No Longer Just a Passive Checklist for Regulatory Compliance: ESG as the Most Critical Tool for Modern Corporate Governance

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Abstract

This paper discusses how Environmental, Social and Governance (ESG) can be effectively embraced as a tool for modern corporate governance. The paper observes that ESG has developed from a passive checklist to one of the most critical tool for modern corporate governance with corporations being legally mandated to comply with Environmental, Social and Governance tenets. The paper examines the efficacy of ESG as a driver of corporate governance. In addition, the paper discusses some of the pertinent ESG risks and challenges in corporate governance. The paper also suggests how corporations can effectively embrace ESG as the most critical tool for modern corporate governance towards Sustainable Development.

1.0 Introduction

Corporate governance in general focuses on processes, principles and policies used to run a company[1]. In addition, corporate governance has been described as the framework of rules, practices, and processes guiding a company's operations[2]. It has been observed that corporate governance guides how a company is directed and its relationships with its shareholders and stakeholders[3]. In order to ensure that companies are run ethically, responsibly and sustainably, corporate governance balances the interests of multiple groups including shareholders, management, employees, customers, suppliers, regulators, and the wider community[4]. Corporate governance ensues that checks and balance are in place making sure that no individual or group holds unchecked power and that corporate decisions align with both organisational objectives and ethical standards[5].

Since corporations yield immense power in the modern global economy, good corporate governance is key towards building an environment of trust, transparency and accountability necessary for fostering long-term investment, financial stability and business integrity, thereby

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[1] Corporate Governance Institute., 'What is Corporate Governance?' Available at https://www.thecorporategovernanceinstitute.com/insights/guides/what-is-corporate-governance/ (Accessed on 11/11/2026)

[2] What is Corporate Governance: Principles, Models, and Best Practices., Available at https://www.mpeslearning.com/blog/corporate-governance (Accessed on 11/11/2026)

[3] Organisation for Economi Co-operation and Development., 'Corporate Governance' Available at https://www.oecd.org/en/topics/policy-issues/corporate-governance.html (Accessed on 11/11/2026)

[4] What is Corporate Governance and Why Does it Matter?., Available at https://escp.eu/news/back-basics-what-corporate-governance-and-why-does-it-matter (Accessed on 11/11/2026)

[5] Ibid

supporting stronger growth and more inclusive and prosperous societies[6]. At its core, good corporate governance focuses on core values and principles including transparency, accountability, fairness, responsibility, risk management, community welfare and environmental protection in order to ensure that the affairs of organisations are sustainable[7]. Good corporate governance enables organizations to pursue their goals ethically, comply with laws and regulations and balance the interests of shareholders and wider stakeholders including communities where they operate[8]. It has been observed that there is need to embrace good corporate governance in order to harness the role of corporations as drivers of development, while mitigating their impacts on people and planet[9].

This paper discusses how Environmental, Social and Governance (ESG) can be effectively embraced as a tool for modern corporate governance. The paper observes that ESG has developed from a passive checklist to one of the most critical tool for modern corporate governance with corporations being legally mandated to comply with Environmental, Social and Governance tenets. The paper examines the efficacy of ESG as a driver of corporate governance. In addition, the paper discusses some of the pertinent ESG risks and challenges in corporate governance. The paper also suggests how corporations can effectively embrace ESG as the most critical tool for modern corporate governance towards Sustainable Development.

2.0 Environmental, Social and Governance as a Driver of Corporate Governance: Promises and Pitfalls

ESG refers to a set of standards used to measure an organization's environmental and social impact as well the efficacy of its governance processes and systems[10]. The term ESG is used to describe environmental, social, and governance factors considered by corporations when managing their operations, and investors when making investments, in respect of the risks, impacts, and opportunities[11]. ESG has been identified as a model of sustainable business development that is premised on responsible attitude towards the environment, high social

[6] Organisation for Economic Co-operation and Development., 'OECD Principles of Corporate Governance.' Available at https://www.oecd.org/daf/ca/Corporate-Governance-Principles-ENG.pdf (Accessed on 11/11/2026)

[7] What is Corporate Governance: Principles, Models, and Best Practices., Op Cit

[8] What is good corporate governance? 9 characteristics (with examples)., Available at https://www.diligent.com/resources/blog/what-constitutes-good-governance (Accessed on 11/11/2026)

[9] Organisation for Economic Co-operation and Development., 'OECD Principles of Corporate Governance.' Op Cit

[10] What is environmental, social and governance (ESG)?., Available at https://www.ibm.com/think/topics/environmental-social-and-governance (Accessed on 12/11/2026)

[11] International Labour Organization., 'What is ESG and how is it related to the work of the ILO' Available at https://www.ilo.org/sites/default/files/2026-02/What%20is%20ESG%20and%20how%20does%20it%20related%20to%20the%20ILO.pdf (Accessed on 12/11/2026)

responsibility, and good governance[12]. This concept focuses on *Environmental* tenets such as climate action, biodiversity conservation, sustainable resource use and circularity, pollution control, sustainable waste management and energy efficiency[13]; *Social* factors such as diversity, equity and inclusion at work places, fair wages, human rights, health and safety[14]; and *Governance* tenets such as transparency, accountability, shareholder rights, and board diversity[15].

ESG has emerged as a critical component of modern corporate governance. For example, it has been observed that ESG seeks to promote sustainable, responsible and ethical business practices by incorporating environmental, social and governance factors in corporate decision-making towards good corporate governance[16]. In the quest towards goof corporate governance, ESG has been identified as a key approach through which both public and private organisations can manage their impacts on, risks related to, and opportunities arising from, environmental, social and governance factors[17]. Since ESG provides key metrics the responsibility and sustainability of business practices, it has become a vital tool for investors and stakeholders who seek to invest in companies that are aligned with their values and have a positive impact on the world[18]. ESG tenets can promote good corporate governance by ensuring that corporations are managed responsibly and sustainably while being held accountable for their environmental and social impact[19].

Due to its fundamental importance, ESG has been described as a way of measuring good corporate governance[20]. For instance, it has been pointed out that ESG provides a framework that can enable companies to promote sustainable investments that generate long-term financial returns while also taking into account the social and environmental impacts of economic activities and promoting transparency and corporate responsibility[21]. In particular, it has been observed that the environmental aspect of ESG focuses on lessening a company's ecological footprint

[12] United Nations Development Programme., 'ESG: From Challenges to Opportunities' Available at https://www.undp.org/belarus/stories/esg-challenges-opportunities (Accessed on 12/11/2026)
[13] Ibid
[14] Ibid
[15] Ibid
[16] Stuart. L.G et al., 'Firms and social responsibility: A review of ESG and CSR research in corporate finance.' *Journal of Corporate Finance* 66 (2021): 101889
[17] Chartered Governance Institute UK & Ireland., 'What is ESG?' Available at https://www.cgi.org.uk/resources/factsheets/factsheets/what-is-esg/ (Accessed on 12/11/2026)
[18] Institute of Certified Secretaries., 'Corporate Governance and ESG' Available at https://www.ics.ke/2025/07/09/corporate-governance-and-esg/ (Accessed on 12/11/2026)
[19] Ibid
[20] Corporate Finance Institute., 'The Importance of ESG in Corporate Governance' Available at https://corporatefinanceinstitute.com/resources/esg/importance-of-esg-in-corporate-governance/ (Accessed on 12/11/2026)
[21] The 3 pillars of Sustainability: Environmental, Social and Economic., Available at https://www.enel.com/company/stories/articles/2023/06/three-pillars-sustainability (Accessed on 12/11/2026)

towards contributing to a cleaner, safer, healthy and more sustainable planet[22]. In addition, the social tenet of ESG focuses on promoting corporate social responsibility, encouraging diversity and inclusivity at the workplace, and community engagement[23]. On the other hand, the governance tenet of ESG ensures that a company observes ethical practices in decision-making, responsible leadership, and transparency and accountability[24].

Embracing ESG is therefore key towards strengthening modern corporate governance. It has been observed that ESG has increasingly become a fundamental approach in corporate governance with investors, regulators, the public and other stakeholders concerned with the environmental stewardship of companies, their social responsibility, and their governance systems and structures[25]. Companies all over the world are being assessed across their environmental, social and governance performance, generating an ESG score that helps investors identify organizations whose values align with their ethical and sustainability considerations[26]. Consequently, it has been correctly observed that companies that are responsible stewards of the environment[27]; are socially conscious through effective management of relationships with employees, suppliers, customers, and the communities where they operate[28]; and embrace good governance practices including transparency, accountability and diversity are considered ideal investment destinations while also enhancing their corporate compliance, reputation and profitability[29]. Companies that prioritize and integrate ESG factors in corporate decision-making processes are therefore more likely to attract and retain investors, customers, and employees and are better positioned to create long-term value for all stakeholders[30]. By embracing ESG tenets, companies can effectively balance economic growth with environmental/ecological stewardship and social responsibility towards good corporate governance and sustainability[31].

Despite its role as a driver of good corporate governance, the integration of ESG in corporate strategies and decision-making processes faces several hurdles. For example, it has been observed

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[22] Centre for Corporate Governance., 'Environmental, Social, and Governance: What is ESG and Why is it Important?' Available at https://ccg.or.ke/environmental-social-and-governance/ (Accessed on 12/11/2026)
[23] Ibid
[24] Ibid
[25] Corporate Finance Institute., 'The Importance of ESG in Corporate Governance' Op Cit
[26] Environmental, Social, and Corporate Governance (ESG)., Available at https://www.ebsco.com/research-starters/business-and-management/environmental-social-and-corporate-governance-esg/ (Accessed on 12/11/2026)
[27] Corporate Governance Institute., 'What is ESG and why is it important?' Available at https://www.thecorporategovernanceinstitute.com/insights/guides/what-is-esg-and-why-is-it-important/ (Accessed on 12/11/2026)
[28] Ibid
[29] Ibid
[30] Institute of Certified Secretaries., 'Corporate Governance and ESG' Op Cit
[31] Corporate Sustainability., Available at https://www.ebsco.com/research-starters/business-and-management/corporate-sustainability (Accessed on 12/11/2026)

that fragmented ESG frameworks across the world undermine harmony and uniformity on how to embrace this concept as a driver of corporate governance[32]. In addition, it has been pointed out that ESG faces resistance from traditional business cultures and models which prioritize quick and short-term financial returns at the expense of positive environmental and social impact[33]. Collecting and managing data on ESG metrics is also a significant challenge especially for small companies[34]. It has been pointed out that ESG data collection and management requires specialised expertise with companies being required to ensure the accuracy and reliability of the data they collect, a situation that can undermine the effectiveness of ESG compliance by small companies[35]. Use of foreign ESG models in Africa and the Global South can also undermine the quest towards good corporate governance for sustainability. It has been argued that *'lift-and-shift'* adoption of global ESG standards undermines the quest for context-specific ESG roadmaps that can drive development and prosperity in Africa and the Global South[36].

It is imperative to address the forgoing concerns in order to effectively embrace ESG as a driver of good corporate governance towards sustainability.

3.0 Embracing Environmental, Social and Governance as the Most Critical Tool for Modern Corporate Governance

ESG has developed to become the most critical tool for modern corporate governance. For example, by adopting ESG principles, companies can effectively manage environmental, social, and governance risks towards reducing the likelihood of operational disruptions, financial losses, and reputational damage[37]. In addition, it has been observed that corporations with sound ESG policies and practices attract more capital and investor trust, since investors recognize their ability to manage long-term risks and capitalize on sustainable growth[38]. Further, ESG compliance enables corporations to strengthen relationships with customers, employees, investors, and communities thus contributing to long-term stability and success[39].

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[32] International Bar Association.., 'Navigating the challenges and opportunities of ESG compliance' Available at https://www.ibanet.org/navigating-challenges-opportunities-esg-compliance (Accessed on 12/11/2026)

[33] Challenges in ESG Compliance for Companies., Available at https://www.linkedin.com/top-content/corporate-social-responsibility/esg-certification-challenges/challenges-in-esg-compliance-for-companies/ (Accessed on 12/11/2026)

[34] International Bar Association.., 'Navigating the challenges and opportunities of ESG compliance' Op Cit

[35] Ibid

[36] Bhawani. S., 'Embracing ESG Framework in Africa: A Blueprint for Sustainable Development' Available at https://insights.aib.world/article/143942-embracing-esg-framework-in-africa-a-blueprint-for-sustainable-development (Accessed on 12/11/2026)

[37] Corporate Governance and ESG: Integrating Ethical Leadership with Strategic Goals., Available at https://ecoactivetech.com/corporate-governance-and-esg/ (Accessed on 12/11/2026)

[38] Ibid

[39] Ibid

It is therefore necessary to embrace ESG in order to strengthen modern corporate governance. In particular, ESG has developed from a voluntary concept to a mandatory tool of corporate governance. It has been observed that globally, the importance of ESG tenets is evidenced by the adoption of mandatory legal and regulatory frameworks to reflect the expectations of key stakeholders including investors, customers, employees and other stakeholders[40]. Most of the ESG standards are imposed by laws and regulations of the country where companies operate, and others result from stakeholders' expectations and investors' pressure due to growing concerns regarding human rights and environmental issues[41]. ESG reporting which was once a voluntary issue has transformed to become mandatory requirement in many parts of the world. As investors, consumers, employees, and other stakeholders continue to gain awareness of sustainability, they are increasingly demanding accountability from businesses[42]. Consequently, ESG has developed into a mandatory obligation in order to promote corporate environmental sustainability, social equity, and good governance.

In light of the foregoing, there is need to embrace ESG as the most critical tool for modern corporate governance. ESG is a crucial tool in the modern corporate governance discourse since it provides a framework that can enable companies to promote sustainable investments that generate long-term financial returns while also taking into account the social and environmental impacts of economic activities and promoting good governance, transparency and corporate responsibility[43]. Integrating ESG in corporate governance enhances reputation, attracts investment, reduces risks, and creates value[44]. This dream can be achieved through effective compliance, monitoring and reporting *of environmental concerns* such as carbon emissions, water consumption and waste generation; *social concerns* such as human rights implications of corporate affairs, and employee, product and customer related data; and *governance* concerns such as political lobbying, anticorruption initiatives and board diversity[45].

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[40] Muigua. K., 'Embracing Environmental, Social and Governance (ESG) Principles for Sustainable Development in Kenya.' Available at http://kmco.co.ke/wp-content/uploads/2022/07/Embracing-ESG-Principles-for-Sustainable-Development-in-Kenya.pdf (Accessed on 12/11/2026)

[41] United Nations Environment Programme., 'Building a Sustainable Future: ESG Business Handbook' Available at https://www.undp.org/sites/g/files/zskgke326/files/2023-08/building_a_sustainable_future_esg_business_handbook.pdf (Accessed on 12/11/2026)

[42] ESG Insight – Why are ESG Reporting Standards Becoming Mandatory?., Available at https://icelisglobal.com/articles/esg-insight-why-are-esg-reporting-standards-becoming-mandatory/ (Accessed on 12/11/2026)

[43] The 3 pillars of Sustainability: Environmental, Social and Economic., Op Cit

[44] Corporate Governance Institute., 'ESG: A comprehensive guide to the main principles' Available at https://www.thecorporategovernanceinstitute.com/insights/guides/esg-a-comprehensive-guide-to-environmental-social-and-governance-principles/?srsltid=AYCX9vIFTvs2J4Khay3Zflf-hABz2kKM8a6TbaxifC5GbTK6IQj5-I5e (Accessed on 12/11/2026)

[45] Stuart. L.G et al., 'Firms and social responsibility: A review of ESG and CSR research in corporate finance.' Op Cit

Developing sound and effective ESG policies and regulations is also necessary towards strengthening modern corporate governance. For instance, ESG regulations can strengthen corporate governance including through holding organizations accountable for their impact on the environment, society and management[46]. However, while developing ESG regulations, there is need to ensure that such regulations are context-specific. For instance, it has been observed that developing and utilising African ESG frameworks is key towards aligning the need for good corporate governance and sustainability with local development needs and expectations[47]. Developing context-specific and culturally-appropriate ESG frameworks is therefore key towards strengthening modern corporate governance for sustainability.

4.0 Conclusion

In light of mounting impacts of businesses on the environment and society, ESG has emerged as a key tool that can strengthen corporate governance for sustainability. In particular, ESG has developed from merely a passive checklist for regulatory compliance to a mandatory obligation. Consequently, there is need to embrace ESG as the most critical tool for modern corporate governance towards sustainability.

[46] Centre for Corporate Governance., 'Environmental, Social, and Governance: What is ESG and Why is it Important?' Op Cit

[47] Bhawani. S., 'Embracing ESG Framework in Africa: A Blueprint for Sustainable Development' Op Cit

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