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What role does technology play in ESG?

As we move into a post-pandemic business landscape, how does ESG (environmental, social and governance) factor into the new digital transformation roadmaps enterprises are re-drawing in the wake of COVID-19?

One of the fundamental changes that have taken place as a direct result of the pandemic is that consumers are more aware of the environmental and social credentials of the businesses they buy from. Indeed, ESG has become a major differentiator across all industries and business sectors.

Mike Penrose, cofounder, The Sustainability Group, FuturePlus, succinctly states: “ESG is no longer an abstract construct or something that people consider outside of core business; it has become an immediate consideration and priority.”

The current *Global Corporate Reporting* survey from EY that looked closely at ESG across the finance sector concludes that: “Close to three-quarters of respondents (74%) said they have seen an acceleration in the transition from traditional financial reporting to an enhanced corporate reporting model that encompasses financial and ESG reporting.”

It’s clear that high levels of ESG are now central to business operations, but the challenge facing many enterprises is how ESG data is collected and then analysed. As the profile of ESG has risen, so the challenges facing the trinity of consumers, regulators and investors have proven to be complex, with no clear path to leveraging the available ESG data.

On average, 81% of the organisations surveyed by *NAVEX Global* have a formal ESG program in place, with Germany and France leading the way at 86%. The UK is not far behind, at 79%. This begs the question: why are European firms leading the way in ESG?

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Commenting, Fathia Murphy, ESG product specialist at Navex Global, says, "Across Europe, ESG related legislation at member state level has been here for a few years, notably in France with the so-called French Energy Transition Law passed in 2015 under article 173 that mandates institutional investors to report carbon emissions. The law was intended to be the first step to greater transparency, and since then has been updated to include climate and biodiversity risks under article 29."

And technology is, for many, the key to enhancing ESG, as Peter Hirsch, head of sustainability at urban sustainability fund 2150, explains to Maddyness: "Businesses are leveraging tech to deliver on ESG outcomes, and we'll only see this space continue to grow over the next few years. What's exciting is that London, in particular, is a driving force behind Europe's rapid growth of climate tech, raising $3.3B in VC investment since 2016, equating to 16% of Europe's total.

"Innovations are coming online that assess current ESG performance and contribute to climate and environmental targets. In the built environment, in particular, we're seeing tech helping to predict the impacts of construction at the earliest phases of design, or take a data driven approach to construction management – like Nodes & Links – a scheduling tool designed to reduce time, energy and material waste.

"In physical assets, tech is helping to develop new materials, make buildings more efficient, or use sensors and software that improve the health, safety, and productivity of its citizens. In 2022, scalable software and data solutions to facilitate this transformation and meet ESG goals will be key."

The power of ESG

If there is anything that COP26 showed us, is the business case for strong ESG can often be challenging to articulate. Accountability from all stakeholders – none more so than a company's customers – is now critical and must be transparent. Failure could have harsh financial consequences.

According to a report from *IBM*, nine in 10 consumers surveyed reported the COVID-19 pandemic affected their views on environmental sustainability, and

COVID-19 was the top factor cited in influencing their opinion, with 71% of employees and employment seekers surveyed saying that environmentally sustainable companies are more attractive employers.

ESG is also not just a public pledge to move a business towards net zero in the near future. ESG today is multifaceted, and as such, it can be a complex collection of initiatives that must be driven to a common goal. As consumers become tired of environmental and social rhetoric coming from many companies, here, actions speaks louder than words.

And the actions taken by businesses to enhance their ESG increasingly has a technology component. Lori Witzel, director of research analytics and data management at TIBCO Software, explains that ESG is now a fundamental component of business technology development: “Digital transformation initiatives are not just for modernising the business – they help deliver ESG. For example, modern, cloud-based architectures can improve sustainability by reducing the energy demands of traditional on-premises data centres.

“An organisation can also use data virtualisation solutions to reduce the energy costs of data transfer among multiple data sources. Moving, transferring, and copying bytes (data) not only uses precious bandwidth, but requires data processing that leads to higher energy consumption. Further, as part of digital transformation, better data management technologies such as data fabrics not only support better governance but can enable turning data into insights that can support all facets of ESG.”

Implementing change

So, who is driving ESG across businesses and organisations? Here, the CTO plays a significant role as many of the critical responsibilities of the CTO will have a direct impact on their company’s ESG, such as how energy and data connect together with data centre services, how new products are designed and built can have a major impact on ESG, and how technology, in general, is procured, deployed and maintained are also crucial components of transparent ESG.

ESG data can be leveraged but must be placed into explicit context within a well-defined strategic plan. A unified approach to ESG data collection, analysis, and reporting is now commercial imperatives all businesses must fully embrace and act upon, no matter their size.

“As noted by The World Economic Forum, among others, the COVID-19 pandemic, and now ongoing recovery, is an opportunity to build back better,” says Frida Emilsson, the COO and cofounder of Worldfavor. “By this, we mean that ESG performance can now be central to business and that organisations should put ESG performance at the heart of how they conduct themselves going forward.”

With Jordan Appleson, CEO and cofounder at Hark, also pointing to accountability as critical to successfully building an ESG strategy: “With ESG endeavours, particularly when it comes to a business’s environmental impact, there is often the challenge of accountability. That is whose problem is it? We’re beginning to see leadership changes reflect the need for this accountability. According to a Weinreb Group study, the number of Chief Sustainability Officers in Fortune 500 companies has increased by 228% since 2011. If real, ESG focused change is to be enacted; however, accountability needs to be a company-wide approach.”

There is no doubt that ESG is now an essential component of profitable business, particularly as we move into the post-pandemic business landscape. Here, technology can be leveraged to deliver the insights and data needed to form the foundations of an ESG enhancement strategy. When deployed as an integrated component of a more comprehensive digital transformation plan, the specific ESG technologies reveal the insights and data needed to place ESG as the cornerstone of what good post-COVID business means.

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