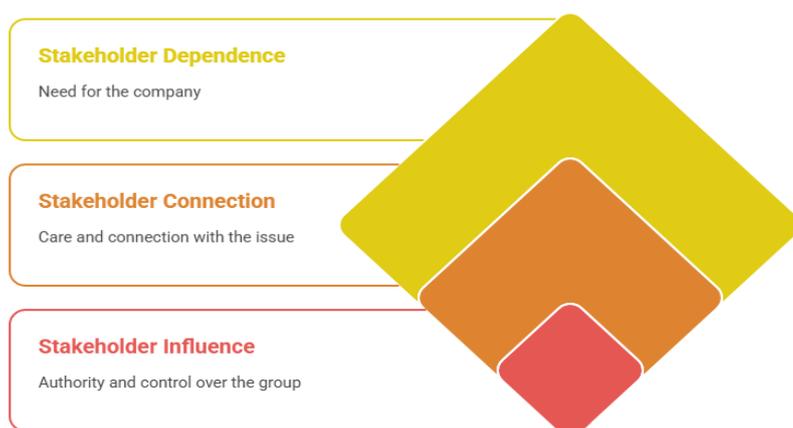


Figure 5: Stakeholder influence and dependence (self-prepared)

Others refer to this group as input-and-impacted-actors since they impact on a business, and are impacted by the business. By laying out our plans in the form of stakes we consider three things:

- 1) The extent of the authority or control they have of the group;
- 2) The extent of the degree of concern or attachment of a stakeholder to the matter;
- 3) Their level of necessity of the company.

This comes in handy when we are required to make decisions on what decisions to make initially. Otherwise, a high visibility/low dependence supplier may be expensive.

Why engagement is important?

There are many reasons why it is important to involve stakeholders.

- 1) Awareness and warning Informing risks: It can make a business be more aware of the problems that may otherwise not have been brought to light until it started causing a crisis more frequently during the course of business.
- 2) Materiality alignment with strategy: Getting stakeholders involved in the material assessment process makes sure that companies are looking at what matters to them and to the business as a whole.
- 3) Reputation, trust, and "social license to operate": Working with stakeholders is a way to build trust and legitimacy, which makes it easier for the company to do business in communities, with employees, and in the market.
- 4) Innovation and competition: Stakeholders know that it can help show social or market trends that lead to new products or services. It can also help we stay ahead of the competition by showing what we have that they don't.

What does good stakeholder engagement look like?

That's because engagement isn't just talking to people; it has to be planned, have a purpose, and fit into the business cycle. Some important things to do are:

- 1) Mapping and prioritizing stakeholders:
- 2) Materiality assessment that considers the opinions of stakeholders
- 3) Getting people involved
- 4) Honest communication

Stakeholder Engagement Process

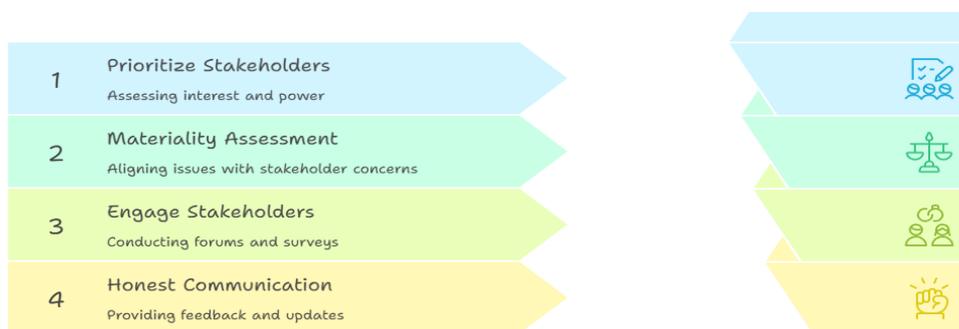


Figure 6: Stakeholder engagement process (self-prepared)

Key challenges

Important Problems Even when they mean well, companies are careful: Knowing who wer most important stakeholders are and how much to involve them is important. If we do too much, it can cost a lot of resources; if we don't do enough, a stakeholder might "miss out" or the activity might seem like a token gesture.

- 1) To be involved, we also need to be able to make choices that matter. Trust is lost when stakeholders know what's going on but can't change or affect the results.
- 2) A lot of the time, there isn't a strong or clear protagonist who can get people to join in. That job needs to be done by businesses. When we measure social engagement, we seem to understand money better. However, it's harder to come up with all kinds of sub-metrics, like social interaction and more interaction from close and long-term stakeholder relationships.
- 3) Engagement between businesses and stakeholders is often just an extra thing that sustainability and CSR teams do, not something that affects the whole business.
- 4) Understanding who were key stakeholders are and at what level to engage when we do too much it can be expensive in terms of resources, not enough means that a stakeholder might 'miss out' or the activity looks tokenistic
- 5) Engagement must also mean having real influence over decisions. There is erosion of trust when stakeholders are informed but cannot influence or impact results.
- 6) There is often the absence of a powerful or articulate protagonist which can effectively engage companies need to play that role.
- 7) We seem to understand money better, but it is harder to come up with all kinds of sub-metrics.
- 8) Engagement between companies and stakeholders is all too often an add-on within sustainability / CSR teams, rather than something that permeates the business itself.

Stakeholder Engagement Challenges: Unveiling the Hidden Depths

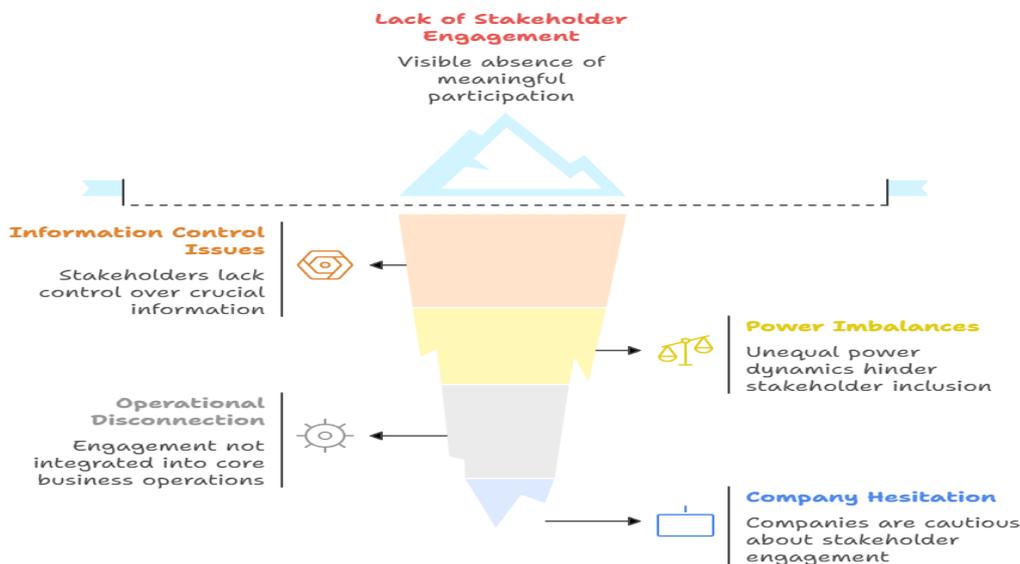


Figure 7: Stakeholder engagement challenges (self-prepared)

Engagement and the increments to social factors in ESG direction

From a strategic lens: the social pillar becomes a lever when engagement is used to shape policy, process, operations and innovation. Some concrete benefits:

- It helps refine social targets in a way aligned to stakeholder needs, elevating these from “nice to have” to “material to business”.
- It makes risk management stronger by bringing up problems early.

- It sets companies apart from their competitors

Ultimately, it contributes to value creation, by making the business more agile, connected with its ecosystem and better aligned with social trends

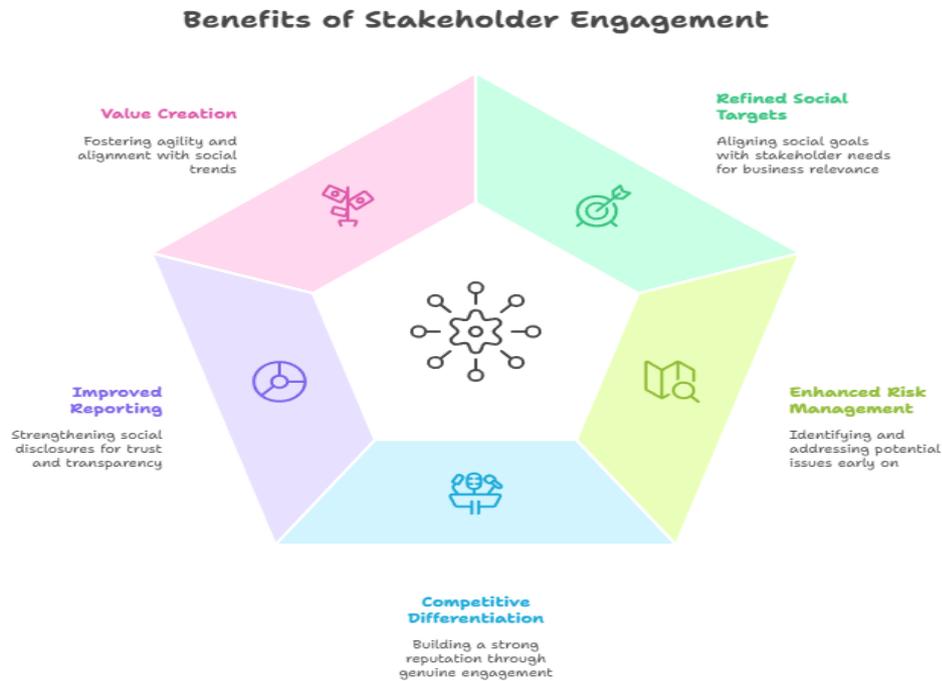


Figure 8: Benefits of stakeholder engagement (self prepared)

The involvement of stakeholders is not the add-on. In order to strategically work on the S of ESG, the engagement should be designed, organized, and actionable.

Risk Management and ESG Compliance in Corporate Strategy (G in ESG)

The "Governance" pillar is the structural pillar that supports the E and the S pillars. It discusses board oversight, internal controls, ethics, compliance, risk management as well as transparency. We may consider governance as the operating system of the ESG strategy in case an OS is weak, the apps (Environment and Social) might crash.

Governance & Risk

The main on-board structure, the pay of the executives, the audit committee and shareholders rights have been the major areas of focus of governance in the past. During the ESG age, governance extends to incorporate:

- Management of ESG risks (climate, human rights, supply chain, reputation)
- Inserting ESG in enterprise risk management (ERM) systems.
- Examples assuring data integrity, reporting, assurance and compliance of ESG dimensions.
- Coordinating stakeholder value creation, regulatory needs and long-term value.

ESG Risk Management Framework

The importance of risk management in relation to ESG is becoming a strategic necessity, as opposed to a compliance activity. Key steps include:

Implementing ESG Risk Management

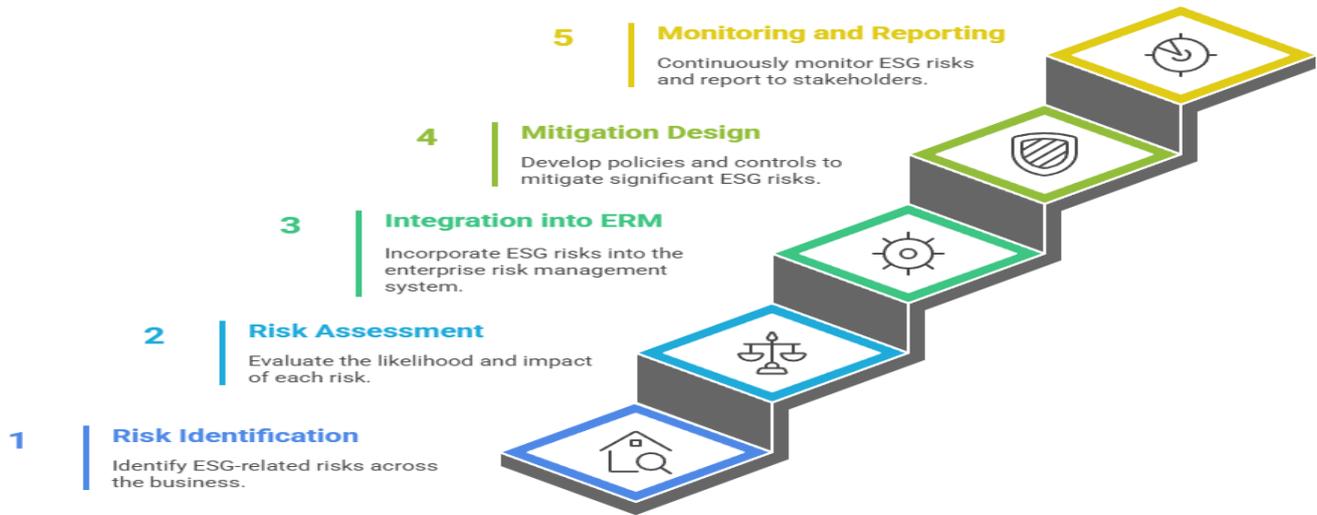


Figure 9: Implementing ESG Risk management (self prepared)

ESG disclosure and following the rules

Governance ensures that what the organization has to do is legal and beyond. Key emphasizes are:

- ESG reporting models, including the EU taxonomy, ISSB and country requirements, are complicating the work of regulators, as well as increasing their job responsibilities.
- Quality and comparability of disclosure: Investors utilize information to decide that a company is performing well regarding ESG issues hence governance must ensure that the information is correct, able to be compared as well as verifiable. Cheating may damage your image or even lead to legal proceedings. There is no more faith in businesses when they fail to fulfill the needs of their stakeholders or balance of engaging them in a worthy manner.
- Ethics and anti-greenwashing: There should be a stop in the proliferation of fake news by the government. We should make sure that ESG assertions are valid. At many locations, officeholders are advising people and punishing them when they lie.

The board or committee needs to keep an eye on ESG issues and give out rewards. ESG goals may be linked to executive pay and bonuses. In the governance paradigm, it is crucial to delineate responsibilities clearly.

Profit and governance

A strong ESG governance system helps with both compliance and planning. Consider how governance might given an edge over their competitors:

- It lowers capital costs and builds trust with stakeholders by lowering operational, reputational, and regulatory risk.
- It gives businesses more freedom: good governance helps them respond to changes in ESG, like new climate rules or social norms, faster and take advantage of opportunities before their competitors do.
- Strategy is connected with action through governance. Without any governance, ESG objectives can remain in sustainability functions rather than transferred to operations. The element of ESG comes in governance when decisions are made.

The governance instructs individuals to make long term value and not short-term profits. This is increasingly desired by more and more ESG investors.

Important Governance Risks and Ways to Fix Them



Figure 10: Strengthening ESG governance (self prepared)

To put it more succinctly, governance is the key to ESG. It is a risk to the social and environmental goals. An effective ESG plan would be one where one can control risks in advance, tell the truth, and structure the business so that it can survive and earn profit in the long term.

Implementation gap and governance deficiencies in ESG frameworks

There remains a perennial divide in implementation between ESG frameworks that have been globally institutionalized and the practical execution of ESG commitments. Though many companies proclaim to value sustainability, few of them have made environmental, social and governance (ESG) considerations part of every decision they make – ranging from governance to funding allocation to risk management frameworks. A gap exists which sees ESG reduced to a symbolic compliance exercise rather than an approach for ensuring long-term sustainability and value creation (Santos et al., 2023; PRI, 2024).

Poor governance is a major factor of vulnerability. The governance literature emphasize the role of accountability, control mechanism and also aims to ensure alignment between managerial interests and long-run strategic value. There is some evidence that ESG responsibilities are placed under a sustainability department with less board oversight and lack of inclusion in executive compensation schemes (Santos et al., 2023). In such cases, ESG continues to be a follower and not the leader which accentuates short-term motives and hinders proper execution.

Finally, involving stakeholders also exposes fundamental flaws in existing structures. According to the stakeholder’s theory firms can acquire long-term competitive advantage by promoting cooperation between employees, investors, suppliers and local communities (Polonsky 1994), while many companies conduct a materiality process that in actual fact doesn’t affect their strategic decisions. Participation has become consultative rather than empowering, we have become a 'participation on the cheap' society and participation works as tokenism to engage and undermine over time. Without governance links that clarify who is responsible, define escalation systems and measure progress stakeholder engagement can not lead to meaningful ESG outcomes (PRI, 2024).

Regulatory Developments such as the European Union’s Corporate Sustainability Reporting Directive (CSRD) and International Sustainability Standards Board [ISSB] standards are also seeking to enhance the comparability of, reliance on ESG disclosures. These frameworks require structured reporting, internal controls and board accountability. Standardization of disclosure will not by itself address internal governance deficiencies. Regulatory compliance risks -tick box-reporting culture: Regulatory compliance risks can lead to a “tick-box” reporting culture if there are not strong oversight and risk integration processes which drive strategic ESG integration, instead of regulatory (PRI, 2025).

Indeed, considering the vast range of ESG risks - including climate transition risk, supply chain vulnerabilities, reputational exposure and human capital instability-- enterprise risk management frameworks can be used to methodically incorporate these types of risks into comprehensive risk governance systems. Firms that exclude ESG risks from scenario analysis, stress testing and strategic planning suffer increased information asymmetry and higher cost of capital (PRI 2025a). As a result, governance fragmentation impedes the effectiveness of ESG to build sustained corporate resilience.

Recommendation for strengthening ESG effectiveness

Improving board accountability

Boards need to establish dedicated ESG or sustainability committees with a clear mandate, measurable targets and an organizational reporting line. Tying executive compensation to ESG performance metrics enhances the alignment of management objectives and mitigates “greenwashing” motives, as found in Santos et al. (2023). Oversight Over Governance: The governance oversight of the supervisory board should expand beyond checking ESG disclosures and become one that identifies risks with regards to exposure to ESG-related risk factors and integration at a strategic level.

Including ESG into enterprise risk management (ERM)

Integration of ESG into the enterprise risk management systems has become necessary so risks to sustainability are identified, measured and managed in a structured manner. Climate and supply chain risk as well as human rights exposure should be factored into enterprise risk management frameworks and future scenario planning capabilities. Successfully integrating activities builds resilience and preserves value over the long term (PRI, 2024; PRI, 2025).

Formalization of stakeholder-centric governance

Stakeholders should be part of governance, not simply as a CSR exercise. Applying materiality assessments in a systematic way, setting up continued dialogue processes and openly disclosing stakeholders’ influence may increase the legitimacy of an organization and trustworthiness (Polonsky, 1994). Policy, operational and investment decisions be based on feedback of the parties in governance systems.

Ensuring transparency in reporting

The enhanced quality of reporting enabled by CSRD and ISSB reinforces the ongoing value of internal data governance and third-party assurance. Robust ESG data can help mitigate the risk of greenwashing and boost investor confidence. Transparent reporting is a mechanism to ensure corporate accountability within the context of an evolving set of regulatory and capital market pressures (PRI, 2024).

Establish a sustainable oriented organizational culture

For ESG to truly flourish, there needs to be a profound cultural change. Incorporating ESG into everyday operations is made easier by syncing sustainability literacy, cross-functional cooperation and innovation incentives with environmental and social goals. Firms that integrate sustainability considerations in their purchasing, product development, HR policies and financial planning move from ESG compliancy to strategic sustainability (Santos et al., 2023).

CONCLUSION

The inclusion of ESG as part of corporate strategies signals a clear move away from compliance and self-proscribing brand protection to a potentially much more expansive business agenda, which can use governance and stakeholder engagement as levers for securing sustainable growth and security. The main themes that emerge from this analysis are product innovation for sustainability, driving cost savings and value creation offers like those deployed in market by the Apple, Dell, Google and Microsoft amongst others enabling measurable environmental gains as well as improved brand affinity. Wellness programs, such as those from Microsoft: counseling by CARES and holistic health days as well as manager empathy training that led to a 13% increase

in productivity and better talent retention (and so contributed to the social pillar. Organized engagement with stakeholders, including mapping, materiality assessments and open feedback sessions can pre-empt issues, spark creativity and achieve the “social permission to operate” that transforms potential adversaries into value-adding partners for employees, investors, suppliers communities and regulators.

Despite the increasing development the problems of overload (for example) that may interfere with work remain; some aspects of social impact assessment still lag behind dynamism of other areas and difficulties in cultural context of certain remote business practice; working together with the risk of deceptive action nullify all efforts’ Therefore, it is necessary to have good governance, which includes ESGOs at board level, linking executive pay to sustainability performance targets, anti-fraud measures and verification by independent third parties following CSRD and ISSB frameworks. With strengthened governance, there is a cut in capital expenditure and an improvement in the speed at which new requirements can be met (e.g. climate laws) so that strategy is aligned with execution not simply operating the sustainability department but also main functions; execution and decision-making process.

We as the future business leaders would like to suggest that ESG should not be treated like parallel verticals, but as an overall framework where governance provides order, discipline, and accountability; stakeholder engagement breathes relevance and agility; and collective action is in line with investors’ demands for transparency and long-term returns. Companies that incorporate ESG into their business essence – through ethical continuity, active risk management strategy development and real partnerships with stakeholders – not only will survive in the world confronted by various uncertainties but also advance creation of a more stable, equitable economy; they will be a proof that the true sustainability is equal to superior business performance.

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