Policy Liaison Group
Environmental, Social, and Governance

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Business as a force for good

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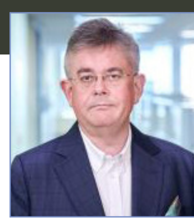

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Introduction

This roundtable explored how the UK's corporate governance framework can better reflect the environmental and social factors that materially shape long-term value, resilience and competitiveness. While section 172 of the Companies Act 2006 already requires directors to have regard to employees, communities and the environment, participants agreed that, in practice, boardroom decision-making remains dominated by short-term financial pressures and capital-market expectations. Additionally, "defensive" legal caution discourages boardrooms from looking at environmental and social concerns and associated reporting requirements as an opportunity to enhance performance, resilience and ultimately value. Supporting this shift in perception was a core theme of the discussion.

The roundtable was guided by **Martin Wrigley MP's Company Directors (Duties) Bill**, which clarifies how directors should exercise judgement when balancing shareholder interests with material impacts on employees, the environment and wider society. The bill does not define what a "good" company looks like or prescribe outcomes. Participants emphasised that legislating a single vision of corporate virtue would be impractical and legally problematic.

Instead, boards should continue to define success for themselves, explicitly and transparently, while incorporating environmental and social considerations. Identifying and mitigating harm, internalising externalities, and understanding material risks is undoubtedly beneficial to any corporate entity. However, sustainability information is "distributed and complex" and not all of it is material. Giving ESG the same equivalence as health and safety may be challenging, but it is essential.

This type of shift goes beyond corporate governance reform, "there's no silver bullet", but it can play a fundamental role in linking together different ESG principles and reporting frameworks to bring about a normative shift, giving boards confidence about what is legally permissible, and support more assertive long-term decision-making.

Key takeaways

The Company Directors (Duties) Bill helps reframe ESG around good governance

- The bill is a clarification rather than a radical departure from existing law. It empowers directors to consider shareholder interests alongside impacts on employees and the environment, reflecting how long-term value is created and preserved.
- The bill was not seen as diluting profit or shareholder value. Instead, it acknowledges that directors are already expected to manage climate risk, workforce resilience and supply-chain stability, but often do so within a framework that implicitly prioritises short-term financial performance.
- The current framework can "create a culture where short-term financial outcomes dominate, even when longer-term risks are clearly understood."
- The bill was therefore seen as providing a more coherent governance lens through which directors can exercise balanced, forward-looking judgement.

Materiality not morality – getting the board onside

- Environmental and social issues are not just moral or merely reputational concerns, but financially material risks that increasingly shape business outcomes – "ESG is not a moral imperative, it's good for business."
- Climate change, nature loss and social factors are already affecting firm-level performance and systemic stability. Governance frameworks need to catch up with this reality – "These are not things to do because they are 'nice to have', they are grounded in businesses recognising material risk".

- While sustainability reporting and disclosure have advanced rapidly, speakers noted a persistent gap between what companies acknowledge on paper and how boards make decisions in practice. This disconnect reinforces short-termism, even where long-term risks are well understood.

Clarifying directors' duties

- Building on the legal and governance perspectives, many boards struggle less with intent than with confidence. Ambiguity around directors' duties can lead to defensive decision-making, particularly where managing long-term risk involves short-term financial costs.
- "The question directors are often asking is not 'what should we do?', but 'are we allowed to do it?'" Corporate governance reform should not be about prescribing outcomes, but supporting sound judgement.
- Clearer duties could help reset norms around what constitutes a well-run company, one that actively manages material environmental and social risks as part of core strategy, rather than treating them as secondary concerns.
- Importantly, participants stressed that this should not translate into additional compliance burdens. The emphasis is on enabling better decisions, not creating new box-ticking exercises.

Governance culture and stewardship must reinforce long-term decision-making

- Even where directors' duties encourage long-term thinking, inconsistent signals from investors, remuneration structures and markets can crowd out investment in resilience.
- From the investor perspective, stewardship is the essential counterpart to directors' duties in the short term. Effective stewardship should support, rather than penalise, boards that take action to address systemic and long-term risks.
- There was a strong warning against ESG being reduced to disclosure alone – "the ultimate objective is better decisions, not better paperwork."
- However, there are signs that particularly larger companies are shifting from a pure compliance focus to consolidating overlapping disclosure requirements into a coherent strategic narrative that helps boards articulate transition risks, opportunities and trade-offs across jurisdictions.
- Framed in this way, ESG information becomes decision-useful as it supports board competence, enables clearer engagement with investors, and provides a defensible evidence base for balancing competing legal, geopolitical and commercial pressures.

Issues raised

Governance reform is necessary but not sufficient
Reforming the definition of directors' duties is not a silver bullet. While clarification could help reset norms and expectations, it would not automatically overcome entrenched short-term incentives. Board behaviour is shaped by a wider ecosystem, including investor pressure, executive remuneration structures and market expectations. Without alignment across these areas, there is a risk that governance reform alone could raise expectations without materially changing outcomes.

Examples – why diligent corporate governance and integrated ESG are essential
Climate change, biodiversity loss and land-use pressures have reduced cacao yields, forcing companies to alter core products – e.g. brands reverting to "chocolate flavouring". This example illustrated how firms that embed environmental risk into corporate strategy and board-level oversight are better placed to anticipate and mitigate such shocks. Similarly, in the UK water sector, weak governance, underinvestment, and poor environmental stewardship have translated into operational failure, regulatory intervention and loss of public trust, underscoring the consequences of treating environmental risks as peripheral rather than strategic.

Tension between long-term risk and short-term markets
A recurring theme was the structural tension between managing long-term environmental and social risks and operating within markets that reward near-term performance. Participants noted that even well-intentioned boards can struggle to prioritise resilience when faced with immediate cost pressures or shareholder demands. This tension was seen as particularly acute during periods of economic volatility, reinforcing the need for policy approaches that support, rather than penalise, longer-term decision-making.

Inherent issues with ESG – "nobody has a good handle"
Sustainability risks are "long-term, distributed and complex". Nobody, least of all boards, has a handle on everything. By the same token, not everything is material. "There might be 10 things that are material, but not 200". Boards are increasingly required to make forward-looking, uncertain judgements, highlighting the need for capability, confidence and clarity to distinguish material risk from noise and integrate it into core strategy.

Recommendations

- Clarify directors' duties to better reflect the material financial impact of environmental and social risks on long-term value.
- Reinforce the expectation that ESG considerations are part of core board decision-making, not a delegated or discretionary activity.
- Promote a consistent understanding of materiality that directly links sustainability risks to fiduciary responsibility.
- Align stewardship expectations with governance reform, so investors support boards taking resilience-focused, long-term decisions.

- Avoid framing ESG reform primarily through additional disclosure; prioritise measures that influence behaviour and judgement.
- Support board capability and confidence through guidance and practical examples grounded in real-world business constraints.
- Encourage a shared understanding of what constitutes a well-run company in the 2020s, balancing financial performance with environmental and social resilience.

Links

- Private Members' Bill sponsored by Martin Wrigley MP, Company Directors (Duties) Bill
- Martin Wrigley MP for the House Magazine, 'The case for better business: why it's time to modernise company law'

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