The Palgrave Handbook of ESG and Corporate Governance

Edited by
Paulo Câmara · Filipe Morais

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To António Borges
Founding Chairman of the European Corporate Governance Institute
(2002–2010)
In Memoriam

Foreword

The term *corporate government* can be found in English language books that are searchable online since 1800. It refers to the delegation of power inside of organizations once they grow beyond a certain size. It was used to discuss the government of university colleges, banks, and other early business corporations, like canals and railway companies. The word *governance* started to be used in the 1960s, initially in political science. It is defined as "the action or manner of governing a state or organization". The term corporate governance was first used in the 1970s and its use rose sharply until 2003. Its increasing prominence was closely associated with scandals and crisis, like the Lockheed bribery scandal, Enron, the Russia–Asia–Brazil financial crisis and the collapse of Lehman Brothers. It reshaped the investment industry, corporations, regulation, and enforcement. It became a discipline in its own right, but always kept a negative connotation.

The term *global warming* started its ascent in 1980, plateaued in the 90s, and sharply rose again from 2003 onward. It coincided with the approximate first use of the term *environmental, social, governance* (ESG). It marks the latest development and an inflection point in the corporate government debate. It encompasses previously disparate topics like corporate social responsibility (CSR) and socially responsible investment (SRI). Corporate governance has become synonymous with a debate about the future of the capitalist system and the role of finance and business in shaping the future of society. It has turned from a negative to a positive, from a concept associated with scandals, crisis, and failure to improving the economic system for the benefit of all.

The Handbook of Corporate Governance and ESG perfectly captures this trend. It brings together a group of international authors to shed light on ESG from a multi-disciplinary perspective. It spans the full array of subjects that are now discussed under the ESG heading, while linking them back to fundamental corporate governance concepts and insights. The Handbook also shows that there remain many open questions.

What is the role of corporations and finance in reshaping capitalism? For example, there is a tension between fostering market competition and the type of coordination needed to address environmental and social challenges. How can companies adopt costly environmental or social standards when their competitors do not? The principle of "doing well by doing good" does not apply in all situations. Does the market for corporate control promote or undermine the implementation of ESG objectives? Is divestment a substitute or a complement for engagement?

More fundamentally, the profit motive itself has been called into question, even when defining profits long-term. What is the role of investors? Should investors engage with companies to bring about change or invest selectively? How should institutional investors aggregate the social preferences of their clients, or is this an exclusive remit for politics and government? What should be the role of government? "Enlightened" shareholder capitalism relies on government and regulation to define the rules, but who appoints the government? Are government officials motivated or competent in implementing policies without help from investors and/or business? Carbon emissions and climate are forcing us to reconsider paradigms, including corporate governance. The publication of a Handbook on corporate governance and ESG could not be more timely.

Brussels, Belgium Marco Becht

Introduction

Sustainability is quickly becoming the Holy Grail for governments, businesses, and society. It represents a fundamental shift in human development arguably more significant than the industrial revolution. But unlike many other revolutions, this time, no one can be left behind. Therefore, this time we require collaboration and cooperation (not competition) among and between developed, developing, and under-developed countries if we are to succeed. Unlike previous revolutions where the impetus came from mankind natural desire to enhance their quality of life through innovation, the challenge is now qualitatively different. It is about the very survival of mankind—in other words, we are facing a collective threat and we must therefore change together. It is a rather unique circumstance that self-interest and common good are aligned in such a global scale. While all types of organizations have an important role to play, governments and companies have special relevance in enabling a successful response to this unprecedented challenge.

Governments are required to create an effective legal and regulatory framework that encourages—and even mandates—investment and innovation aligned with the sustainability imperative, and the phasing out of investments that are harmful to the pursuit of the sustainability agenda. Moreover, states are to set the example and to adopt Environment, Social and Governance (ESG) principles as cornerstones of public policy guidelines.

But the quest for sustainability has thus far been grossly incomplete. The recent COP26 was labeled by the UN Secretary-General, Antonio Guterres, as disappointing and a reflection of "the interests, the contradictions, and the state of political will in the world today". The last-minute change to the Glasgow pact by China and India to soften language on coal power, was met with deep disappointment and it is a sad icon of how much is still to be done at political global level.

States must also deploy consistent efforts to achieve uniform international solutions, namely in urgent issues such as climate change. In the EU, some