‘Governance’ in ESG:

Governance Obligations in ESG Reporting

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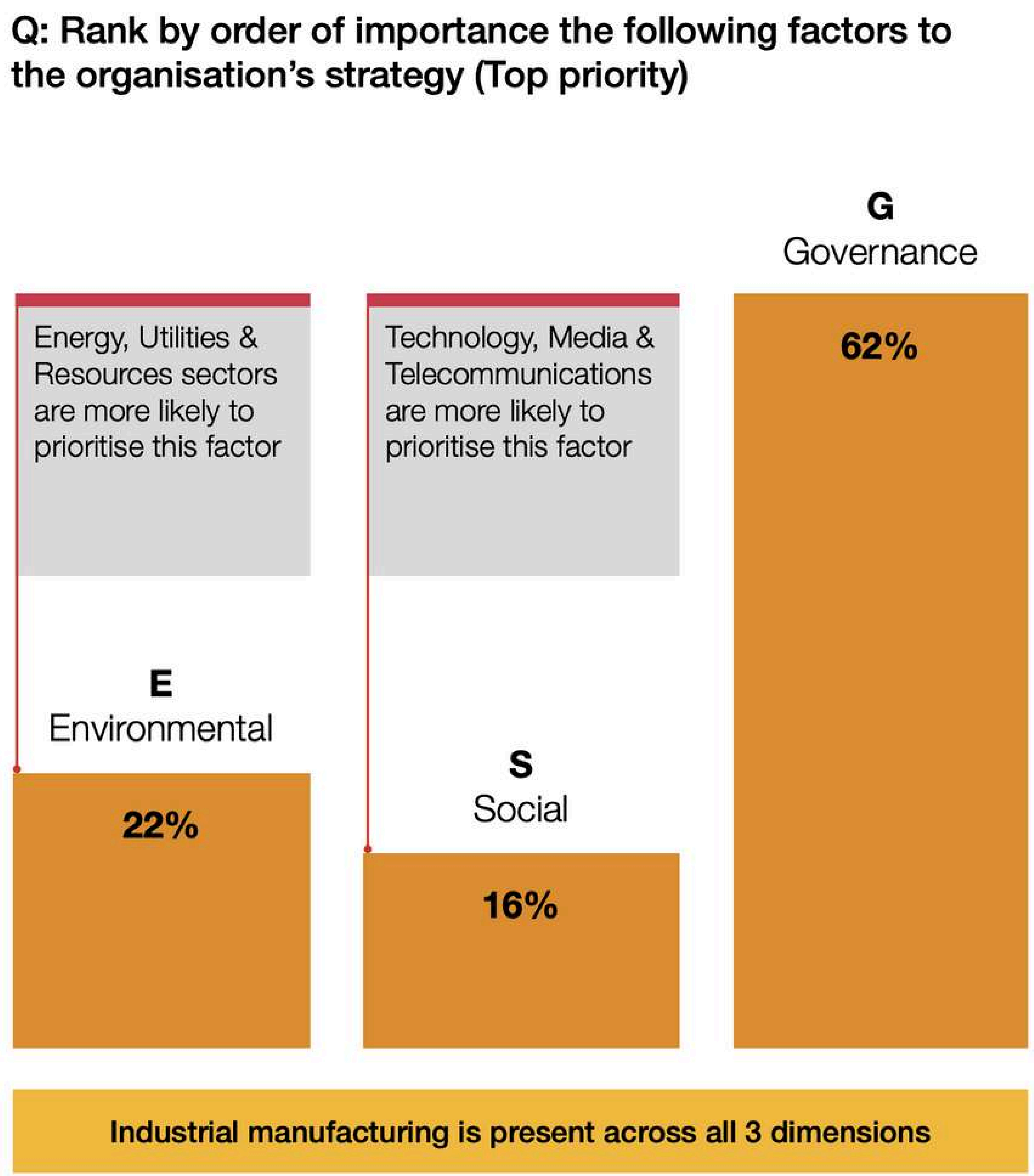
Why is ‘Governance’ crucial in ESG reporting?

59% of surveyed consumers identify Governance as the most influential factor on their purchase behaviour over Social at 51% and Environmental at 46%.

References: [PwC, 2022]

Up to 62% surveyed Vietnamese companies rank ‘Governance’ as the top priority on the organization’s strategy over ‘Environmental’ and ‘Social’.



Why is ‘Governance’ crucial in ESG reporting?

Risk management & compliance

Strong governance manages risks effectively and ensures appropriate checks and balances, and decision-making processes to reduce the possibility of regulatory breeches and unethical practices.

Long-term corporate strategies

Good governance that integrates ESG into core company strategy yields long-term sustainability and better financial performance as a result of increased risk resilience.

Stakeholder trust and reputation

89% of surveyed investors support mandatory ESG performance reporting based on globally consistent standards (EY,2021). Thus, transparent reporting, ethical behaviour and accountability help build trust with stakeholders which contribute to the company’s reputation as reliable and trustworthy.

Ethical and social responsibilities

Responsible governance promotes ethical conduct and integrity and acts as the fundamental component for a company to address environmental and social concerns.

References: EY, 2021. , BDO Australia, 2023, PwC, 2022, WEF, 2022

Defining Governance in the Context of ESG

Governance in Context of ESG reporting

guides how a company is directed and its relationships with its shareholders and stakeholders.

For example

- Corporate structure
- Board composition
- Business ethics
- Compliance
- Certainty
- Anti-corruption measures

How Governance shapes the structure & credibility of ESG

- All successful ESG strategy begins at good governance.
- Ensure ESG enthusiasm translates into concrete action and systemic change
- Promote successful ESG initiatives by supporting and structuring company-wide collaboration using top-to-bottom approach.

References: [WEF, 2022]

How governance shapes the structure & credibility of ESG initiatives

foundational principles in addressing essential components of responsible and sustainable business practices for effective governance

TRANSPARENCY

ACCOUNTABILITY

STAKEHOLDER ENGAGEMENT

How governance shapes the structure & credibility of ESG initiatives

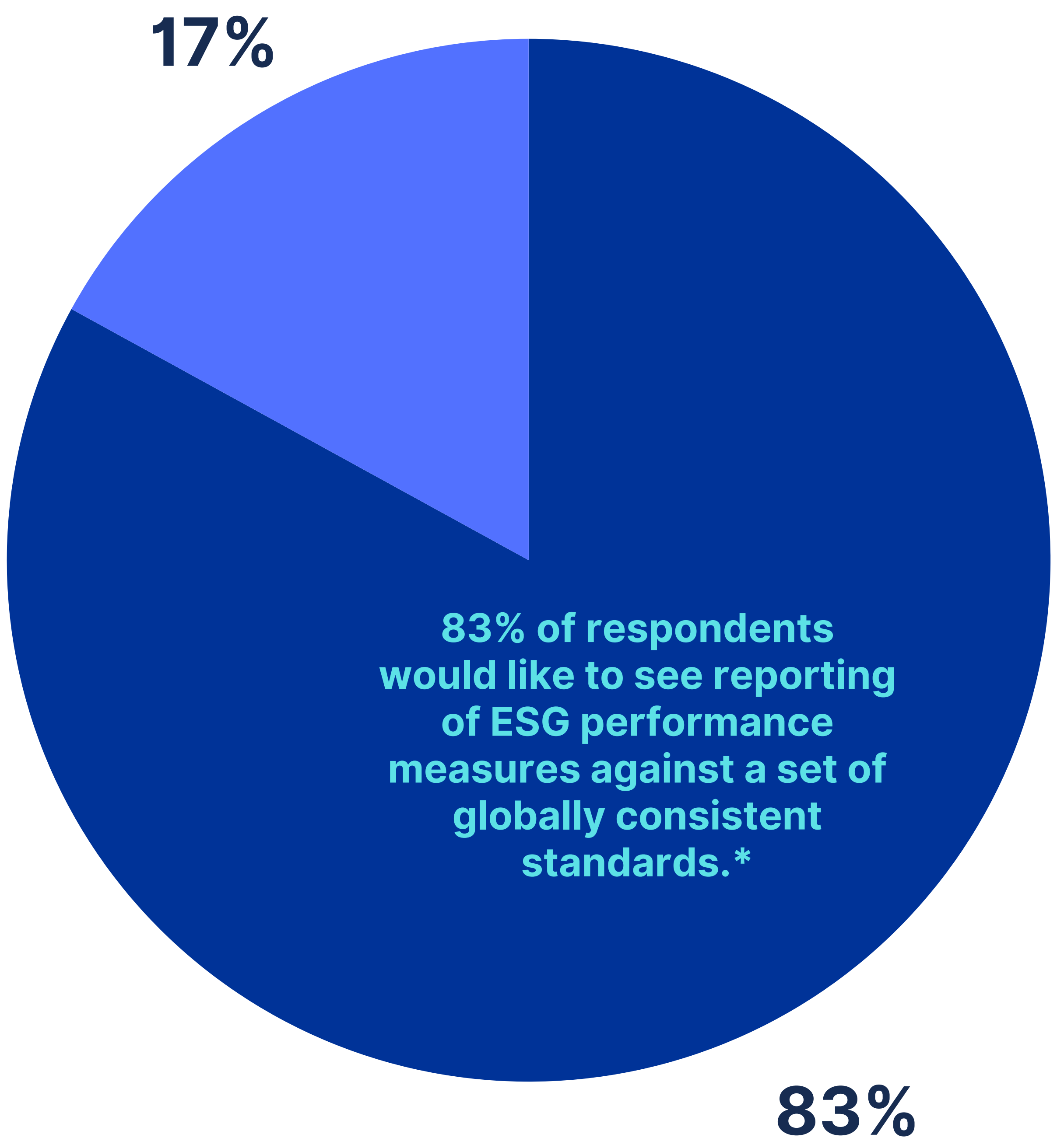
TRANSPARENCY | **ACCOUNTABILITY** | **STAKEHOLDER ENGAGEMENT**

foundational principles in addressing essential components of responsible and sustainable business practices for effective governance

Information about the company's **strategy, management and performance** to be communicated clearly and comprehensively to stakeholders. (EY, 2022)

Boards are responsible for **documenting and reporting** on everything expected of them as thoroughly as necessary to all stakeholders. (Corporate Governance Institute)

Non-transparent governance leads to **misallocating resources and harms public and private sector development** (the anti-ESG).



*From EY 2022's survey on Long-Term Value and Corporate Governance with 200 corporate directors and senior managers from leading European companies

How governance shapes the structure & credibility of ESG initiatives

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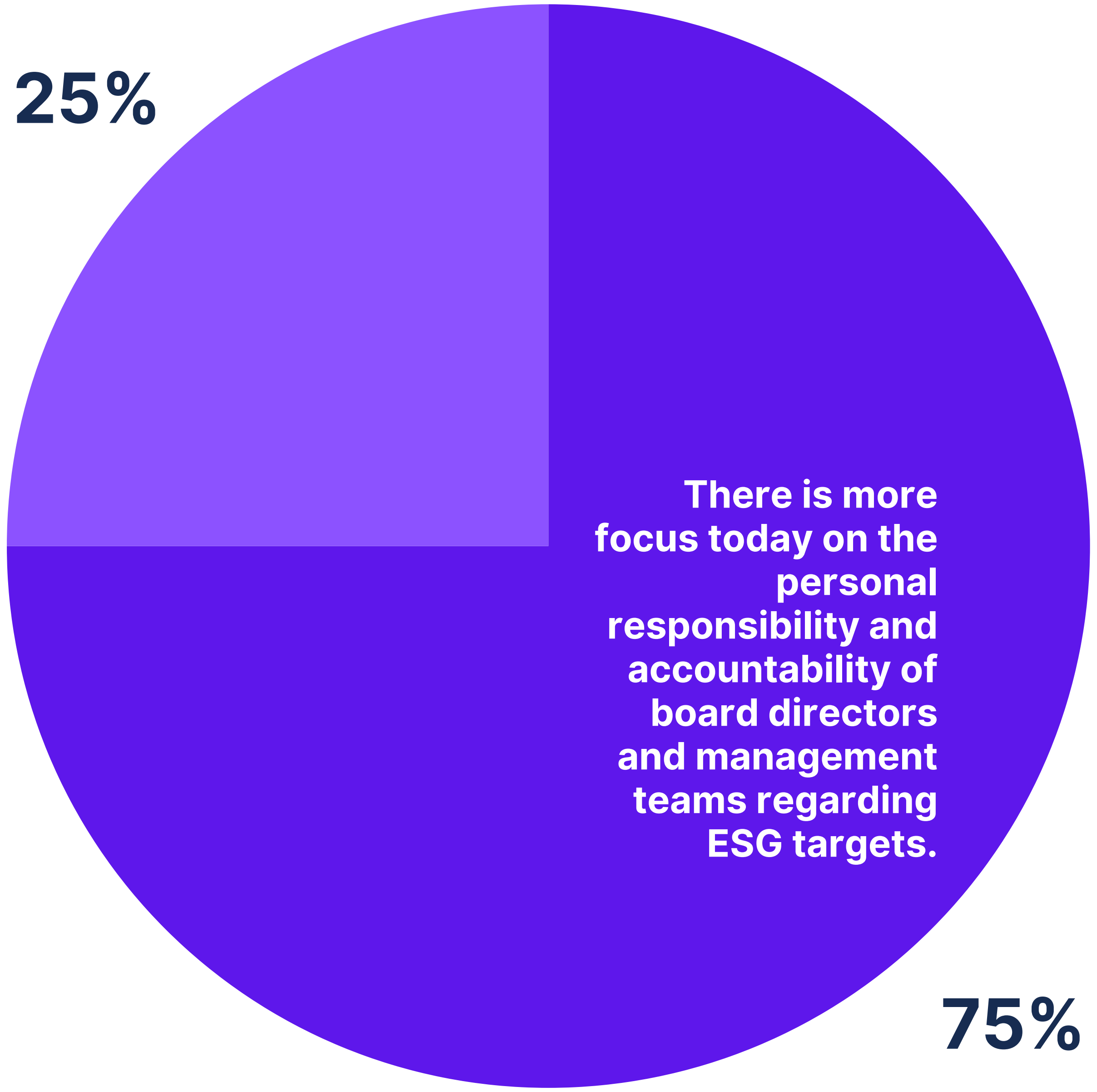
75% say there is **more focus today** on the personal **responsibility and accountability** of board directors and management teams **regarding ESG targets**. (EY, 2022)

60% of S&P 500 companies include **ESG metrics in their incentive plans**, which indicate governance mechanisms are used to hold leadership accountable for achieving ESG goals (Willis Towers Watson's executive compensation plan, 2021).

71% of core ESG reporting activities are currently or planned to be **outsourced** in the next 3 years (KPMG 2024 ESG Organization Survey).

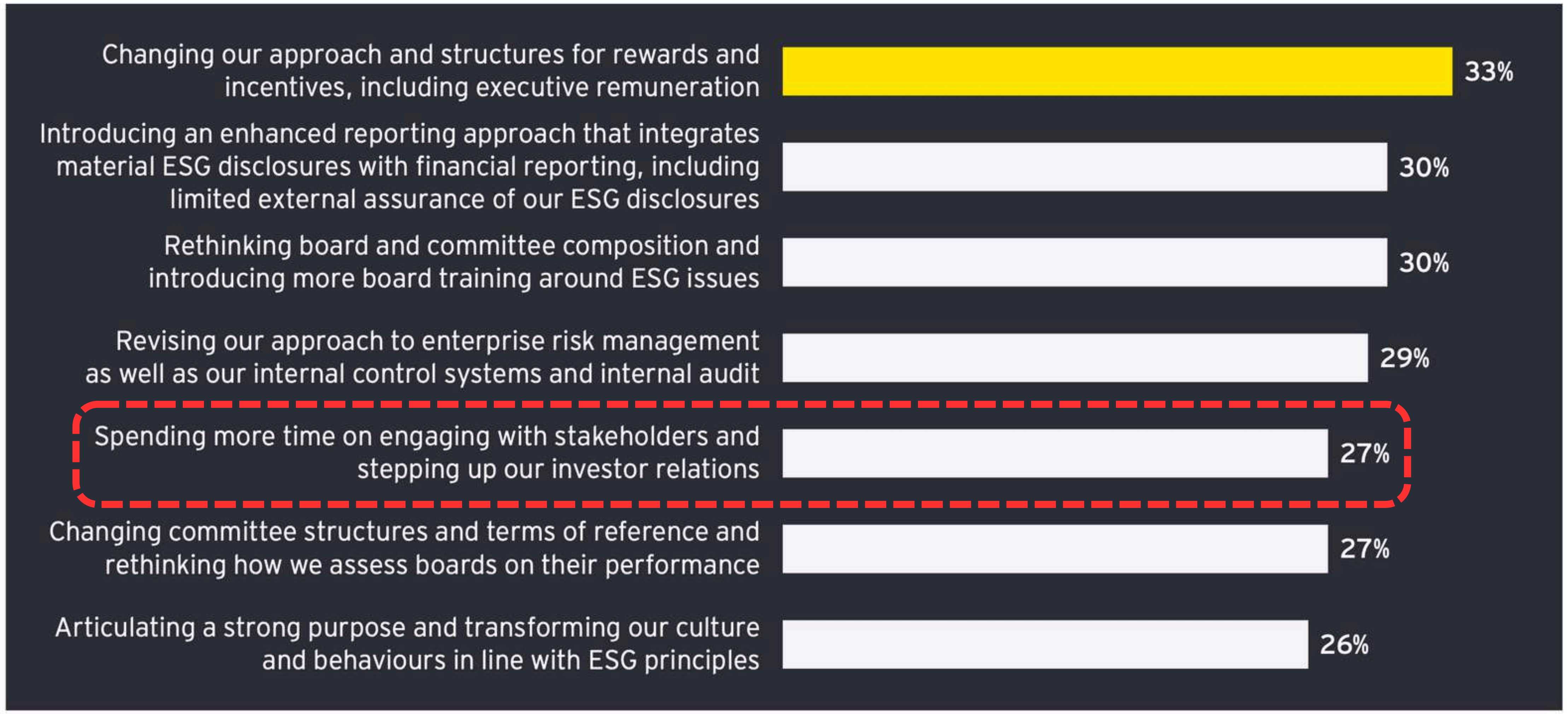


How governance shapes the structure & credibility of ESG initiatives

TRANSPARENCY | **ACCOUNTABILITY** | **STAKEHOLDER ENGAGEMENT**

foundational principles in addressing essential components of responsible and sustainable business practices for effective governance

Question: what are the major governance changes your company has made to support its approach to ESG and long-term value over the last two years, and what are the major priorities for the next two years?



Source: *EY Long-Term Value and Corporate Governance Survey*, February 2022 (total respondents: 200).

Compared to 78% in 2028, **86%** of respondents say that focus on ESG and sustainable, inclusive growth has been **critical to building trust with their stakeholders** in today's uncertain times. (EY, 2022)

"**Spending more time on engaging with stakeholders and stepping up our investor relations**" ranks as the **5th most important** as major governance change to support ESG approach and long-term value (EY, 2022

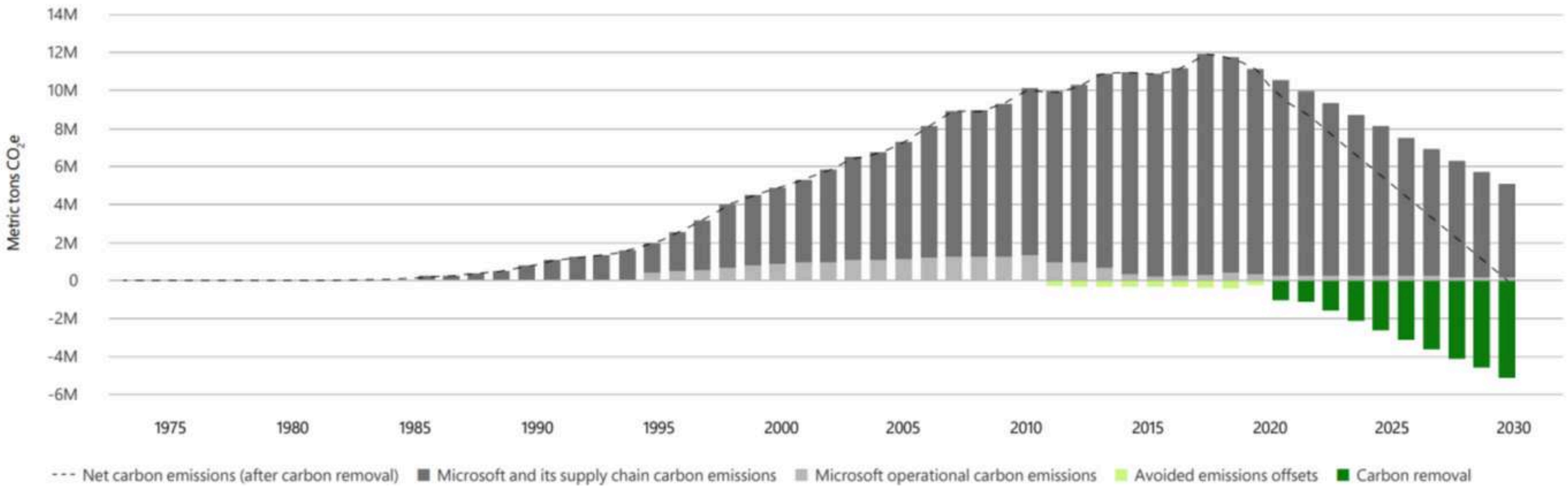
Case study 1: Microsoft

excellled in embedding ESG principles into its corporate governance framework, setting a benchmark for responsible leadership in the tech industry

Board-Level Oversight and Governance Structure:

Their **Sustainability and Governance Committee** steers the company's ESG strategy. In 2023, the company tied **20% of executive compensation directly** to the achievement of specific ESG targets
→ creates a culture of accountability that starts at the top.

Reducing carbon intensity by **30% per unit of revenue** and achieving **100% renewable energy use in its data centers**
→ attracts investors and enhances brand value.

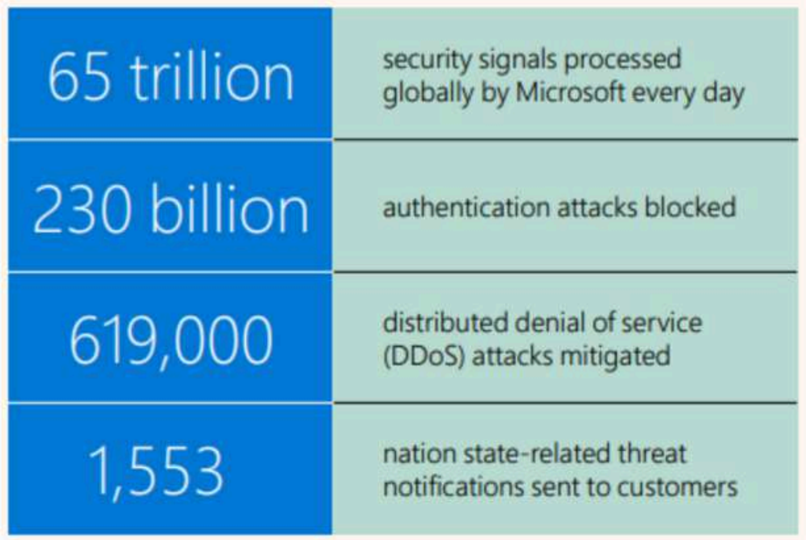


The Microsoft pathway to carbon negative by 2030 (Source: A new approach for Scope 3 emissions)

Data Privacy and Cybersecurity Governance:

Governance structure places a **strong emphasis on data privacy and cybersecurity**. The board's Audit Committee oversees the company's cybersecurity strategy which ensures compliance with global data protection regulations, and mitigating risks related to data breaches.

Microsoft's **$1 billion annual investment in cybersecurity**, overseen by the board, has resulted in one of the **lowest data breach rates** in the industry, safeguarding the company's reputation and customer trust, and ensuring resilience in a digital-first world.



Advance cybersecurity and digital safety – Microsoft goals (Source: The 2023 Impact Summary)

Case study 1: Boeing

Boeing faced a major crisis when two of its 737 MAX aircraft crashed within five months, resulting in 346 fatalities.

Governance Failures:

Boeing's board **failed to provide adequate oversight** of the 737 MAX's development process. Critical safety features were **not adequately tested**, and concerns raised by engineers were **dismissed or ignored**.

Boeing **provided misleading information** to regulators and the public, **downplaying the severity of the issues** with the aircraft's Maneuvering Characteristics Augmentation System (MCAS).

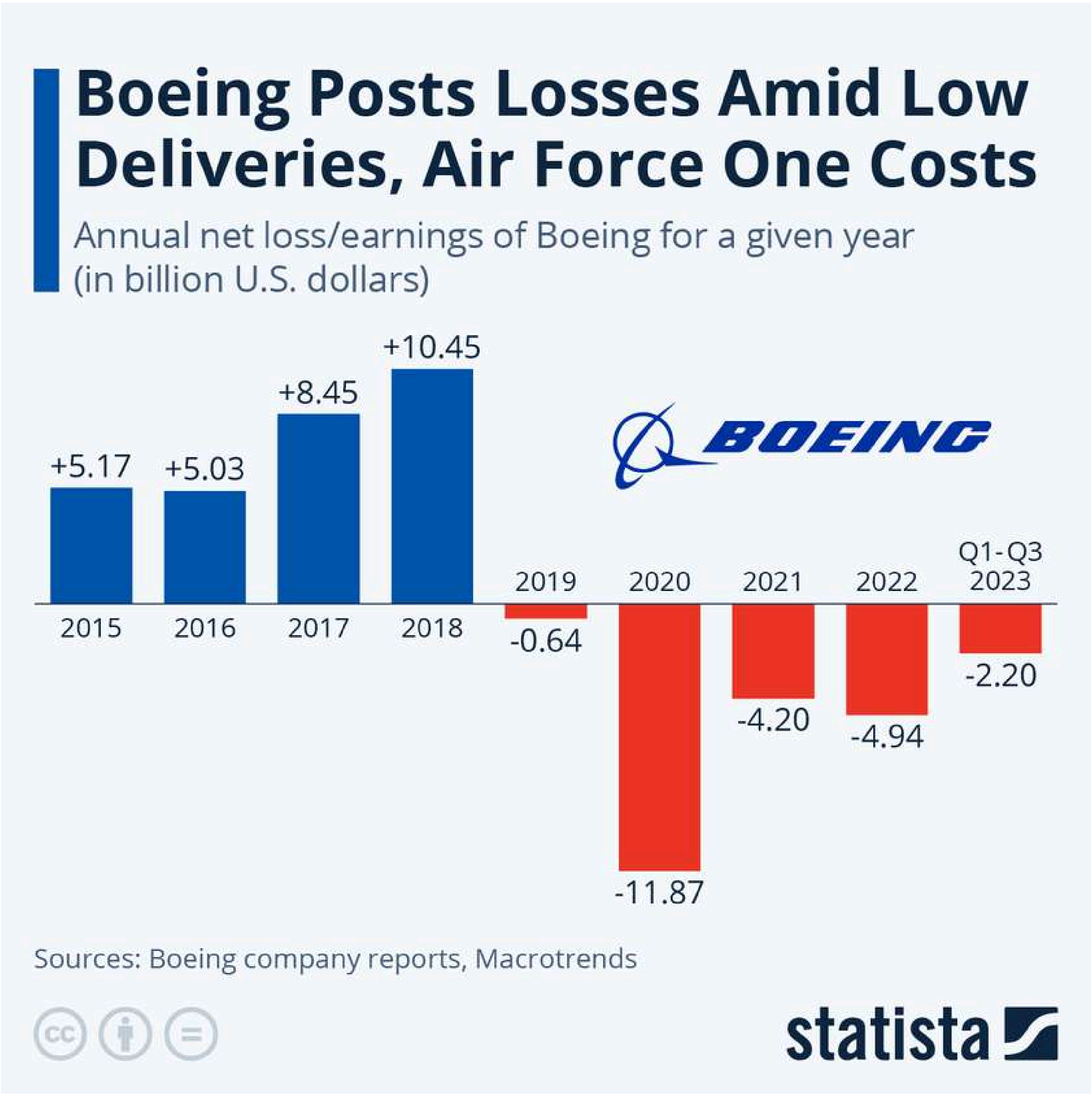
Consequences:

Boeing halted production of the 737 MAX in January 2020, leading to **significant financial losses and layoffs across its supply chain**.

Significant loss of public trust in Boeing and the aviation industry as a whole. Widespread fear and skepticism about the safety of air travel and broader social concerns about airline safety standards.

From March 2019 to March 2020, its stock **fell 75%**, wiping out almost **$200 billion in market value**. (Barron's article)

Boeing reported a **$636 million net loss** in 2019, its first annual loss in over two decades.



Boeing Posts Losses Amid Low Deliveries, Air Force One Costs

Challenges and Best Practices Recommendations

Challenges of Governance in ESG reporting

Fragmented Data

Sustainability information and ESG initiatives tend to be prepared separately, thus, separating ESG from the finance functions and outside the financial reporting systems. Governance has the role to promote collaboration among all departments in an organization.

The Need for Further Regulations and Guidelines

67%* rank the **absence of transparent regulations** as key challenge. Regulatory transparency and guidelines are needed to nudge ESG disclosure of firms. (PwC, 2022)

38%** of surveyed boards **do not have an agreed definition** of ESG and its importance to the board (PwC, 2023)

Lack of understanding in data require for reporting

71% surveyed Vietnamese entities say they lack understanding of the data required for reporting (PwC, 2022) which can be addressed by the implementation of training, clear guidelines, and standardized practices for ESG reporting from successful governance.

Source: PwC, 2021

*: Survey respondents include 234 board/owners, C-Suites, Directors, Managers, etc. from Vietnamese companies.
**Surveyed respondents include 56 of participants representing management company, fund, investment firm, and fund administrator.

Challenges and Best Practices Recommendations

Key Actions for Establishing Effective Governance Over ESG Reporting

Source: *AICPA & CIMA, Center for Audit Quality, 2021*

Step 1. Conduct a materiality or risk assessment to determine which ESG topics are important or 'material' to the organization, its investors and other stakeholders.
Step 2. Implement appropriate board oversight of material ESG matters.
Step 3. Integrate/align material ESG topics into the enterprise risk management process.
Step 4. Integrate ESG matters into the overall company strategy.
Step 5. Implement effective internal control over the ESG data collection, processing and reporting process.

Additional recommendations

Increase board level knowledge on ESG

Sustainability information and ESG initiatives tend to be prepared separately, thus, separating ESG from the finance functions and outside the financial reporting systems. Governance has the role to promote collaboration among all departments in an organization.

Integrate ESG into firm's core governance strategy

Embed ESG **throughout the firm** with a **top-down approach** and ensure the board is well versed on **ESG strategy and risk management** for better transparency and accountability**.** (PwC, 2023) (Ho, X. T. 2024).

THANK YOU FOR LISTENING!

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