



**“UNDERSTANDING
ENVIRONMENTAL,
SOCIAL, AND
GOVERNMENTAL (ESG)
PRINCIPLES AND IT’S
IMPLICATIONS FOR
DECISION MAKING IN
THE FUTURE OF
GOVERNANCE”**



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Article

INTRODUCTION

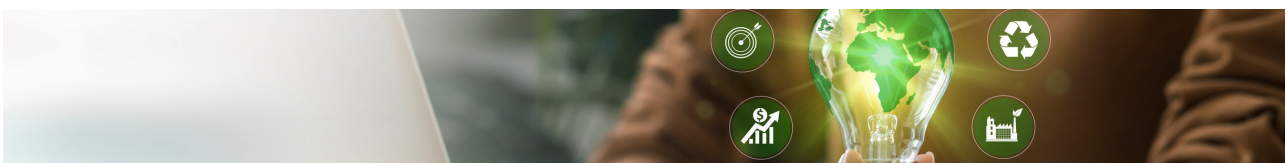
In the turn of the year 2015, Automobile manufacturing giant, Volkswagen Automobile, renowned for its respected reputation, after over a century of producing reliable motor vehicles, was reported by the British Broadcasting Corporation Business News to have been caught in one of the most notorious corporate scandals of the decade. The company had reportedly installed software in its diesel vehicles to cheat emissions tests, allowing cars to emit pollutants up to 40 times above legal limits. What followed was a global backlash, billions in fines, plummeting stock prices, a dent to its reputation, and a crisis in its leadership[1]. This incident was reported to have represented not only an environmental breach but also, profound failure of corporate governance.



Similarly, in Nigeria, it has been reported that one of the foremost oil producing companies in Nigeria, Shell Petroleum, despite its testamentary long-standing operations in the Niger Delta oil rich region of the country, has attracted sustained international attention due to reports of oil spills, gas flaring, and consistently unresolved tensions with host communities[2]. Like the Volkswagen, Shell’s reported initial disregard for ESG-related risks has inevitably resulted in protracted legal disputes[3], loss of stakeholder trust[4], and substantial environmental remediation costs.

It is noteworthy that these high-profile cases demonstrate a common thread: the neglect of Environmental, Social, and Governance (hereinafter referred to as ESG) principles. A corporate decision to neglect or an omission in compliance with ESG Principles poses material risks to corporate performance, sustainable environmental cohesion, and social viability indicators, as well as product and profit development sustainability. ESG is no longer a peripheral concern, but as rather taken centre stage in recent decision-making indicators. It is a critical element of strategic business management and risk mitigation policies.

Globally, there is now visibly, a paradigm shift in how corporate value and performance indices are assessed. Financial performance, while still essential, is now weighed alongside a company’s ethical conduct, environmental stewardship, and governance structures. Stakeholders, investors, regulators, and consumers alike are demanding greater accountability, transparency, and responsibility[5], especially in the light of concerns in the lapses and neglects that have greeted the application of ESG Principles in recent times by top tier and in some cases recent unicorn companies.



1 <https://www.bbc.com/news/business-34324772>

2 https://www.reuters.com/world/africa/shell-should-take-responsibility-oil-spills-nigerian-community-leadersays-2025-02-13/?utm_source

3 <https://www.theglobeandmail.com/business/article-canadas-oil-industry-on-watch-after-dutch-court-orders-shell-to-cut/>

4 <https://www.stewartslaw.com/news/shell-directors-sued-for-failing-to-prepare-for-net-zero-ingroundbreaking-esg-claim/>

5 <https://legal.thomsonreuters.com/en/insights/articles/esg-trends-in-risk-management>

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This article examines the increasing relevance of ESG principles within the Nigerian business environment and explores how aligning with these standards are not only essential for regulatory compliance but also pivotal to long-term corporate resilience and competitiveness. The Writer is confident that, upon implementing the thoughts and recommendations herein, the corporate ecosystem of the Nigerian business set up would improve and set the pace for increased economic development in a socially and environmentally viable country determined to compete favourably in the international development hemisphere.



WHAT IS ESG?

ESG means **environmental, social, and governance**, which refers to a set of standards or principles used to measure an organization’s social and ecological impact. It’s typically used in the context of operations and investing. It, however, also applies to customers, suppliers, employees, and the general public. It is a set of principles that guides a company’s strategy, operations, and activities, and also guides the assessment of its impact on the environment, customers, stakeholders, and the wider society[6].

ESG factors have evolved beyond the financial sector and are now applicable across all business sectors and industries. ESG metrics have become vital tools for assessing projects and businesses for funding, for stakeholder engagement, as a determinant of social capital, and for use by investors in making informed investment decisions. As we move into a future defined by transparency, accountability, and long-term value creation, understanding ESG and its implications for corporate governance is no longer optional; it is essential.



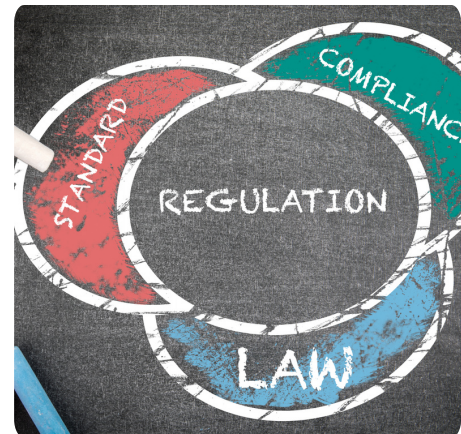
ESG CONCEPT

The concept of “ESG” emerged from an initiative led by the United Nations and key financial institutions to integrate environmental, social, and corporate governance factors into the strategies and operations of companies in the financial sector. This led to the creation of the 2004 report, “Who Cares Wins: Connecting Financial Markets to a Changing World,” which provided key guidelines and recommendations for integrating ESG factors into businesses world over[7]. By 2023, the ESG movement had grown from a UN corporate social responsibility initiative into a global phenomenon representing more than US\$30 trillion in assets under management.

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THE ESG PILLAR AND NIGERIAN LAW

Under Nigerian law, ESG implementation is not codified as being statutorily mandatory for all Nigerian companies in its raw form as postulated by the United Nations, but they remain legal variables alluding to its practical application in different guises. However, the law continues to push for the implementation of ESG in the decision making of businesses, companies, and other corporate organizations. Below, we will examine the ESG focal pillars essential for proper implementation of the standards within the Nigerian social and legal make up



1. The Environmental Pillar

The environmental pillar focuses on how our corporate practices affect the natural world in terms of pollution, waste, and resource usage as well as business entities interactions with the environment inter se. The environmental responsibility of corporate organizations is aimed at minimising negative environmental impact, conserving natural resources, and promoting ecological sustainability whilst continuously conducting environmental impact assessment where necessary in order to measure the environmental health from time to time. The environmental expectations that corporate organizations should implement include:

a. Environmentally Conscious Decision Making

To support environmentally conscious decision making, some Nigerian laws have established a framework of statutes and regulations that mandate businesses to evaluate and minimise their environmental footprint. Key legislative instruments guiding these obligations include:

i. Environmental Impact Assessment (EIA) Act 1992

Section 2 of the EIA Act requires that public and private projects that have the potential to impact the environment significantly should undergo a thorough environmental impact assessment (“EIA”) before being authorised or initiated. This assessment evaluates the project's potential environmental effects. A detailed EIA report is then submitted to the National Environmental Standards and Regulations Enforcement (“NESREA”) after the assessment. This Assessment is both preservative, preventive, and curative as it does not only report on the impact of such projects on the environment but also discloses the state of the environment’s at the said time vis a viz such project, an information that may become valuable in curative discourses and implementations.

ii. **National Environmental Standards and Regulations Enforcement Agency (Establishment) Act 2007 (NESREA Act)** This Act is central to Nigeria’s environmental regulatory framework. NESREA is mandated to enforce compliance with environmental laws, standards, and regulations across all sectors except the oil and gas industry. The agency also issues national environmental regulations, licenses etc, which impose specific environmental obligations on companies, ranging from waste disposal and emissions control to the sustainable use of resources. NESREA plays both a compliance and enforcement role, making it crucial for companies to align their operations with its mandates to avoid sanctions and reputational risks.



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iii. Companies and Allied Matters Act 2020 Although CAMA does not contain a specific provision dedicated to ESG obligations stricto sensu, Section 305(3) provides that directors must act in the best interest of the company to preserve assets, further its business, and promote the purpose for which it is formed. This includes considering the long-term success and sustainability of the business. This provision, amongst other provisions geared towards Corporate Social Responsibilities (CSR) are indicative of ESG aligned legislations in this regard especially as it applies to host communities.

iv. Harmful Waste (Special Criminal Provisions) Act, Cap H1, LFN 2004 This Act prohibits any person or corporate entity from engaging in the unauthorized importation, dumping, and transportation of hazardous waste within Nigerian territory without Lawful authority. The law is particularly relevant to companies involved in manufacturing, logistics, mining, and other high-waste sectors, as it imposes criminal liability for environmental harm caused by improper waste management. The above law is a response to the disposal of hazardous waste materials by corporate entities in Nigeria with reckless abandon, hence, this punitive framework, amongst others like it, were developed and advanced towards deterring such acts which has consistently caused damages to a lot of lands and water bodies in Nigeria over the years. The growing body of Nigerian environmental laws shows a clear trajectory towards sustainability and ecological accountability in the private sector. While not all laws apply universally to every company, they collectively demonstrate that environmentally conscious decision-making is no longer optional for corporate organisations. Directors, developers, manufacturers, and extractive operators must be proactive in:

- Conducting environmental impact assessments.
- Minimising pollution and managing waste responsibly.
- Conserving water and forest resources.
- Integrating sustainability goals into strategic planning.
- Complying with both sector-specific and general environmental regulations.
- Training their workforce in environmental and socially sensitive innovations and ESG compliance for intergenerational sustainability of sane policies in these regards while ensuring the alliance of same in corporate governance.



b. Carbon Footprint Control

Organisations are obligated to mitigate their environmental impact by limiting carbon emissions. The goal is to adopt sustainable practices and technologies that not only reduce the carbon footprint but also signify a commitment to fostering a healthier environment in the collective effort of preserving the ozone layer and avoiding further risks of unhealthy climate change. By proactively controlling their carbon footprint, organisations contribute to a greener and less hazardous future while enhancing their overall ESG performance and reputation in the spirit of inter-generational environmental equity. Legislations enacted with these thoughts in mind are, amongst others:

i. Climate Change Act 2021 (“CCA”)

ii. Harmful Waste (Special Criminal Provisions, etc) Act 1988

iii. Petroleum Industry Act 2021



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c. Sustainable Finance Practices

Sustainable finance practices involve strategies such as responsible investing, green financing, and adherence to ethical standards. Both the Central Bank of Nigeria (CBN) and the Securities and Exchange Commission (SEC) have emphasized the importance of sustainability and financial responsibility, and responsiveness in financial institutions in Nigeria.

The CBN issued the Nigerian Sustainable Banking Principles on September 24, 2012, which aims at driving positive development outcomes for society while safeguarding the environment and communities impacted by the institutions' operations, thus promoting a symbiotic sustainability mechanism, while the SEC had equally released the Nigerian Sustainable Finance Principles in April 2021. The Sustainable Finance Principles of the SEC are designed to advance environmental conservation, social advancement, and economic sustainability within the Nigerian financial framework. These guidelines, created by CBN and SEC, direct regulated entities, including self-regulated organisations, capital market operators, trade groups, and capital trade points, to embed ESG considerations into their operational frameworks and decision-making procedures.

2. The Social Pillar

The social pillar of the ESG business model includes practices that impact employees and the communities within the Nigerian business ecosystem. Social responsibilities encompass employee welfare, community engagement, and diversity efforts. Some social responsibilities that organisations should implement include:

b. Consumer Protection

This involves ensuring the production or provision as the case may be, of high-quality products and services, prioritising consumer safety and satisfaction, and promoting transparency and accountability in marketing and sales practices. In Nigeria, organisations are obligated to uphold consumer rights as a matter of business exigencies; the Federal Competition and Consumer Protection Act 2018 aligns with this ESG goal by prioritising the protection and promotion of consumers' interests and welfare as one of its primary objectives. The Standard Organisation of Nigeria is also put in place to ensure the standard of products in circulation as a pre-emptive measure at protecting consumers rights. These regulates and imposes obligations on manufacturers, importers, distributors, and suppliers of goods and services while also enforcing sanctions for any breaches of these obligations

a. Employee Benefits

Ensuring fair compensation, promoting a healthy work-life balance, building an ESGconscious workplace through constant sensitization, orientations and training, and creating opportunities for professional growth and development are crucial components of corporate sustainability goals. Several laws enforce employee benefits, including:

i. The Factories Act 1987 This Act imposes mandatory obligations concerning the health, safety, and welfare of factory workers. Part II of this Act lists obligations relating to cleanliness, overcrowding, provision of sanitary conveniences, and ensuring the safety of machinery etc.

ii. The Employees Compensation Act 2010 The Act provides equitable compensation in cases of death, injury, disease, or disability occurring during employment. This Act also facilitates the rehabilitation of employees with work-related disabilities and oversees the operation of a compensation fund managed in the best interests of both employees and employers.

iii. The National Housing Fund Act 1992 This Act deals with the provision of affordable housing using contributions from Nigerians in both the public and private sectors, as well as investments from institutional investors such as commercial and merchant banks and insurance companies

iv. The Industrial Training Fund Act 2011 This promotes skill acquisition in industry and commerce and encourages management skill training for technical and entrepreneurial development for the purpose of continuous human capital development.



CONSUMER
PROTECTION

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3. The Governance Pillar

The governance pillar centres on how an organisation, in its operational system, manages its business in line with regulatory compliance, encompassing responsible practices such as data protection, cybersecurity, risk management, and supply chain oversight. It involves upholding sound corporate administration through principles that prioritise transparency, accountability, and ethical decision-making across all levels of the organisation. Key governance responsibilities have been summarised below.



THE IMPORTANCE OF ESG TO BUSINESS POLICY DEVELOPMENT AND FUTURE DECISION MAKING IN THE NIGERIAN CORPORATE SPHERE

From the above, it is noteworthy that ESG is an essential factor in business development and has become indispensable in policy development in public and private sectors. To this end, we will further examine the focal points of the importance of ESG has deducible from our discourse herein. Below are some of the focal points to be considered, such as:

1. Business Sustainability and Operational Efficiency

Embedding ESG into core operations allows businesses to institutionalize sound and responsible practices that leads to greater efficiency, cost reduction, increased profitability, and long-term resilience. Companies that prioritize ESG are better positioned to navigate complex market environments and sustain their operations over time.

2. Meeting Stakeholder and Investor Expectations

Today's stakeholders, ranging from customers and

a. The Nigerian Code of Corporate Governance 2018 (“NCCG”)

This is a Corporate Governance tool that encourages the development of policies on the board of directors and officers, assurance, shareholder relations, ethical business practices, and sustainability concerns encompassing the environment, social aspects, occupational health, community welfare, safety measures, and transparency. It also provides 28 broad principles that apply to all public companies (listed and unlisted), all private companies that are holding companies of listed companies or other regulated entities, all concessioned or privatised companies and all other regulated private companies. All companies are, however, encouraged to apply the NCCG as the standard of best practices

b. The Nigeria Stock Exchange Sustainability Disclosure Guidelines 2018 (“NGX Guidelines”)

The NGX Sustainability Disclosure Guidelines outlines reporting structures for ESG performance by listed companies. It includes a detailed approach that should be adopted towards ensuring sustainability in organisations and mandates the tracking of the companies that make such disclosures. They outline a strategic process for integrating sustainability, which involves identifying key organisational issues and drivers, formulating strategies, establishing governance and stability mechanisms, setting targets and action plans, monitoring progress, and reporting and evaluating advancements. Additionally, the NGX Guidelines impose reporting obligations on listed companies as being an obligatory requirement.

employees to investors and regulators, demand transparency, accountability, and sustainability. Companies must demonstrate their ESG commitments or risk reputational damage, public backlash, and loss of stakeholder trust. In contrast, businesses that proactively embrace ESG are more likely to earn loyalty and investor confidence[8]

3. Legal and Regulatory Compliance

Corporate actors across industries and companies are increasingly subject to legal compliance obligations and regulatory frameworks requiring the adoption of ESG-related practices. These include corporate governance codes, environmental impact assessment regulations, sustainability reporting standards, and climate-related disclosures amongst others. Compliance is critical not only to avoid sanctions but also to enhance corporate credibility.

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4. Access to Funding and Investment Opportunities

Investors and financial institutions have now devised ESG factors indicators as key criteria in funding decisions. Companies with weak or absent ESG frameworks often find it harder to secure financing. On the other hand, strong ESG performance can unlock access to green finance, sustainability-linked loans, and broader investment channels, creating a competitive advantage in the capital market.

5. Enhanced Risk Management

While risk is intrinsic in every business venture, integrating ESG into business operational make up and corporate governance structures strengthens a company’s ability to identify, assess, and mitigate non-financial risks, including those related to climate change, labor practices, corruption, and supply chain disruption. This proactive approach to risk mitigation enhances corporate stability and resilience.

6. Climate and Environmental Concerns

The rising concerns regarding environmental degradation and climate change necessitate collaboration and demand deliberate and collective efforts from the private sector and state actors both locally and internationally. This singular awareness as driven several innovations, legislations and policies such as have been elaborately discussed herein, pertaining to climate protection and ozone layer depletion prevention vide laws especially against carbon emissions amongst others.

A STRATEGIC ROADMAP TO A MORE PURPOSEIVE ESG INTEGRATION IN NIGERIA

Effective ESG integration requires a deliberate and enterprise-wide approach that aligns sustainability with corporate strategy, risk management, and stakeholder expectations. For Nigerian companies, this means moving beyond surface-level compliance to embedding ESG as a fundamental driver of business resilience and long-term value.

1. Strategic ESG Alignment and Board Commitment

Effective ESG compliance begins at the top, in the realm of corporate governance and compliance. Boards and Executive leadership must be aligned on ESG as a business priority, not just a regulatory or reputational issue but as an operational commitment. This commitment should reflect in governance structures, strategic plans, and leadership accountability frameworks.

3. ESG Risk and Materiality Assessment

Materiality assessments are critical to identify ESG issues most relevant to the company’s sector, stakeholders, and risk exposure. This phase involves Stakeholder mapping and engagement, ESG risk/opportunity mapping across environmental, social, and governance domains. This clarity forms the basis for prioritising ESG actions and allocating resources effectively for improve environmental and social cohesion.

3. ESG Strategy Formulation and Integration

Once material ESG issues are identified, companies should commit to formulating a coherent ESG strategy that integrates sustainability into their core business operations. This involves aligning ESG goals with business purposes and objectives thereby embedding them into daily decision-making.

4. Policy Development and Internal Controls

Clear, enforceable policies ensure that ESG priorities translate into action. To this end, internal controls and compliance systems are essential to monitor adherence, minimise risk exposure, and promote a culture of accountability.

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5. Capacity Building and Organisational Awareness

Sustainable change requires informed employees and ESG-literate leadership. Thus, regular training, orientational programs and internal awareness initiatives would help institutionalise ESG thinking across all levels of the organisation.

6. ESG Data Management and Monitoring Systems

Reliable ESG data is essential for tracking progress and making informed decisions. Companies must establish systems to collect, analyse, and report ESG metrics consistently and transparently.

7. ESG Reporting and Disclosure

Transparent disclosure of ESG performance enhances investor confidence and regulatory credibility within legally allowable parameters. Adopting recognised reporting frameworks signals a company’s commitment to accountability and continuous improvement.

4.T hird-Party ESG Assurance and External Audits

Independent and unbiased External validation strengthens the integrity of ESG disclosures and builds trust with stakeholders. Independent audits also help identify gaps, lacunas and opportunities for strengthening ESG governance policy framework.

5. ESG Due Diligence and Investment Readiness

Whether preparing for capital raising, corporate scalability, partnerships, or M&A, ESG due diligence ensures that a company’s sustainability credentials can withstand a well-rounded scrutiny in all facets of its corporate endeavour. It also highlights risks that may affect valuation or long-term viability.

6. Continuous Improvement and Regulatory Engagement

ESG is a dynamic field, requiring companies to evolve with changing standards and expectations. Proactive engagement with regulators and participation in industry initiatives help companies stay ahead of emerging compliance requirements.

In view of the foregoing, a well-executed ESG roadmap effectively positions Nigerian companies to meet investor expectations, manage regulatory risks, attract green capital, and contribute to national sustainability goals. The future of responsible business in Nigeria depends not only on compliance, but on foresight, leadership, and the ability to embed ESG into the DNA of all business organisations and corporate establishments.

CONCLUSION

Incorporating ESG Factors into corporate strategy is no longer a choice; it is a strategic necessity. As markets evolve and global standards tighten, businesses that prioritise ESG are better positioned to access new funding opportunities, attract investors, manage risks effectively, and build long-term resilience, consequently yielding economic development in the Countries where such businesses operate and thrive.

Ultimately, ESG is not just about compliance; it’s about creating value responsibly, sustainably, and transparently. The companies that embrace this shift today will be the ones shaping the stable, inclusive, and profitable markets of tomorrow.

As Nigeria continues its journey towards greater ESG integration, the writer is confident that it has the potential drive the emergence of a beacon of sustainable business best acceptable practices, driving progress and prosperity for all stakeholders across the region and by implication, the African continent.

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