VeriSustain Article | VS-GOV01

What Every Director Should Know About ESG Governance

28 August 2026 | Theme 2 – Governance & Board Leadership

The Board's Role in ESG Oversight

Environmental, Social and Governance (ESG) matters are no longer the sole responsibility of sustainability teams.

For boards of directors, ESG increasingly intersects with strategy, enterprise risk management, long-term value creation, regulatory compliance and corporate reputation. Investors, regulators, customers and other stakeholders are also paying closer attention to how organisations govern sustainability-related risks and opportunities.

Directors who continue to view ESG as a peripheral reporting or compliance exercise may overlook issues that could materially affect organisational resilience and enterprise value.

The key question is therefore not whether the company has an ESG programme.

Does the board have effective oversight of the ESG risks, opportunities and disclosures that could affect the organisation?

Why ESG Governance Has Become a Boardroom Priority

Climate change, human rights, cybersecurity, ethical conduct, supply-chain resilience and stakeholder expectations can all have direct or indirect business consequences.

- Physical climate risks can disrupt assets and operations.
- Transition risks can affect costs, markets and business models.
- Labour and human rights issues can create operational and reputational exposure.
- Supply-chain disruption can affect business continuity.
- Governance failures can result in regulatory, financial and reputational consequences.

This means ESG considerations should increasingly be incorporated into existing governance and decision-making processes rather than treated as standalone sustainability initiatives.

VeriSustain Insight: The board does not need to manage every environmental or social issue personally. Its responsibility is to ensure that material ESG risks and opportunities are identified, assessed, monitored, managed and appropriately reported.

What Should the Board Actually Do?

Effective ESG governance starts with four fundamental responsibilities.

1. Set Direction

The board should ensure that material ESG considerations are reflected in the organisation's strategy, purpose and long-term objectives. ESG should therefore be connected to business decisions—not simply added to the sustainability report at the end of the reporting cycle.

2. Review Material Risks and Opportunities

Directors should understand the ESG matters that could affect operations, financial performance, reputation or enterprise value.

- Climate-related risks
- Supply-chain disruption
- Labour and human rights risks
- Workplace safety
- Cybersecurity
- Corruption and bribery
- Regulatory changes

The level of board attention should be proportionate to the significance of the risk.

3. Monitor Performance

Boards should receive meaningful and decision-useful ESG information.

- ESG objectives and targets
- Key performance indicators
- Risk indicators
- Progress against improvement plans
- Significant emerging ESG issues

The objective is not to overwhelm directors with ESG data. It is to provide sufficient information for informed oversight and decision-making.

4. Oversee Disclosures

Sustainability reports, climate-related disclosures and other ESG statements made to investors and stakeholders should be subject to appropriate governance and review.

The board should have confidence that material disclosures are reliable, evidence-based and consistent with actual management practices.

Establishing Clear ESG Accountability

One of the most common weaknesses in ESG governance is unclear ownership. ESG responsibilities often sit across multiple departments:

Function	Typical ESG Responsibility
Human Resources	Workforce wellbeing and labour practices
Procurement	Supplier sustainability and human rights
Operations	Energy, waste and environmental performance
Compliance	Ethics, governance and regulatory requirements
Risk Management	ESG risk assessment and monitoring

The board retains ultimate oversight, while management and operational functions are responsible for implementation. Some organisations may assign detailed ESG oversight to an Audit Committee, Risk Management Committee, Sustainability Committee or Governance Committee, depending on their governance structure.

The important principle is not the name of the committee. It is whether responsibilities, escalation routes and accountability are clearly defined without unnecessary duplication.

ESG and Directors' Fiduciary Responsibilities

A question increasingly raised by directors is whether ESG falls within their fiduciary responsibilities.

Where ESG matters have the potential to affect organisational performance, risk exposure, resilience, reputation or stakeholder confidence, they should be considered as part of sound corporate governance.

- Physical climate risks affecting operations;
- Carbon transition risks affecting business models;
- Workplace safety concerns;
- Human rights issues within supply chains; and
- Governance failures or ethical misconduct.

The issue is therefore not whether every ESG topic belongs in the boardroom. The issue is whether a material ESG matter could reasonably affect the organisation and therefore warrants appropriate governance attention.

Integrating ESG into Enterprise Risk Management

One of the most effective ways to strengthen ESG governance is to integrate material ESG risks into the organisation's existing Enterprise Risk Management (ERM) framework.

This allows ESG risks to be assessed alongside strategic, operational, financial and other enterprise risks.

- Better risk visibility
- Clearer accountability
- Improved resource allocation
- More informed decision-making
- Stronger alignment between ESG management and corporate strategy

Boards should therefore expect material ESG risks to appear within relevant corporate risk registers and management review processes, rather than existing exclusively within the sustainability function.

The Link with IFRS S1 and IFRS S2

This governance approach is increasingly relevant as organisations prepare for sustainability-related financial disclosures.

IFRS S1 requires disclosure of governance processes used to monitor and manage sustainability-related risks and opportunities.

IFRS S2 specifically addresses governance processes relating to climate-related risks and opportunities.

For boards, this reinforces an important principle:

Governance disclosure should reflect actual governance. A sustainability report cannot, by itself, demonstrate effective ESG governance. The underlying systems, accountability, risk management processes and board oversight must exist first.

Malaysian Boardroom Perspective

For Malaysian listed companies, the same principle applies in the context of Bursa Malaysia's sustainability reporting expectations.

- Material ESG matters are identified;
- Sustainability risks are appropriately monitored;
- Governance responsibilities are clear;
- Reporting processes are reliable; and
- Disclosures reflect actual management practices.

A Malaysian listed manufacturing company, for example, may initially manage climate, workforce and governance matters separately from enterprise risk management. By establishing formal ESG governance and assigning oversight to its Risk Management Committee, management can integrate material ESG risks into ERM, develop relevant indicators and improve board visibility.

The objective is not simply a better sustainability report. It is better governance and decision-making.

Seven Questions Every Director Should Ask

- What are our most significant ESG risks and opportunities?
- Are material ESG risks integrated into ERM?
- Who is accountable for ESG performance?
- Do we receive meaningful ESG performance and risk information?
- Are ESG objectives aligned with organisational strategy?
- Are our sustainability disclosures reliable and evidence-based?
- How prepared are we for evolving regulatory and stakeholder expectations?

These questions help move ESG discussions from compliance to strategic oversight.

My View

Sustainability reports do not demonstrate good governance. Good governance creates the systems, accountability and oversight that make credible sustainability reporting possible.

For directors, ESG governance should therefore not be viewed as another reporting responsibility delegated to the sustainability team. It is part of the broader responsibility to understand the risks and opportunities that may affect the organisation's future.

The strongest organisations will be those that connect:

Board Oversight → ESG Risk Management → Strategy → Performance → Disclosure

When these elements are connected, sustainability reporting becomes more credible because it reflects how the organisation is actually governed and managed.

About the Author

KC Teo is a National Quality Expert (Corporate Sustainability & ESG Frameworks) conferred by the Institute of Quality Malaysia (IQM), and Founder & Principal Consultant of VeriSustain MyESG PLT. He specialises in ESG governance, sustainability reporting, materiality assessments, climate risk management, GHG accounting, ISO management systems and sustainability assurance readiness.

VeriSustain: Supporting Sustainable Business Through Practical ESG Solutions.

Website: https://verisustain.my | *Email: consultant@verisustain.my* | *Mobile: +60 13-699 6033*