The Modern Alliance: Where ESG and GRC Meet, Governance Empowers Both

Authored by:

Gaurav Garg
Director – GRC Practice and
Regulatory Relations
Charlotte, USA

Bhavesh Patil
Lead – Technology
Charlotte, USA

With climate change affecting every inhabited region across the globe, and the unprecedented COVID-19 pandemic still raging, this is the time of incredible change where there is an increased momentum for **Environmental, Social, and Governance (ESG)** disclosures. The stability between the environment, society and the economy are important to meet the needs of all organizations' sustainable development and the future generations' goals. Every organization in the world is being directly impacted by the effects of multiple factors:

Environmental

- Greenhouse gas emissions leading to climate change

- Land use and ecological sensitivity

- Water consumption and withdrawal causing scarcity of available freshwater

Social
(people and prosperity)

- Diversity indicator

- Minimum wage standard

- Training per category

- Incident and monetary loss management

- Employment and wealth generation

- Research and development investment

- Tax management

At the very epicenter is Governance

- Effective integrated risk and controls oversight, incident, and policy management

- Risk appetite and monitoring

- Consequences of unethical behavior, violation of any law/regulation leading to financial losses

Organizations are now focusing on tracking, measuring, and reporting on their ESG efforts to meet investors' and consumers' demands. These increased disclosures are being used by organizations to coordinate mainstream reporting on performance against ESG measures.

ENVIRONMENTAL

Organization process outcome towards nature

SOCIAL

Organization supply chain and employee engagement

GOVERNANCE

Executive Board / Governing Bodies

In recent times, there is also an increase in the desire among organizations to integrate **Governance, Risk and Compliance (GRC)** across its functions and throughout the organization. Due to the challenge of delivering situational perception of ESG, organizations are looking to integrate and automate their ESG and GRC programs. Several organizations, such as the OCEG (Open Compliance & Ethics Group), COSO (Committee of Sponsoring Organizations), and the International Organization for Standardization (ISO) are formulating new methodologies and processes to integrate ESG and GRC.

GRC is the capability that enables an organization to reliably achieve objectives, address uncertainty and act with integrity. Governance, Risk and Compliance are effective components needed to deliver on ESG reporting.

To accomplish the customers' requirements, businesses are now emphasizing the monitoring, calculations, and reporting of their ESG efforts. In today's world, with the aid of the latest technologies, businesses can now gather near-real-time data for the reporting and sharing of the status of ESG efforts.

The G for Governance is the common component between ESG and GRC. Any good plan of action is going to start with a strong and sustainable Governance structure. The GRC capability model, developed by the OCEG has four common elements that also apply to ESG specific factors

The Four Component Model for ESG and GRC

🧠 LEARN	✛ ALIGN	⚙ PERFORM	👍 REVIEW
• Internal/ External context • Culture • Stakeholder	• Direction • Objective • Identification • Assessment • Design	• Controls • Policies • Communication • Education • Incentives • Notification • Inquiry • Response	• Monitoring • Assurance • Improvement

Fusing ESG into the corporate GRC strategic plan

Certainly, this is the summary model that can also be used for ESG and there is a more detailed breakout of each component with best practices, actions, controls, and documentation. Delivering ESG within a GRC framework is the need of every institution and can be achieved through institutional actions and transactions, as well as architectural and behavioral changes.

Each organization should establish ESG objectives within the GRC framework at relevant functions and levels, while considering the organization's significant aspects and associated compliance obligations along with its risks and opportunities.

At the epicenter is Governance as the common link: ES-G-RC

Measures and reports on the values and commitments, and how the company treats people.

Measures and reports on the values and commitments of the organization toward stewardship of the natural world and environment.

Ensuring organizations follow laws and regulations across all organization activities and use proper accounting practices.

Identify and address the risk measures associated with organizational activities to support the business goals.

Social

Environmental

Compliance

Risk Management

Governance

Leadership and commitment:

From our perspective, it makes perfect business sense for every organization's top management to demonstrate leadership and commitment by:

- **Ensuring all of the policies and objectives are established,** including ESG strategies, within the context of the organization

- **Taking accountability** of Environmental and Social management elements

- **Integrating the various Environmental, Social and Governance management system** requirements into the organization's business processes

- **Ensuring ESG measures should be archived** against their intended outcomes

- **Directing and supporting employees** to contribute to improving Environmental and Social management systems and practices

- **Encouraging continual improvement** of the ESG system to enable enhancements


Continual improvement as ESG integrates with GRC

The next generation ESG-GRC integration will be determined by the rate, extent and timescale of actions that support continual improvement. Here are our top recommendations. Each individual organization should:

1. **Determine all compliance obligations** related to ESG aspects, programs and initiatives, and how these apply to the organizations overall GRC system

2. **Identify and scope out necessary demos and trainings** associated with its environmental and social aspects

3. **Ensure that all of the ESG-GRC information** communicated is the latest and most reliable

4. **Document all of the process information,** as per International standards, that are protected, available and suitable for use, wherever needed

5. **Establish controls** to ensure environmental and social requirements are addressed in design, development, and for each and every life cycle process

6. **Prepare and act according to a pre-determined plan of action** to prevent and mitigate the impact in case of an emergency

7. **Retrospectively assess and determine** key methods of monitoring, as well as measuring, to improve system business processes
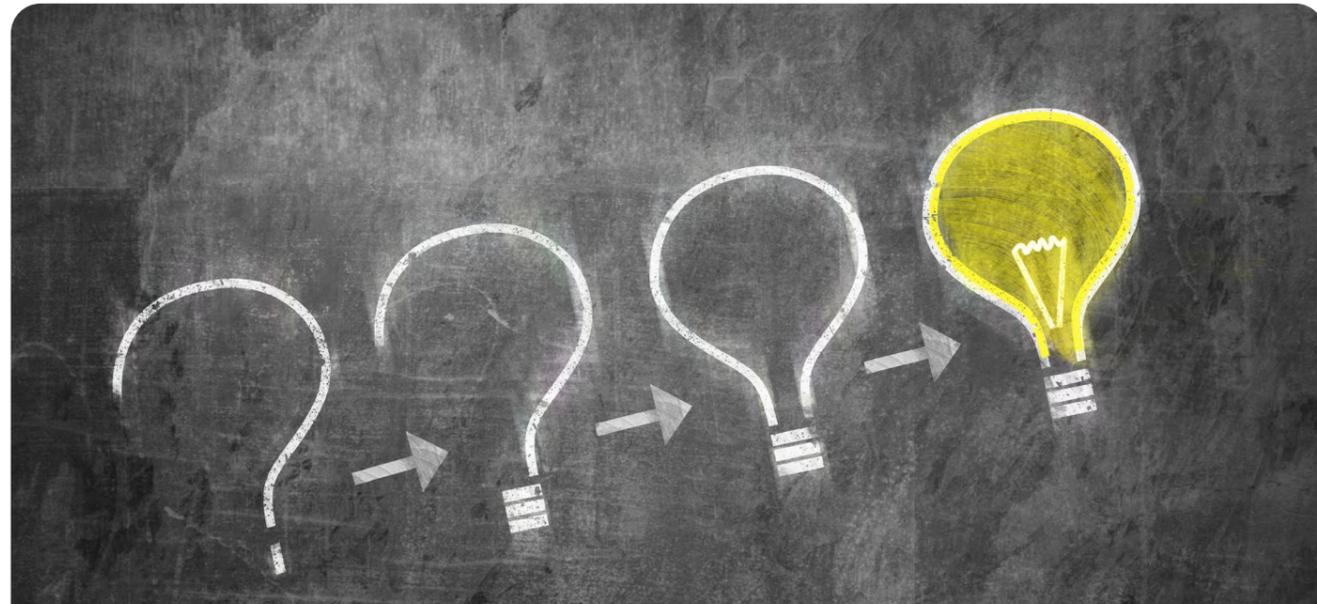
Conclusion

An organization's performance can be enhanced by applying the ESG-GRC management framework as a whole, or improving one or more of its elements. The competition is on, and this type of integration ensures that all other activities are conducted in an environment where people are closely aligned toward the general interests of the organization and society.

As a service provider, Synechron can assist clients in the journey to build a robust EGS-GRC framework for all lines of defense. Synechron leverages its experience with Current State Assessments, informing customers where they currently are on their E, S and G transition pathways, recommending Target State ESG-GRC integration, and building interim solutions to meet a minimum viable product, as well as supporting strategic Integrated Risk Management implementation.

Gaurav Garg
Director – GRC Practice and
Regulatory Relations
Charlotte, USA

To learn more about Gaurav
see his profile here

Reach out to:
Gaurav.Garg@Synechron.com

Bhavesh Patil
Lead – Technology
Charlotte, USA

To learn more about Bhavesh
see his profile here

Reach out to:
Bhavesh.Patil@Synechron.com

To know more about Synechron's full array of capabilities and services related to our Governance, Risk & Compliance practice area,

Click Here

Synechron