

# Embedding ESG at the Board Level for Corporate Sustainability in Pakistan



## Introduction

Sustainability and ESG, once considered buzzwords, are now being seriously acknowledged by both corporates and policymakers. Many still debate the difference between the two. Technically speaking, sustainability has a broader scope, while ESG can be seen as a subset of sustainability. ESG stands for Environmental, Social, and Governance, which together cover a wide range of areas within which a business operates. Generally, both terms are used interchangeably.

With growing awareness, value chains are increasingly inquiring about the ESG practices of their business partners, making a strong business case for implementation. Recognizing this importance, regulators have taken appropriate steps by introducing regulations and mandatory compliance related to sustainability. One key requirement for corporations is the establishment of a sustainability and ESG policy.

The Securities and Exchange Commission of Pakistan (SECP), the primary regulator of companies in Pakistan, has introduced several changes in the regulatory framework related to sustainability—particularly through the Code of Corporate Governance for Listed Companies, 2019 (the Code)—which requires a company's Board of Directors to establish and maintain an ESG policy.



## ESG Practices in Pakistan: Survey Findings

As per the PICG ESG survey conducted in 2023:

In response to the question, "Does your organization have a defined action plan related to the ESG strategy?" the results were as follows:

- **Yes** – 30%
- **No** – 20%
- **Not sure** – 10%
- **In progress** – 40%

These findings make a strong case for companies to adopt a board-level ESG policy to steer and accelerate the ESG agenda.

Having an ESG policy at the board level is also important from a governance perspective, as it ensures ownership and clarity at the highest level. This facilitates smoother integration of ESG priorities across the organization, helping to achieve defined objectives.

The Code requires companies to have a policy addressing the following:

*"Environmental, Social and Governance (ESG), including but not limited to health and safety aspects in business strategies that promote sustainability, corporate social responsibility initiatives and other philanthropic activities, donations, contributions to charities, and other matters of social welfare."*



## Key Elements of an Effective Board-Level ESG Policy

The sustainability agenda can be more effectively achieved through a board-level policy that encompasses the following elements:

### 1. Linking the Mission, Vision, and Values

A company's mission and vision statements, along with its core values, form the foundation upon which it operates. Embedding sustainability into these principles is crucial for integrating sustainable practices across the business. To achieve this, companies should review and revise their existing mission and vision to include sustainability.

### 2. Risk Management

Companies typically have risk management programs in place to identify, analyze, and assess the criticality and impact of business risks, including performing scenario analyses for better estimation.

It is important that companies also evaluate the potential impact of ESG-related risks on their future business, profits, cash flows, and market positioning—and devise action plans accordingly.

### 3. Ethical Culture

An important role of the board is to ensure that ethical values and culture are promoted and practiced across the company. This includes areas such as transparency in business dealings, data confidentiality, anti-bribery, anti-harassment, and anti-sexual harassment policies. The objective should be for all employees to understand and adhere to these ethical values. Ideally, these values should be consolidated into a code of conduct that all employees sign, demonstrating their commitment to uphold them. From the ESG lens, this reflects compliance with social standards. Ensuring these aspects are covered in the ESG policy will support adherence to social compliance requirements.

### 4. Whistleblowing Program

A whistleblowing program is a vital component of governance. It helps identify wrongdoing within the company and across its value chain. This program encourages employees, business partners, vendors, and suppliers to report any misconduct they observe or experience, with the assurance of confidentiality. It also serves as a platform to report ESG-related concerns.



### 5. Action Plan, KPIs, and Significant Issues

Management must inform the board of any significant matters related to company operations. Additionally, material ESG issues should be brought to the board's attention—this includes updates on the ESG policy, progress on KPIs and milestones, instances of non-compliance and penalties imposed by regulatory bodies, and updates on CSR activities. These aspects should be adequately addressed in the ESG policy.

### 6. Board Composition and ESG Oversight

To ensure effective governance of the ESG framework, it is essential that the company's board includes a diverse mix of members—such as independent and female directors—who possess the required competence, experience, and exposure to support and drive ESG initiatives.

## Conclusion

The ESG policy serves as a guiding document that not only aligns a company's internal processes with ESG standards but also enables transparent communication with external stakeholders such as business partners, customers, and investors. This supports inquiries related to ESG indicators and demonstrates the company's commitment to meeting its ESG KPIs. Furthermore, a robust ESG policy framework lays the foundation for meeting future requirements related to independently audited sustainability statements.

**About the Author:** The author is a Fellow Chartered Accountant and a Fellow Cost and Management Accountant with a keen interest in governance and ESG. He is currently associated with Yunus Textile Mills Limited (part of YBG) as Head of Internal Audit, where he reports to the Board on matters related to controls and governance.