ManageEngine | Insights

Digital Life

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Decoding ESG for enterprises

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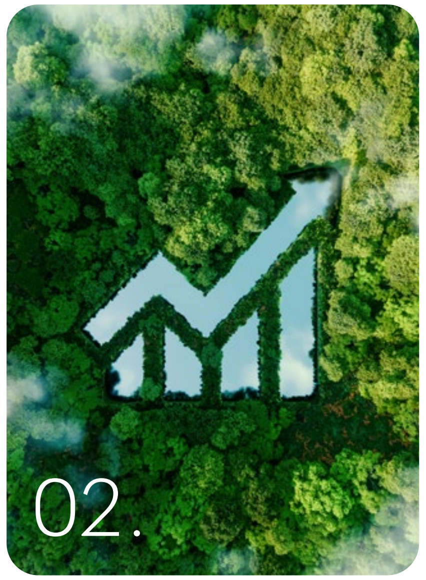
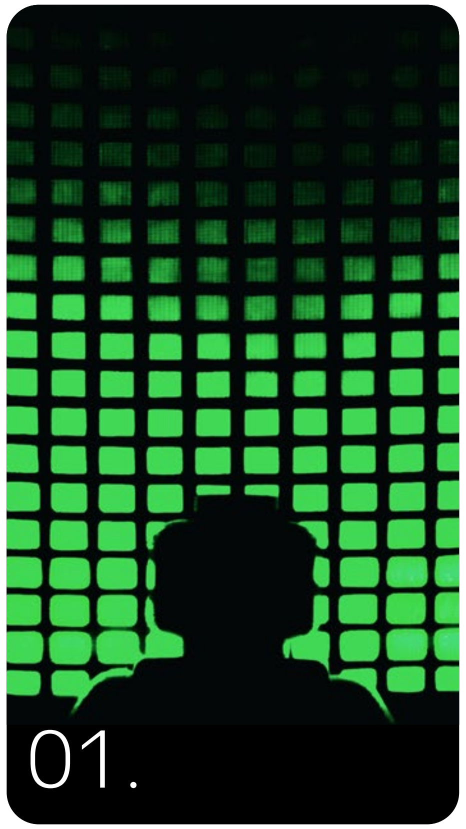




Editor's note

While the Insights team was putting the finishing touches on the environmental, social, and governance (ESG) issue of Digital Life, ESG was taking a beatdown from venture capitalist and internet pioneer Marc Andreesen.

ESG is an "enemy" of technology, progress, and life itself, according to Andreesen's [The Techno-Optimist Manifesto.] Sustainability, social responsibility, stakeholder capitalism, and tech ethics are enemies, too.

Those are extreme accusations, but ESG was conceived to address extremes—specifically, extremes in the environment, society, and corporate behavior—and the existential threats they pose. ESG isn't an enemy. It's an answer.

Now, the question for CIOs and IT leaders is how to address ESG concerns in the IT department and the enterprise overall? Our team has a few suggestions.

In "Harnessing big data for next-generation ESG management in enterprises," Samudhra Sendhil discusses the pivotal intersection of technology, evolving societal values, and environmental responsibility. She emphasizes the transformative potential of artificial intelligence and machine learning while also acknowledging their contribution to challenges such as climate change and social inequalities.

Sam underscores the growing importance of ESG factors in evaluating companies, particularly due to the influence of Generation Z and Millennials who prioritize ESG alignment. Big data is presented as a key tool for ESG management, enabling organizations to gain insights, monitor labor practices, and improve supply chain sustainability.

Priyanka Roy offers her advice in "Measuring what matters: Understanding the importance of ESG metrics." As corporate responsibility and sustainability become more important than ever, she presents ESG metrics as vital tools that can help businesses navigate complex ESG issues and serve as responsible corporate citizens.

Priyanka's article delves into what ESG metrics entail, understanding their significance, and knowing how to select the right ones. Doing this will not only help organizations comply with dozens of regulations but also contribute to a greener, more sustainable future.

"Yes, private companies need to prioritize ESG, too" is my wake-up call to the IT leaders at those companies. They may not be subject to the same ESG regulations as public companies, but private companies can't escape the ESG expectations of their employees, customers, partners, suppliers, and other stakeholders.

Given the rise of the digital enterprise, I believe that ESG efforts should be led by IT leaders. They are perfectly positioned to make the case for ESG in the IT department and in the enterprise as a whole.

In "Moving beyond compliance: Elevating ESG commitment for a sustainable future," Naveena Srinivas points out that the convergence of technology and sustainability requires a shift from ESG compliance to deep commitment.

She explores ESG's compliance-commitment divide. Compliance-driven models meet regulatory minimums, treating ESG reporting as a checkbox. Commitment-driven approaches set ambitious ESG goals, fostering innovation, trust, and resilience. Illustrated by Philips, this commitment-driven reporting enhances brand reputation, secures long-term success, and embraces transparency.

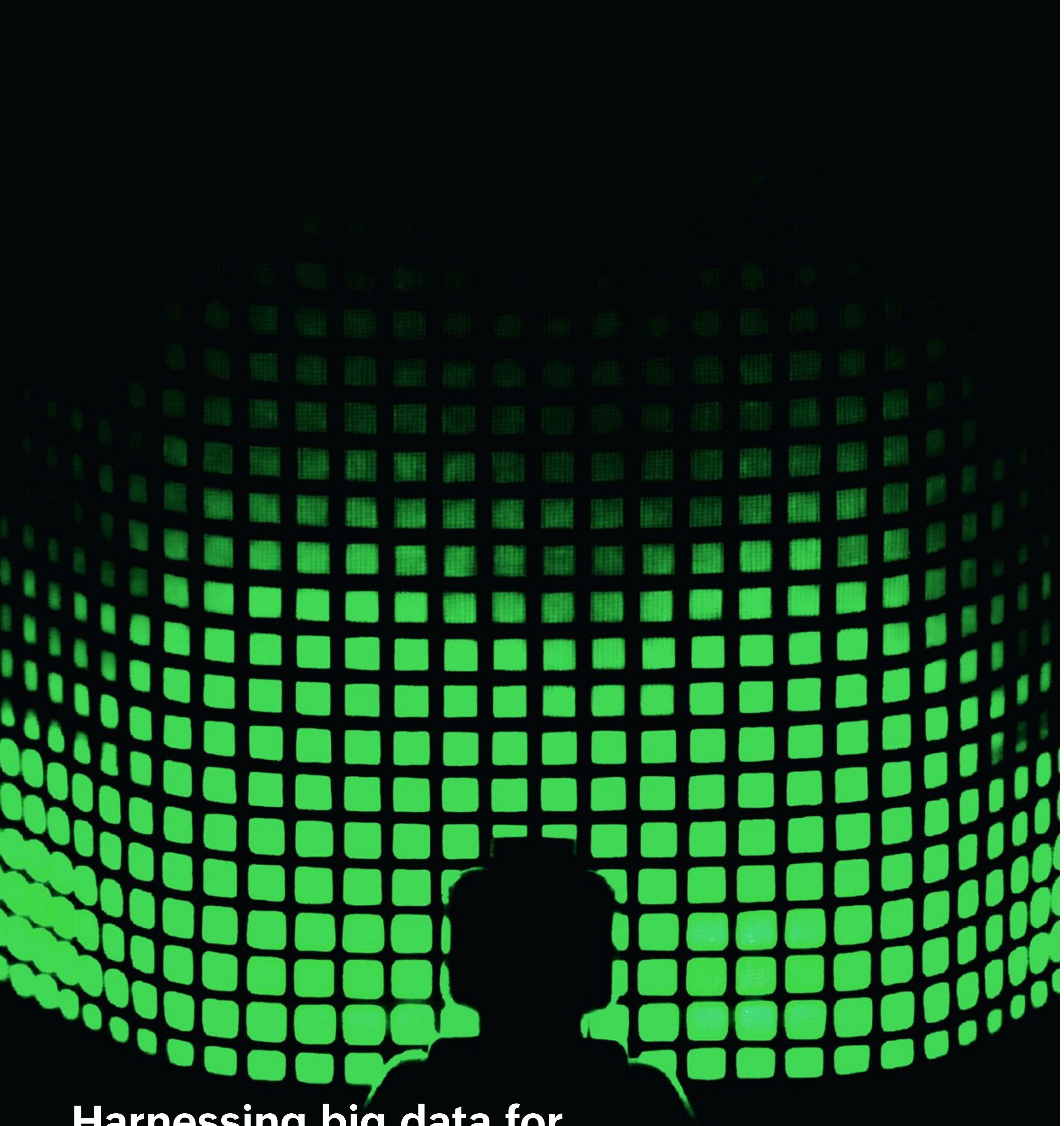
Naveena's conclusion? Shifting from compliance to commitment is essential for long-term business success and as well as for society as a whole.

Finally, John Donegan focuses on ESG's cost-savings potential in "10 sustainability initiatives that will improve your organization's bottom line."

Some of his recommendations are relatively simple, like swapping out incandescent lights for LED lighting, actions that can be taken any organization, regardless of size. For larger enterprises, he includes some lesser-known, more-expensive initiatives to consider, such as the implementation of solar farms and biogas plants.

John argues, quite convincingly, that ESG isn't just about reducing one's carbon footprint and helping the planet. It's also very much about cutting costs and improving financial performance.

Brent Dorshkind
Editor, ManageEngine



Harnessing big data for next-generation ESG management in enterprises

By Samudhra Sendhil
Enterprise Analyst, ManageEngine

Today, we find ourselves at a crossroads. The merger of technology, evolving societal values, and environmental responsibility is shaping our future. This intersection is impacting businesses, industries, and the fabric of our society.

The consequence of progress

Recently, artificial intelligence (AI) and machine learning (ML) have become the talk of the town. They've emerged as transformative forces, promising unprecedented possibilities across all sectors of our economy. The proliferation of technology has brought individuals from diverse backgrounds to collaborate, communicate, and share ideas like never before, and has enabled new social norms to emerge.

This technological advancement has come at a price, one that is becoming increasingly evident: climate change, environmental degradation, and social inequalities. The exponential growth in the consumption of electronic devices, the energy required for data centers, and the environmental costs of manufacturing and disposing of technology hardware are causing ecological imbalances. However, the very problem with technology could hold the key to solve crises plaguing our world.

All lights on ESG

Against this backdrop, the concept of ESG factors is no longer just a buzzword. ESG factors represent a critical framework to evaluate a company's sustainability and ethical practices. Today, companies are not only assessed based on their fiscal performance but also on how much they care about environmental preservation, social responsibility, and ethical governance.

89% of executives believe that [ESG initatives are going to be just as popular or more] in five years as they are now.

The rise of Generation Z (Gen Z) and Millennials as dominant consumers and employees in the tech-centric workforce has significantly influenced the ESG landscape, so much so that 34% of Gen Z and 39% of Millennials are ready to take a pay cut if a company's ESG initiatives align with their values and beliefs. Younger investors are willing to lose 6% to 10% of their investments to promote environmental practices. They are also ready to relocate, sacrifice work-life balance, and accept a job with fewer benefits if their company has a good ESG strategy. In contrast, their older counterparts, investors aged 58 and older, didn't care much for ESG initiatives, and most baby boomers were unwilling to incur any losses to create a better future.

59% of CEOs say their companies are adopting low-carbon and renewable energy solutions, but only 44% foresee net-zero future in a decade, and only 41% are committed to decarbonizing their supply chains.

A pretty clear picture emerges on which generations place a higher value on sustainability, diversity, and ethical practices. They have grown up in a world where technology is inseparable from their lives and they will live through an era of chaotic climate and unstable societal conditions. This has led to a heightened sense of social and environmental responsibility. What's important to note here is that technology has been a catalyst for these generations to develop and share their values, rapidly disseminating ideas about what is "right" and "wrong" in terms of social, environmental, and governance practices. The result is a generation of consumers who prioritize companies that align with their values and ESG principles.

Big data as a catalyst for ESG management

Every minute, millions of new data points are generated and this is too much for our brains to handle. We used to look at knowledge and find insightful data within it. Today, with big data, it is the other way around. We analyze data and try to make knowledge out of it. The growth of IoT devices is generating a massive amount of data, which presents a gold mine of intelligence and predictions for enterprises looking to improve their ESG strategies and optimize their supply chains.

Modern technology is designed to capture data at an astonishingly granular level. The significance of capturing all of this data lies in its potential to reveal valuable insights, patterns, and trends that were previously difficult to discern. For enterprises, this data deluge presents both opportunities and challenges. IDC predicts that the global datasphere will grow from 33ZB in 2018 to 175ZB by 2025. To put that into perspective, one zettabyte is around 1,048,576GB.

At its core, big data is the collection of vast and diverse datasets from various sources. This data enables organizations to go beyond analysis by utilizing historical data and real-time information to gain a deeper understanding of their environmental footprint, set measurable sustainability goals, uncover inefficiencies, and make informed decisions to mitigate negative impacts. Enhanced ESG ratings, backed by data-driven evidence of responsible practices, can attract socially responsible investors and positively influence investment decisions.

Big data analytics can also help organizations track and analyze workforce diversity metrics. Schneider Electric, a UK-based corporation, leveraged big data to address gender pay gaps and enhance gender equality in its workforce. This analysis improved hiring practices where biases against women were found. The company's solution to this included gender-neutral job descriptions and blind hiring practices. Names were removed from resumes and words typically attributed to male employees such as "aggressive salesperson" were also removed. By the end of all of these changes, women accounted for 20% of revenue-producing roles with a hiring rate of 30%. Representation of women on the board and executive committee level also increased to 42% and 44% respectively.

The big challenge for corporations

The biggest issue for corporations and ESG factors is that their strategies don't just begin and end at their doorsteps. It extends across the entire supply chain, from sourcing raw materials to distribution and beyond. Companies may have limited control over the practices of suppliers, subcontractors, and partners, making it difficult to maintain a unified ESG approach throughout the supply chain, especially when the rules for a good ESG strategy remain largely undefined. Different regions, cultures, and stakeholders may have varying expectations and interpretations of ESG standards.
This is evident in farming industries that involve cocoa and coffee, which are two of the most exploited, unsustainable, and abusive industries in the world. Coffee and cocoa farmers struggle to invest in sustainability because they focus on meeting their basic needs and increasing yield. Many of these farmers are smallholders with limited resources and knowledge of sustainable practices. These crops mostly come from developing countries with complex supply chains involving farmers, middlemen, exporters, and processors.

This complexity makes it hard to know where the beans come from and if they follow ESG standards.

Big corporations often claim to source sustainably, even having certifications like Fair Trade or Rainforest Alliance, but sometimes, these efforts don't cover the whole supply chain, and downstream suppliers may not meet the same standards and instead play the system for profits.

Big data analytics can help to improve labor practices on these farms by tracking working conditions, wages, and child labor incidents. Imagine being able to see exactly where your coffee or cocoa came from, from the farm to your cup. Big data can do that by tracking the journey of the beans. This helps companies find where things might be going wrong. For example, they could notice a large influx of produce coming from a particular area where child labor is reported to be high and keep an eye out for that. Big data can also help by checking how farmers grow their crops. It can analyze factors like how they use water, soil health, or if they use too many chemicals.

By collecting and analyzing all of this data, manufacturers and companies doing business with these vendors can identify areas where practices need improvement.

The human element in ESG management

Going beyond greenwashing and the mere inclusion of sustainability in marketing materials, ESG initiatives serve as a mechanism of accountability. Big data, acting as a reliable ally, empowers companies to make well-informed decisions regarding their supplier relationships, ensuring strict adherence to ethical standards.

Humans play a significant role in ensuring that insights from valuable big data are ethically sound. However, people also bring their own perspectives and biases into the data collection and analysis process, which leads to skewed results or the unintentional reinforcement of existing biases. It is through additional human intervention that these biases can be identified and mitigated.

ESG management extends beyond data analysis and also encompasses active engagement with stakeholders. This engagement involves communication and relationship-building skills, which are inherently human qualities. These interactions require empathy, active listening, and the ability to understand and respond to the needs and values of different groups. The human element is crucial for building trust, which is fundamental to successful ESG management.

Leadership decisions that prioritize long-term sustainability and ethical practices may not always align with immediate financial gains, but they can lead to greater trust, improved reputation, and enhanced long-term profitability. Forty-five percent of CEOs surveyed agree their organization's ESG strategies have a positive impact on profits and ESG factors have now become a real economic concern.

Ethical leaders help organizations navigate the complexities of ESG factors while staying true to their values. The dynamic nature of societal values and norms will require organizations to remain agile in their approach to ESG concerns. What was considered acceptable and responsible today may evolve rapidly, necessitating adaptable strategies. Technology can aid in monitoring and understanding these shifts, helping organizations align their ESG practices with current expectations.

Furthermore, climate and carbon taxes might become actual laws in the future. Governments and regulatory bodies worldwide are increasingly recognizing the urgent need to address climate change. This recognition could significantly impact businesses that do not proactively address their environmental impact.

In the future, ESG initiatives will be guiding businesses toward a more responsible, resilient, and prosperous future in a world where the intersection of technology and environmental responsibility is defining our path forward.

Measuring what matters: Understanding the importance of ESG metrics

By Priyanka Roy
Senior Enterprise Evangelist

With the state of constant flux that most businesses find themselves in today, the ESG strategy has emerged as a linchpin for organizational success. However, it's important to remember that it's not enough anymore to merely have ESG goals. What matters today is how much progress you've made in actually implementing your ESG strategy. ESG metrics help you measure the value addition and impact of this strategy on your broader organizational goals. These metrics serve as a tool for navigating towards a future where profitability can be perfectly balanced with social responsibility and environmental advocacy.

Based on the ESG metrics that are applicable to your organization and industry, an ESG score is determined.

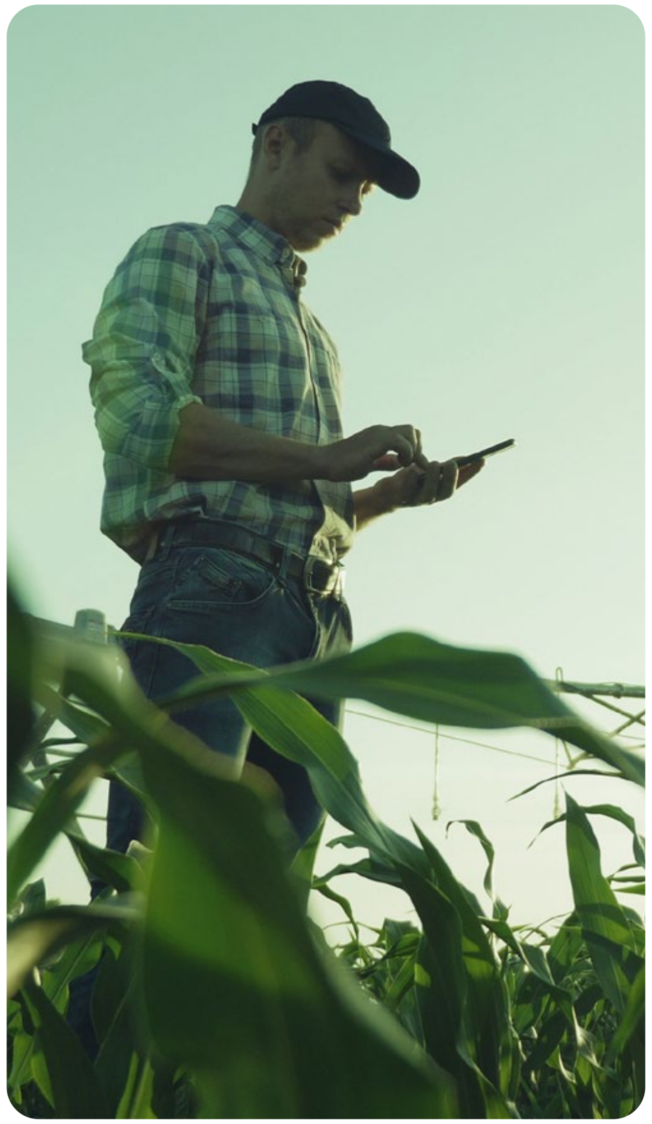
An ESG score is a quantitative assessment (numerical or letter-based) of the initiatives implemented by your organization to meet its ESG goals. An organization's score is therefore based on multiple ESG metrics: environmental sustainability efforts, human resource policies, diversity and inclusion undertakings, corporate governance concerns, and many more.

Understanding ESG metrics: A framework for sustainability

ESG scores have come to hold vital importance for an organization's reputation and ability to succeed. ESG reporting has transcended mere financial reporting and is considered crucial for stakeholders to be able to obtain a holistic view of the organization's impact on ESG issues. As a result, there has been a drastic increase in the scrutiny that organizations face on these fronts from investors, board members, employees, and customers alike.

Sustainability has become a crucial factor in a potential client's (or even employee's) evaluation. It should come as no surprise then that a recent Gartner® survey found that 86% of business leaders believe implementing sustainability initiatives protects their organization from disruption. These leaders said that such initiatives have created both short-term and long-term value, helping their organization recover from the multiple disruptive events that the world has been riddled with over the past few years.

While this establishes the importance of ESG initiatives, organizations still need to tackle the case of metrics, which help quantify the value addition of these programs. ESG ratings or scores help businesses not only signal their performance to their stakeholders but also benchmark their achievements against those of other businesses in the same industry. Additionally, ESG scores are immensely useful in identifying the areas where companies can improve their practices.



ESG ratings are arrived at by adopting a comprehensive framework that evaluates the organization’s activities and performance when it comes to the three distinct pillars of ESG issues:

Environmental metrics

These metrics measure the impact a company has on the environment and the steps it has taken to neutralize this impact. Factors such as carbon emissions, waste management, water utilization, energy consumption, and greenhouse gas emissions fall under this category. Quantifying and tracking these factors helps organizations lessen their carbon footprint, improve their energy efficiency, and make their way towards a greener future.

Social metrics

The social category is known to be quite broad, covering everything from labor practices and employee relations to diversity, equity, and inclusion (DEI) practices. Social metrics assess how an organization treats employees, customers, and society at large. Some of the key elements in this category are workforce diversity, fair labor practices, social initiatives, community engagement programs, product safety, and quality checks.

Governance metrics

Governance metrics analyze an organization’s leadership and management practices, scrutinizing the internal policies and mechanisms that drive the company. This category includes factors such as board structure and diversity, executive compensation and incentive plans, shareholder rights, ethical and compliance principles, and anti-corruption efforts. Governance metrics play a crucial role in determining a company’s commitment to upholding transparency, accountability, and ethical processes.

The benefits of tracking ESG metrics

As tightening regulations across the globe make it mandatory for businesses to report their ESG targets, tracking and measuring ESG metrics provides much-needed visibility into your organization's supply chain and helps you avoid significant legal penalties and reputational damage.

In addition to the mandatory nature of this requirement, investing in ESG initiatives is known to yield considerable returns:

Risk mitigation

ESG metrics enable organizations to identify and avert potential risks. For example, monitoring environmental aspects allows companies to address compliance concerns proactively, thereby reducing the likelihood of incurring fines. Similarly, social metrics help companies gauge employee satisfaction and potential labor disputes, while governance metrics help them maintain accountability as well as ethical, transparent practices.

Cost reductions

Sustainability initiatives can help your company reduce costs while driving ESG goals. Practices that contribute to the environmental pillar, such as switching to greener sources of energy, are now known to be equal or lower in price than fossil-fuel-based energy. With global treaties such as the legally binding Paris Agreement in place, organizations across the world need to consider the holistic cost of continuing to rely on traditional energy sources. Some countries have even started offering tax exemptions and benefits to encourage organizations to make the transition to clean energy.

Competitive advantages

Progressive companies that plan for the future prioritize sustainability and responsible business practices, thereby outperforming the competition by always staying one step ahead. In present times, consumers are known to prefer brands that align with their values—giving back to the community and society—and as a result, investors are also more likely to support companies with a strong ESG track record.

Who can calculate and provide ESG scores?

The process of calculating ESG ratings can be quite complex. While organizations can calculate their scores themselves using standardized frameworks, such as those of the Global Reporting Initiative (GRI) or the Task Force on Climate-related Financial Disclosures (TCFD), the process can be quite tedious.

To make things simpler, there are multiple third-party vendors that offer comprehensive review and ESG scoring services:

01. **Morgan Stanley Capital International (MSCI):** One of the most widely used vendors for ESG scores, MSCI uses a rule-based methodology to identify key risks and opportunities.

02. **Moody's:** A popular choice in the banking, financial services, and insurance (BFSI) industry, Moody's uses a proprietary research methodology to measure a company's commitment to ESG goals.

03. **Fitch Ratings:** With its proprietary program, Fitch Ratings evaluates the influence that ESG scores have on credit rating decisions.

04. **Refinitiv:** Drawing from Thomson Reuters' ESG approach, Refinitiv measures a company's ESG score based on publicly available and auditable data.

05. **S&P Global:** The S&P Global Corporate Sustainability Assessment (CSA) examines organizations by using in-depth surveys that capture both cross-industry and industry-specific data. It also checks the data points against reliable public sources to arrive at the final ESG score.

Selecting the right ESG metrics

It is important for organizations to know which metrics they need to prioritize in order to not get overwhelmed by the all the information available. By selecting the metrics that align with their industry, specific goals, and stakeholder demands, businesses can maximize the returns from their ESG initiatives.

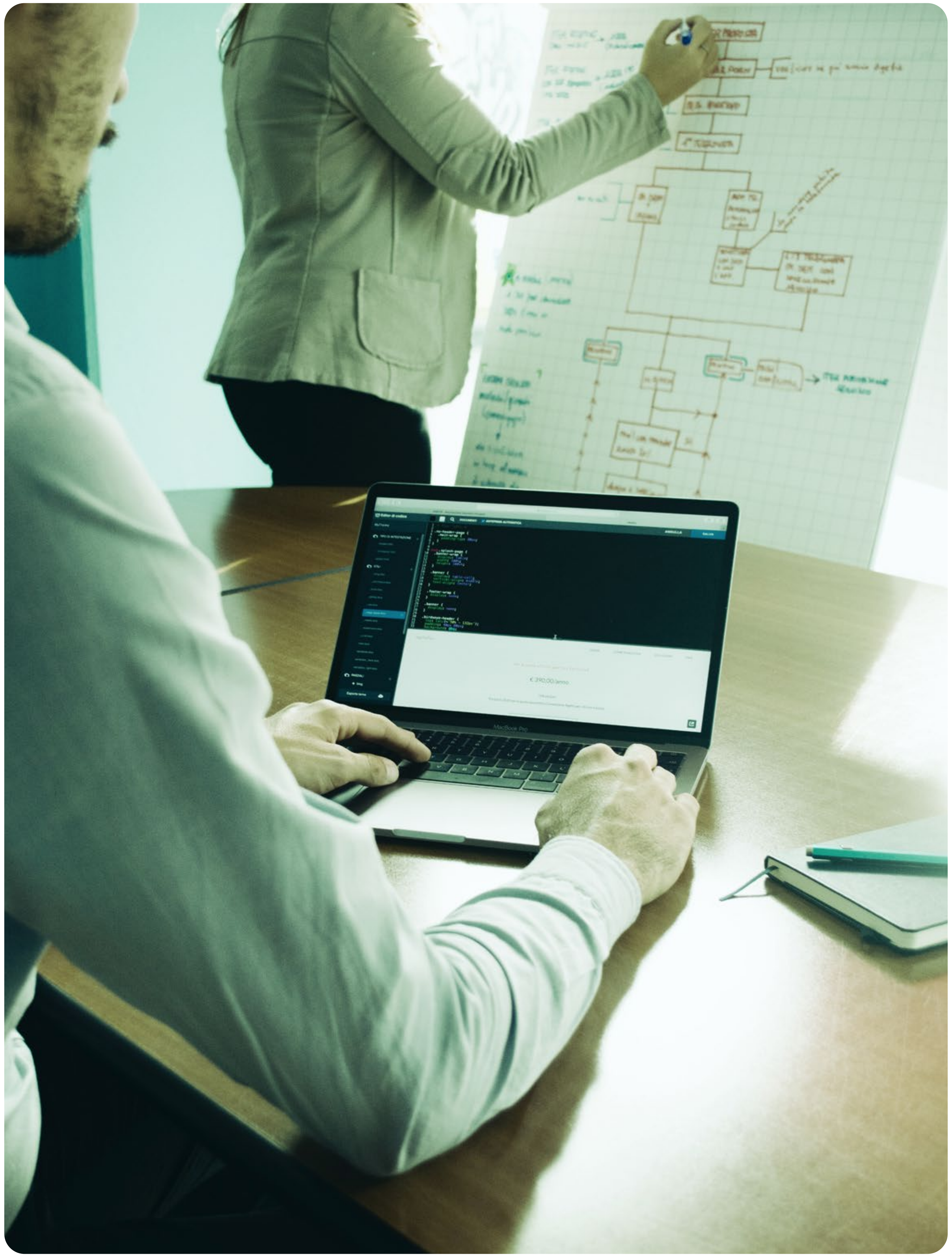
Here are some key considerations to keep in mind when choosing relevant metrics:

Materiality assessments

In order to identify the factors that are most material to your operations, your organization needs to conduct a materiality assessment. This assessment identifies the issues that are most critical to your company and highlights the relative importance of specific ESG factors to your organization. The assessment usually involves evaluating these factors from two perspectives: their influence on your organization and their importance to stakeholders.

Industry benchmarks

Examine the standards and metrics that are most critical to the industry in which your organization operates. This helps you identify the most relevant metrics while also ensuring that you meet industry-specific expectations.



Stakeholder engagement

Engaging in open, honest dialogues with your key stakeholders, such as investors, board members, employees, customers, and local communities, can shed light on their expectations and concerns regarding your company's ESG performance. These insights will help you prioritize the metrics that matter the most to your cherished stakeholders.

These are some of the ways of identifying the most important metrics, but the conversations that you have along the way will strengthen people's conviction in your company. After selecting the right metrics, don't forget to establish robust data collection and reporting mechanisms. Accurate data is crucial for tracking progress and demonstrating compliance, so don't hesitate to use data analytics tools to streamline the process. Make sure to set specific, measurable, achievable, relevant, time-bound (SMART) goals. Well-defined goals always provide a clear roadmap for continually improving and maintaining accountability.

Yes, private companies need to prioritize ESG, too

By Brent Dorshkind
Editor, ManageEngine

CIOs and other IT leader of privately-held companies could be forgiven if they haven't made ESG issues a top priority. Most have had their hands full defending against cybersecurity threats, supporting a hybrid workforce, investigating AI and other emerging technologies, optimizing customer and user experiences, and enabling digital transformation overall.

Moreover, contemporary ESG discussions focus on investing and reporting—specifically, investments made in public companies, based on the ESG data those companies report publicly. Unlike their public company counterparts, IT leaders at private companies rarely, if ever, engage in such discussions.

When we expand the ESG discussion, however, we find it offers more than a way to investment in public companies. ESG offers a way to do business. In a world facing climate change, human rights abuses, corporate malfeasance, and other pressing issues, ESG points to sustainable business practices and principles for all companies. That's why private companies need to prioritize ESG, too.

As technology penetrates deeper into organizations everywhere, effectively turning them into digital enterprises, IT leaders at private companies need to position themselves in the vanguard of their ESG efforts. To jump-start that move, here's what you need to know when making the case for ESG.

Defining ESG

First, let's be clear what we mean by ESG.

"ESG, at its core, is a means by which companies can be evaluated with respect to a broad range of socially desirable ends," wrote David Curran and his colleagues in the Sustainability and ESG Advisory Practice at the law firm Paul, Weiss. "ESG describes a set of factors used to measure the non-financial impacts of particular investments and companies. At the same time, ESG also provides a range of business and investment opportunities."

ESG factors include:

environmental criteria such greenhouse gas (GHG) emissions, carbon footprint, energy efficiency, deforestation, biodiversity, resource use and recycling, and pollution.

social criteria such as diversity, equity, and inclusion; human rights; labor standards; workplace safety and health; product safety and quality; and data privacy and protection.

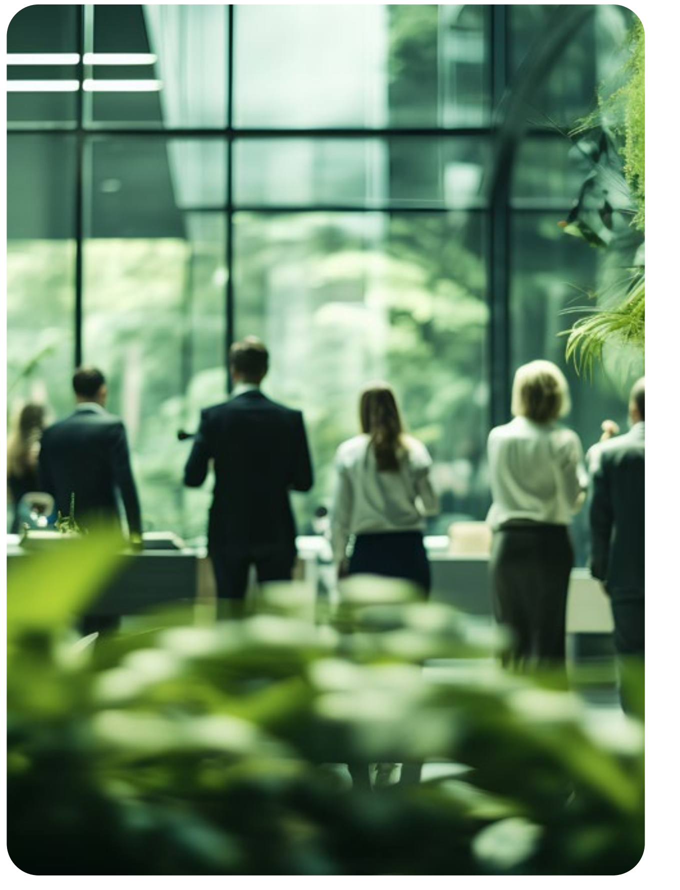
governance criteria such as board diversity, executive compensation, oversight of sustainability efforts, and corporate behavior including anti-competitive and corrupt behavior.

ESG isn't the same thing as sustainability, although the terms are often used interchangeably. Likewise, ESG is distinct from corporate social responsibility (CSR) and other philosophies that take a similarly holistic approach to doing business, such as sustainable capitalism and spiritual capitalism.

ESG "focuses on reaching certain performance metrics, setting measurable goals for them and conducting audits to verify that the metrics and related disclosures are accurate," wrote Ben Lutkevich for TechTarget. CSR is a qualitative, "self-regulating business model that aims to improve society and the environment. It's a looser, general framework for corporate behavior… Sustainability is the umbrella that both ESG and CSR fall under and contribute to. ESG and CSR are both ways that businesses can demonstrate their commitment to sustainable business practices."

Advocating for ESG

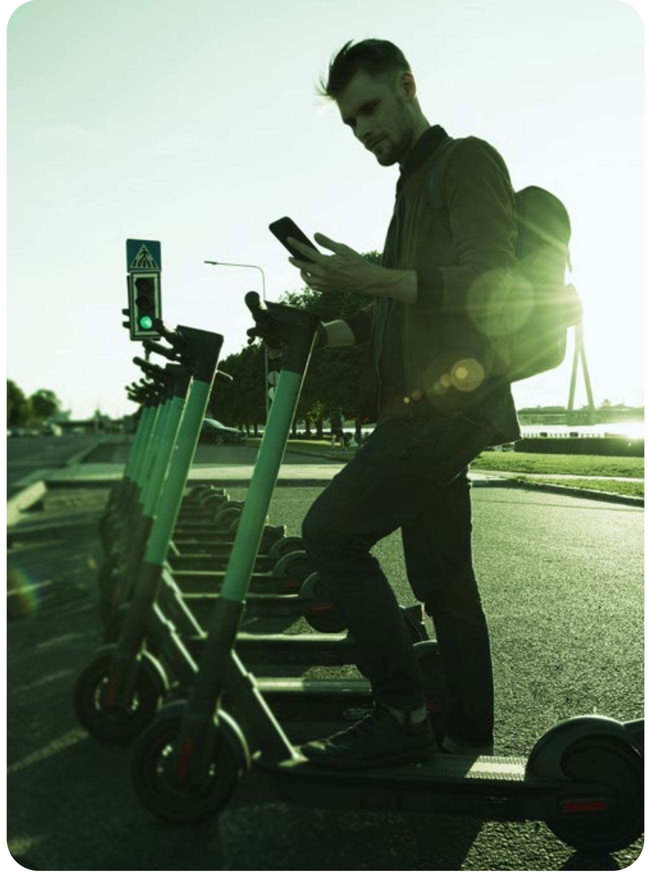
Private companies have been largely exempt from, and therefore unmotivated by ESG disclosure regulations that apply to public companies. What consistently motivates private companies to address ESG issues are their own values and sense of purpose as well as the concerns and expectations of their stakeholders, including employees, customers, suppliers, communities, and owners. Keep that in mind as you make the case for ESG to your company's other C-suite executives and business leaders.



Employees. Arguably the most important stakeholders in your company are the employees who make it run. Now more than ever, employees want to work with companies that take action on ESG issues. When it comes to attracting and retaining employees, companies that take ESG action have a competitive edge over companies that do not.

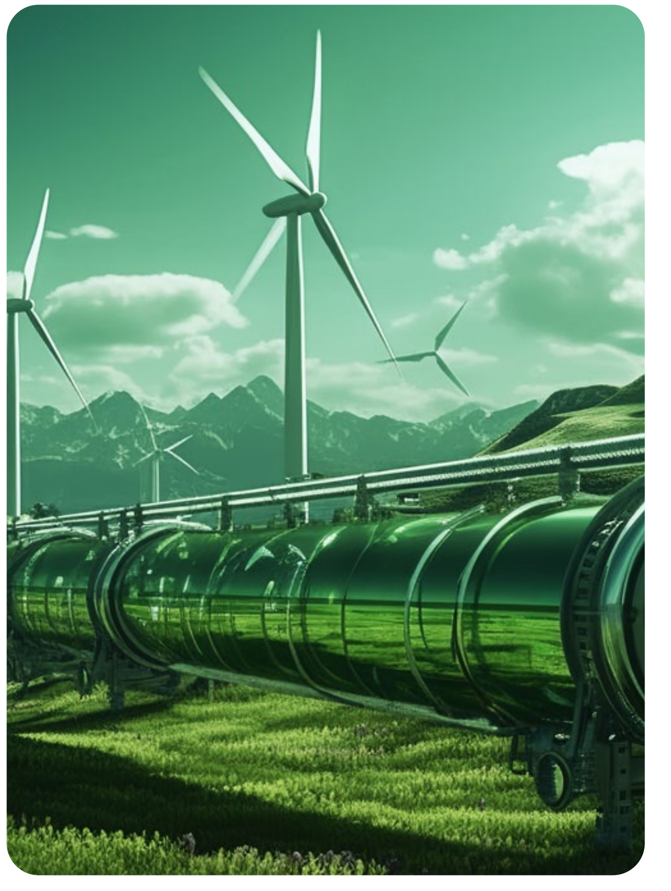
In “ESG as a workforce strategy,” Robert Bailey and his research team at the professional services firm Marsh McLennan highlight that point. After studying ESG data for over 7,500 companies around the world, Bailey, et al, wrote that “top employers, as measured by employee satisfaction and attractiveness to talent, have significantly higher ESG scores than their peers. … [Satisfied] employees work harder, stay longer with their employers, and seek to produce better results for the organization. Equally important, enthusiastic prospective employees strengthen a company’s talent pipeline and ensure the availability of crucial human capital.”

Bailey and team note that 72% of the global workforce will comprise Millennial and Gen Z employees by 2029. “These generations,” they wrote, “place greater importance on environmental and social concerns than their predecessors do, and will expect more from employers on these issues.”



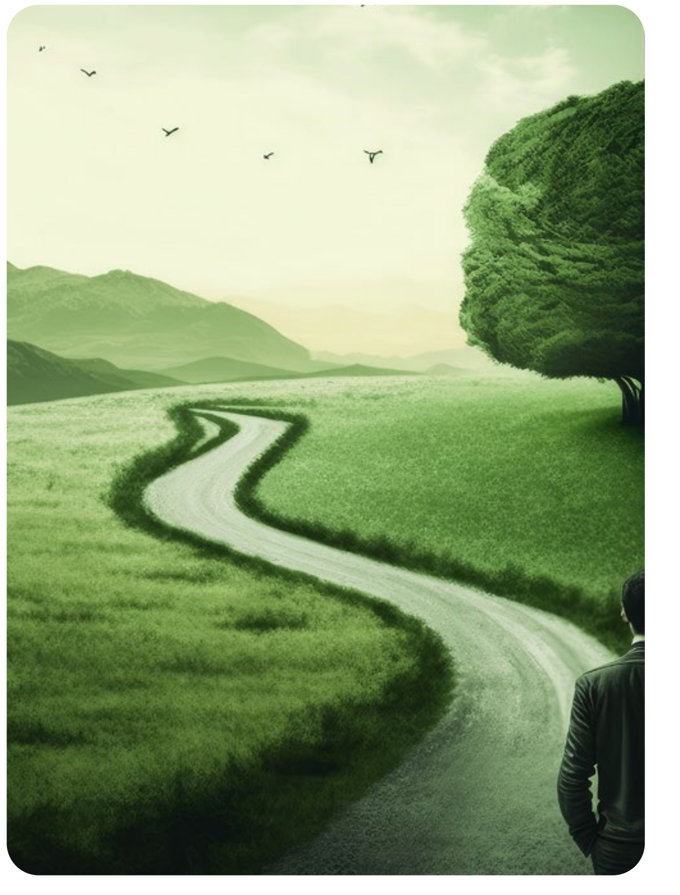
Customers. Like employees, customers want companies to do more when it comes to ESG. That’s evident in PwC’s latest Consumer Intelligence Series survey on ESG, which polled over 5,000 consumers in the United States, Brazil, the United Kingdom, and Germany to determine what customers expect when it comes to ESG action.

That survey reveals that 80% of customers are “more likely to buy from a company that stands up for” environmental or governance concerns. Likewise, 76% of customers are more likely to buy when a company takes a stand on social issues. On the other hand, 76% of customers “will discontinue relations with companies that treat employees, communities and the environment poorly.”



Supply chains. Is your company a link in another company’s supply chain? If so, your ESG efforts may make your company a more attractive supplier as your efforts positively impact the ESG efforts of the other company, including any voluntary or mandatory ESG reporting it may do. This is particularly true for GHG emissions.

GHG emissions are classified in three “scopes” to indicate the GHGs that a company emits directly (Scope1), indirectly from the energy it purchases (Scope 2), and indirectly from activities across its supply chain (Scope 3). As a supplier, your Scope 1 and Scope 2 emissions may be included in the Scope 3 emissions of the companies you supply. Reduce your emissions and you reduce theirs.



Skeptics. ESG skeptics and other anti-ESG peers will dismiss or argue against ESG and sustainability programs, usually rejecting them for financial or philosophical reasons. They will claim that ESG either isn’t profitable for the company or isn’t the responsibility of the company. And they will almost certainly be wrong on both counts.

Profit skeptics overlook the countless studies that have found a positive relationship between ESG and financial performance, including “ESG and Financial Performance: Uncovering the Relationship by Aggregating Evidence from 1,000-Plus Studies Published Between 2015-2020.” That meta-study by the NYU Stern Center for Sustainable Business and Rockefeller Asset Management “found a positive relationship between ESG and financial performance for 58% of the ‘corporate’ studies focused on operational metrics such as ROE, ROA, or stock price with 13% showing neutral impact, 21% mixed results…and only 8% showing a negative relationship.”

Responsibility skeptics believe that “the social responsibility of business is to increase its profits,” an idea popularized in a 1970 New York Times article by economist Milton Friedman. Yes, Friedman said that. However, in the same article, he also said that a business must “[stay] within the rules of the game” and “[conform] to the basic rules of the society, both those embodied in law and those embodied in ethical custom” while it pursues profits. Responsibility skeptics tend to forget that Friedman sanctioned rules, laws, and ethics.

Ethics. Friedman’s ethical imperative is driven home by Larry Fink, CEO of BlackRock, Inc., the world’s largest investment manager and fiduciary with more than $9 trillion under its management.

“Society is demanding that companies, both public and private, serve a social purpose,” Fink wrote in A Sense of Purpose, his 2018 letter to CEOs. “To prosper over time, every company must not only deliver financial performance, but also show how it makes a positive contribution to society. Companies must benefit all of their stakeholders, including shareholders, employees, customers, and the communities in which they operate.”

Fink reinforced his views in 2022. In The Power of Capitalism, Fink wrote that “truly great companies… recognize the importance of engaging with and delivering for their key stakeholders. This is the foundation of stakeholder capitalism. Stakeholder capitalism is not about politics. It is not a social or ideological agenda. It is not ‘woke.’ *It is capitalism,* driven by mutually beneficial relationships between you and the employees, customers, suppliers, and communities your company relies on to prosper.”

Regulation. As noted above, you may already be exposed to ESG regulations due to other companies’ reporting requirements. If not, you should expect exposure in the future as a growing number of companies, public and private, find themselves subject to the growing list of global ESG regulations.

In the European Union, the Corporate Sustainability Reporting Directive and European Sustainability Reporting Standards, adopted in 2023, will subject qualified private companies to mandatory sustainability reporting—EU companies and EU subsidiaries of non-EU parent companies.

The US Securities and Exchange Commission proposed new, mandatory reporting rules for public companies. If finalized, the rules will require disclosure of detailed, climate-related information, including Scope 3 emissions from their private and public company suppliers.

California adopted rules that will require public and private companies doing business in the state to report GHG emissions annually and report on climate-related financial risk biennially.

IT support. As the leader of your IT department, that's where you have the most autonomy in and influence over ESG efforts. You can initiate pro-ESG programs such as recycling hardware and reducing its energy consumption; creating a diverse, equitable, and inclusive IT team; and operating fairly and transparently within the department.

As a leader of your company, however, securing ESG buy-in across the company means highlighting the ways the IT department can support company-wide ESG efforts. Regardless of any given department's ESG ambition, ESG data will be pivotal. And that's where the IT department can help, from delivering the necessary IT systems and infrastructure to managing and securing ESG data.

That data needs to be "trusted, accurate, complete and well-defined," wrote Jim DeLoach, a managing director at global consulting firm Protiviti. "Satisfying this need represents a massive challenge for most companies, given that ESG data is predominantly unstructured, stored in many different formats, and pulled from numerous systems, applications and sources throughout the company and its third parties. ...This needs to change, and fast."

Pushing ESG for all

Environmental, social, and governance issues ultimately affect us all, whether we are at work, at home, or anywhere else. Investor demands pushed public companies to the forefront of ESG. Now, the demands of employees, customers, communities and other key stakeholders are pushing private companies to take ESG action, too. As with so many other business challenges, CIOs and IT leaders can and should play a central role in your company's ESG efforts. So go ahead, take the lead and push for ESG.

Moving beyond compliance: Elevating ESG commitment for a sustainable future

By Naveena Srinivas
Enterprise Analyst, ManageEngine

Arthur C. Clarke once said, "Any sufficiently advanced technology is indistinguishable from magic." In today's fast-paced digital age, where every tap, click, and swipe has the power to reshape our world, the nexus of technology and sustainability is gaining paramount importance. We are at a pivotal juncture where organizations are not merely obligated to meet ESG) compliance standards but are compelled to elevate their ESG reporting efforts to unprecedented heights. This imperative goes beyond regulatory obligations and has never been clearer.

> The majority of Generation Z shoppers prefer to buy sustainable brands, and they are most willing to spend 10 percent more on sustainable products.

This surprising statistic underscores the urgency of the situation. Generation Z, the digitally native generation, is emerging as a potent force in shaping corporate sustainability initiatives. A report by First Insights reveals that Generation Z and Millennials are most inclined to make purchase decisions based on their values and principles, encompassing personal, social, and environmental considerations.

Additionally, a Deloitte study found that nearly 2 in 5 individuals from these generations have rejected job opportunities or assignments that did not align with their values. These tech-savvy individuals are not passive observers; they actively influence the business landscape by demanding transparency, ethics, and a commitment to the planet's well-being. These generations are pushing organizations to reevaluate their ESG reporting strategies. In this article, we will explore why this evolution is not just essential but also an opportunity for innovation and growth.

The compliance-commitment dichotomy in ESG reporting

In the realm of ESG reporting, there exists a fundamental dichotomy that has far-reaching implications for organizations committed to corporate responsibility. This dichotomy revolves around two distinct approaches: the compliance-driven model and the commitment-driven model. Understanding this divide is essential for companies striving to make a meaningful impact in the world of sustainability.

Compliance-driven ESG reporting is often characterized by organizations striving to meet the minimum regulatory requirements. In this model, companies primarily report on ESG metrics because they are mandated to do so by government regulations or stock exchanges. The primary motivations

behind compliance-driven reporting are: avoiding legal repercussions, protecting reputation, and appeasing investors and stakeholders. These organizations view ESG reporting as a box-ticking exercise, fulfilling a requirement rather than driving intrinsic change.

In stark contrast, **commitment-driven ESG initiatives** are centered on a proactive approach to sustainability. Companies embracing this model view ESG reporting as a strategic tool for creating long-term value, both for their stakeholders and society at large. Instead of focusing solely on meeting the minimum standards, these organizations set ambitious, often industry-leading ESG goals. Their commitment extends beyond compliance to tangible actions aimed at making a positive impact on the environment, society, and governance practices.

A commitment-driven pioneer

Philips, a global technology leader, stands as a shining example of a commitment-driven approach to sustainability. On track to fully achieve all the targets of its pioneering "Healthy People, Sustainable Planet" program (2016-2020), Philips is now raising the bar further by making ambitious ESG commitments for 2025.

Environmental commitments: Philips is committed to 100% EcoDesign, increased energy efficiency, expanded renewable energy sourcing, and circular economy solutions. These initiatives are not merely symbolic; they are aimed at addressing the urgent need to limit global warming to the 1.5-degree Celsius threshold set by the Paris Agreement.

Social commitments: Philips is not content with just profit generation; they are dedicated to improving the lives of 2 billion people a year by 2025 through their innovative products and solutions, with a focus on reaching 300 million individuals in underserved communities.

Governance commitments: In the realm of governance, Philips is setting new standards for transparency. They pledge to disclose their tax contributions for all the countries they operate in, ensuring accountability and ethical practices.

Why take the commitment-driven road?

Understanding the compliance-commitment distinction is crucial for organizations striving for excellence in corporate responsibility. Here's why:

1. Long-term resilience: Commitment-driven ESG initiatives, like Philips', position companies for long-term resilience. By surpassing compliance requirements, they anticipate emerging regulatory changes and stay ahead of the curve.

2. Reputation and branding: Commitment-driven reporting fosters a strong and positive brand image. It attracts socially conscious consumers, investors, and talent who align with a company's values.

3. Innovation and competitive advantage: Pursuing ambitious sustainability goals, as exemplified by Philips, often leads to innovation and cost-saving opportunities. This innovation can translate into a competitive edge in the marketplace.

> In a 2022 UK survey of 2,000 office workers, over 50% of those aged 18-24 would consider leaving a job due to inadequate company net-zero policies.

ESG: Challenges, opportunities, and the way forward

Transparent reporting is essential for fostering trust with stakeholders. This emphasizes the need for companies to regularly provide comprehensive and accurate ESG reports, showcasing their accomplishments, challenges, and future plans to enhance accountability and drive continuous improvement.

Companies should also align with established ESG reporting standards like GRI, SASB, and TCFD to bolster their ESG reporting practices, ensuring robustness in a continually evolving regulatory landscape. Forward-thinking businesses are at the forefront of shaping these regulations, advocating for stricter standards and greater transparency, while leaders who champion sustainability inspire a shared commitment to ESG values among employees, customers, and partners.

Moreover, commitment to ESG transcends business benefits, carrying a profound ethical dimension. It reflects a company's responsibility to contribute positively to society and minimize environmental harm, reinforcing the significance of commitment over mere compliance. In the ever-changing landscape of ESG reporting, organizations face a strategic choice between compliance and commitment. While compliance-driven reporting ensures adherence to existing regulations, it is the commitment-driven approach (epitomized by leaders like Philips) that positions companies as pioneers of change, driving positive impact and securing a sustainable future for all stakeholders.

Despite criticisms of ESG—including its potential to distract from core operations, perceived feasibility challenges, and measurement difficulties—recent events underscore its increasing importance. Companies, exemplified by Philips, are actively responding to societal concerns, committing to science-based targets, making impactful decisions, and organizing relief efforts, all of which highlights the growing relevance of ESG considerations in decision-making processes. Waiting for perfect data and flawless ratings may jeopardize a company's long-term viability, particularly in industries with significant externalities.

In conclusion, while the term "ESG" may evolve, the underlying principle remains indispensable. The imperative for companies to earn their social license and address externalities as a core strategic challenge is on the rise. This approach is not only essential to future-proof organizations but also to deliver meaningful and responsible impact over the long term. In the world of ESG, the path from compliance to commitment is a voyage towards a more insightful, responsible, and ultimately rewarding future for businesses and society as a whole. However, it's crucial to tread this path carefully, staying vigilant against the pitfalls of greenwashing and ensuring that ESG commitments are authentic and backed by meaningful action.

10 sustainability initiatives that will improve your organization's bottom line

By John Donegan
Enterprise Analyst, ManageEngine

Cynics claim that companies embrace sustainability initiatives solely to facilitate their public relations efforts; however, the reality is that such socially responsible investments are financially prudent.

Correlation and causation are both at play here. Not only are sustainability initiatives correlated with superior financial performance, but such initiatives also cause superior financial performance. Being more sustainable—especially over the long run—results in lower costs and improved bottom lines.

Depending on the size, location, and nature of your business, the following 10 sustainability initiatives may or may not be feasible. At any rate, I can confirm that all 10 of these initiatives do work for our organization.

1. Make judicious hardware purchases and implement software updates

Avoid unnecessary hardware purchases. Buying too many computers, smartphones, and printers is an obvious misstep. Be sure that all employees implement system updates, as these can extend the lifetime of devices.

2. Use endpoint management solutions

It's important to utilize endpoint management software. These tools automatically put devices into sleep mode whenever the devices are idle. This not only lowers energy costs, but it also lengthens the life of the device. The very best endpoint management tools are also integrated with AI-based analytics, which helps to regulate energy consumption and keep energy costs as low as possible.

3. Swap out your incandescent lighting for LED lights

Switching to LED lighting is a no-brainer. After swapping out all the incandescent lighting for LED lights, you will drastically lower your utility bills and maintenance costs. LED lights are the most efficient lighting on the market; not only do LEDs use 75% less energy, but they also last 25 times longer than incandescent lighting.

4. If feasible, invest in a solar farm

Solar is one of the cheapest sources of renewable energy. If you have the financial wherewithal, a solar farm is an excellent investment. A 5-megawatt, on-grid solar farm can power multiple offices and an entire data center. Of course, the solar option is prohibitive for some organizations, as it requires a sunny climate and a great deal of real estate. On average, a 1-megawatt solar park requires 6-8 acres.

5. Rely on IoT-based energy management software

In addition to LED lighting and solar, I recommend using IoT-based energy management software as it reduces greenhouse gas emissions and keeps your energy bills low. In addition to reducing operational costs, real-time energy use monitoring software facilitates smart energy distribution and can generate auditable energy consumption reports.

6. Incorporate water-saving fixtures

Water sensors also keep energy costs low. Through the implementation of water sensors, you can easily identify leaky faucets, toilets, and sprinkler systems. A smart water management solution uses analytics to identify problematic areas within your water infrastructure.

Another solid investment is an in-house sewage treatment plant. These sewage plants can treat all your waste water, converting it into water that is only used for flushes, sprinklers, and gardening. Although often overlooked, sewage treatment plants are a rather effective cost-saving water conservation initiative.

7. Consider investing in a biogas plant

Depending on the size of your organization, it may be prudent to invest in a biogas plant. Biogas plants can provide carbon-neutral energy. While processing all of your food waste, biogas plants generate their own electricity, which in turn, powers the plant itself. Depending on the size of the biogas plant, the resulting energy can be fed into the electricity grid, where it can then be used to heat your buildings.

8. Reduce paper use and consider cloud migration

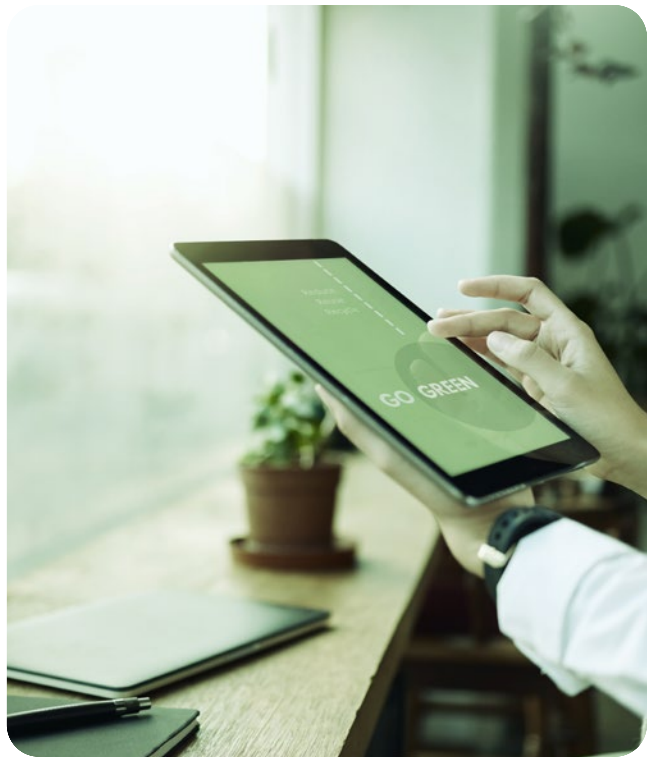
In today's work environment, there doesn't need to be a printer on every office floor. The majority of business documents can be digitally signed and maintained. Moreover, generally speaking, cloud adoption is a good way to reduce IT costs. Cloud-based servers require less hardware, allowing users to rely more on shared resources.

9. Create zero-waste pantry rooms

It's also quite simple to create zero-waste pantry rooms. Instead of disposable tableware, stock your shelves with reusable cups, bowls, and plates. Whenever possible, use biodegradable wooden options instead of plastic cutlery and stir-straws.

10. Eliminate unnecessary travel and provide flexible work-from-home options

Unless the remote events are exceedingly important, it's wise to limit employee travel to conferences and meetings. Obviously, you save money and reduce carbon emissions by not hopping on those flights. More subtly, flexible remote work options also reduce carbon emissions and reduce costs. As long as your employees are just as productive working from home, it makes sense to have a flexible work policy in place. With a flexible work-from-home policy, you can easily reduce office expenditures, such as chairs, desks, food, monitors, and other hardware.



Efficient energy use is correlated with superior financial performance.

According to a McKinsey report, there is most certainly a correlation between an organization's financial performance and its ability to use resources efficiently. As the report authors explain,

"We created a metric (the amount of energy, water, and waste used in relation to revenue) to analyze the relative resource efficiency of companies within a sector. On that basis, we found a significant correlation (95 to 99 percent confidence) between resource efficiency and financial performance."

The bottom line is that sustainability initiatives save costs, lower bottom lines, and improve financial performance. If you can implement several of these initiatives and create a corporate culture of sustainability, you'll undoubtedly reap dividends.

Contributors

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Designed by the **ManageEngine Creative Team.**

About us

Technology is ever growing and ever evolving. Today, the world is at a juncture where technology permeates every aspect of our lives. It's inescapable and without technology we would find ourselves crippled. For 20 years now, ManageEngine has been on the front lines of the evolution that is democratizing IT. ManageEngine Insights harnesses that deep pool of IT experience to pursue a supporting mission: the democratization of IT knowledge. Insights covers timely and timeless IT issues from the values-based worldview that drives ManageEngine, and our parent company, Zoho Corp. We believe your IT, business, employees, customers, and supporting communities are inescapably interconnected, creating a bigger, integrated whole for you to consider when making decisions about IT and business. Insights offers wise counsel on such decisions. Insights is IT knowledge for democratized IT.

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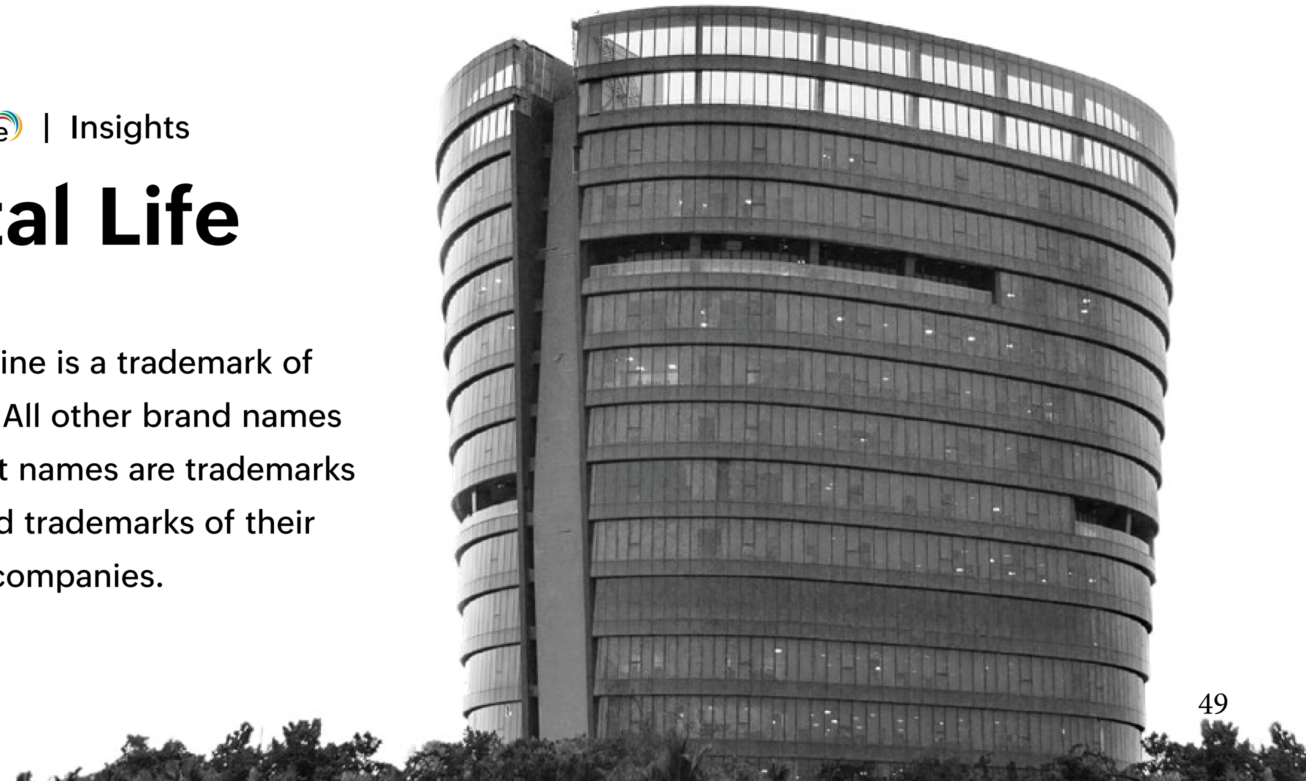

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