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The ethics and compliance imperatives of the 'E' in ESG: Why corporate boards should approach with a fine-toothed comb

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The term “ESG” (environmental, social, and governance) has evolved from a cautionary tale informing corporate social responsibility into a global standard of conventional wisdom since its inception almost two decades ago. When the United Nations (UN) Environmental Program Initiative introduced the term in its 2005 Freshfields Report, perhaps the world could not have predicted its impact on corporate behavior or the length to which its stakeholders might go to raise the specter of the consequences of not paying closer attention to each of its pillars.^[1] This initiative was only bolstered by its 15-year agenda focusing on humanity and the planet: The 2030 Agenda for Sustainable Development, which likewise highlights the environment as a key Sustainable Development Goal (SDG).^[2]

Not surprisingly, each of the three pillars represents a distinct idea that focuses corporate behavior on one or more important initiatives: *the environment, social, or governance*. Each pillar helps an organization focus on material risks and opportunities according to current industrial, sociopolitical, and economic concerns. Sustainability and ESG investing have become focal points that lead the discussion in almost every context.

The “E” in ESG represents a comprehensive emphasis on maintaining a healthy environmental ecosystem and highlights issues around climate change, reducing greenhouse gases, carbon emissions, pollution, and managing the universal umbrella of toxic waste. Environmental harm can occur through direct impact or vicariously through other mechanisms within the supply chain. Thus, it’s important to understand root causes and how the “domino effect” can impact resources within a given logistics network.

By way of contrast, the “S” represents social concerns related to ethical perspectives and human rights policies, as well as organizational behavior at both the cultural and global levels and how those issues impact stakeholders at every echelon. The “G” represents principles of good governance and decision-making, with a clear spotlight on fiduciary duties. It includes areas such as policymaking, legal and regulatory frameworks, board behavior, corporate management, and accountability. Together, they represent an objective, global approach to sustainability and risk management across industries.

Notwithstanding, not everyone believes the ESG paradigm is useful. A contrarian view suggests organizations are not properly incentivized to raise the frame on sustainability or risk and are even predisposed to promoting the “E” via greenwashing to save public face. Still, others see it as a method for escalating capitalism by surreptitious means. It will be interesting to see how corporations and their stakeholders confront this quagmire going forward, especially where regulators and investors are concerned.

What’s true for sure is that a customized ESG strategy is essential to meeting the goals of corporate sustainability

and responsibility. A robust strategy can help an organization put its best foot forward—even in the most challenging of circumstances. It's likewise useful to understand that perspectives may shift depending on whether you are examining the world's effect on the corporation (ESG) or the corporation's impact on the planet (sustainability).

And what we know for sure is that stakeholder education and management are at the forefront of an effective ESG strategy, no matter the pillar focus. The following represents a detailed overview of the “E” in ESG and explains why corporations should prioritize the designation in the grand scheme of an effective business strategy.

The environmental impact is glaring

Say goodbye to your favorite tropical island holiday destinations. Unfortunately, nations like the Maldives, Tuvalu, the Marshall Islands, Nauru, and Kiribati are sinking.^[3] In fact, by the year 2100, they may end up below sea level, creating a possible 600,000 refugees. The notion of countries disappearing off the map is happening as global warming accelerates, posing an imminent threat to the international community. In short, the world can no longer handle the juxtaposition of displaced citizens. Yet, in the case of those islands, they'll need evacuation plans when the time comes.

Sea levels worldwide have already risen 15 to 25 cm (about six to 10 inches) since 1900, with an alarming acceleration. And rising sea levels result in a litany of damage outside of it, including coastal erosion, flooding, loss of plant and animal habitats, as well as soil contamination.

The Potsdam Institute for Climate Impact Research in Germany employed a model of intermediate complexity to analyze climate feedback that led to the conclusion that the desertification of North Africa began abruptly 5,440 years ago.^[4] Before that time, the Sahara was adorned by annual grasses and low shrubs, as evidenced by fossilized pollen.

In North Africa, climate change has occurred in two phases: moderate and extreme. The sum of these phases has resulted in escalating seasonal temperatures and a decline in precipitation. In addition, desertification, agricultural corrosion, and various socioeconomic consequences have been equally devastating. The Green River project in Egypt is one such response to the region's environmental crisis.^[5]

The Orbiting Carbon Observatory 2, or OCO-2, is an Earth satellite mission designed to study sources of carbon dioxide globally to give scientists a better view of how carbon emissions correlate to climate change.^[6] Recent studies tackled the effects of lockdowns early in the pandemic and found that global CO2 levels dropped slightly in 2020. By combining such data with modeling, the satellite was able to glean the monthly changes resulting from human activity and distinguish those occurring naturally at a regional scale.

In its March 2023 report, the UN Intergovernmental Panel on Climate Change (IPPC) said, “Human activities have already transformed the planet at a pace and scale unmatched in recorded history . . . causing irreversible damage to communities and ecosystems.”^[7] As such, key questions around long-term adaptability and survival have emerged. Indeed, for the first time ever, scientists and environmentalists alike have obtained accurate data on greenhouse gas (GHG) emissions across the globe.^[8] This data provides valuable insights into the dangers associated with fossil fuels emissions, which have a direct link to human health and environmental sustainability. It is impressive how NASA's efforts brought us a literal top-down view of our planet, including activities and damage inflicted at the hands of humans. This data is undoubtedly vital in evaluating our climate change rectification process.

Elevated radiation levels consistent with very low level atmospheric depleted uranium contamination have been

found in air samples taken by the UK Atomic Weapons Establishment at several monitoring sites in Britain. These elevated readings appear to coincide with Operation Anaconda in Afghanistan and the Shock and Awe bombing campaign at the start of the Iraq War.

Not surprisingly, even during peacetime, a considerable amount of military energy consumption occurs worldwide.^[9] For example, the U.S. Department of Defense expends approximately 40% of the fossil fuel consumed by the US via its massive military facilities. This is similar to European countries in that their militaries also burn the vast majority of their fossil fuels within respective governmental operations. Other countries, like Saudi Arabia, China, and Russia, neither monitor emissions nor report them. However, if analyzed, their emissions would likely be in a similar range to that of the US.

Bombing, missiles, nuclear warheads, area-of-impact weapons, and other modern warfare methods, directly impact wildlife, biodiversity, and the atmosphere. It is estimated that the impact of human conflict can eradicate 90% of large animals in a war zone. It also increases water, soil, air, and land contamination, making it uninhabitable for people and animals. All of this begs the question: Shouldn't militaries worldwide incorporate ESG reporting principles in their overall risk analysis strategies? It should at least be on the proverbial table.

Back in 2021, data showed that the largest emissions produced were by China, the US, the European Union, India, Russia, and Japan. Combined, they account for 49.2% of global population, 62.4% of GDP, 66.4% of fossil fuel burnt, and 67.8% of CO2 emissions. As an aggregate, they increased CO2 emissions in 2021 compared to 2020. And Russia and India led the increase (8.1% and 10.5%, respectively).^[10] Overall, most nations maintained or increased an emissions quota except Mexico, which successfully achieved a decrease of 13%. This data demonstrates that real-time tracking can greatly impact identifying root causes and influencing long-term strategies, especially if prioritized and incorporated into a sound governance program.

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