Driving data with purpose: Why digital technology is critical to ESG success

‘Technology will save us – if it doesn’t wipe us out first.’ The words of the late US singer and political activist Pete Seeger perfectly capture the paradox of our relationship with technology. On 28 July 2022 we reached **Earth Overshoot Day** – the day on which we have used all the biological resources that the Earth regenerates in a year. Our rapid industrial and now technological advancement is the culprit. But that same technology will, it is hoped, prove to be our salvation.

There are many examples of how digital technologies can be applied to support environmental issues including the use of robotics, the Internet of Things (IoT), and drones to improve efficiency, reduce waste and provide less carbon-intensive means of environmental management. Last year’s World Economic Forum (WEF) in Davos highlighted the many ways in which digital technology is transforming environmental protection across the world – from the use of blockchain technology to tackle **illegal fishing** and revolutionise our systems of certification and traceability, to the use of artificial intelligence to **help protect endangered species.** The WEF believes that digital technologies have the potential to **cut global emissions** in the three highest-emitting sectors by 20% by 2050.

But digital technology can be equally effective on an organisational level. Corporate use of digital technology – defined as the use of electronic tools, devices, systems, and resources that generate, store or process data – has enormous potential to power an organisation’s ESG strategy and execution. This is why, from the perspective of businesses, ESG and digital technology can be seen as two sides of the same coin. Digital technology must be absolutely central to an organisation’s ESG journey, from strategy through to transformation.

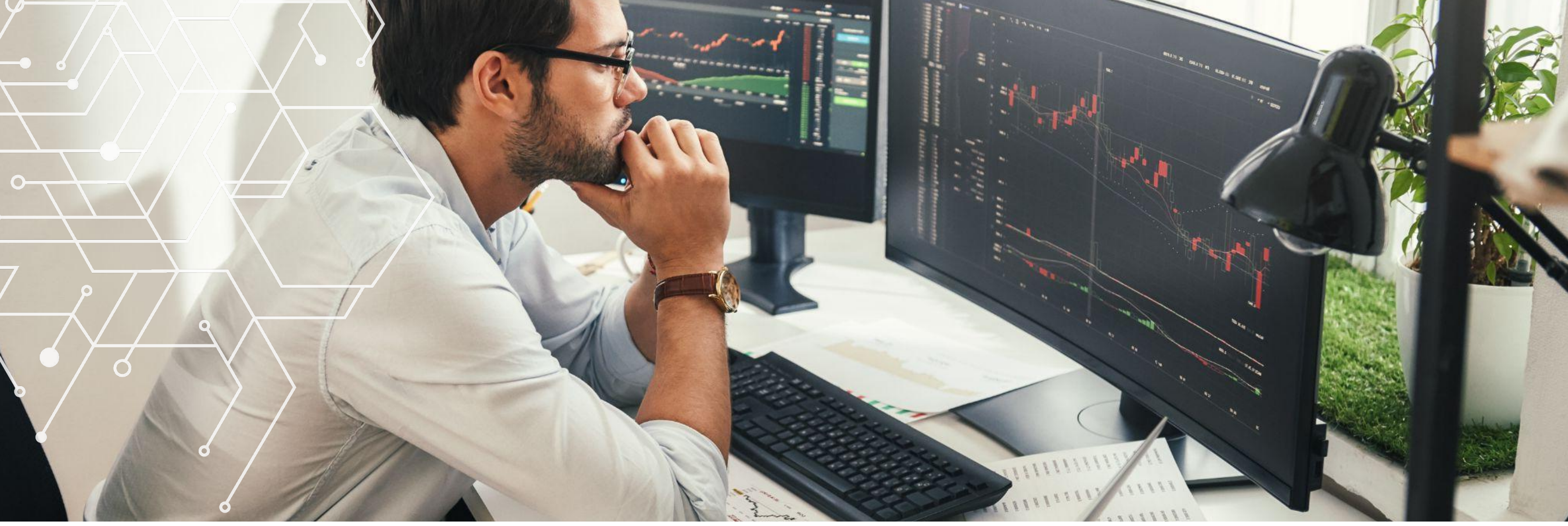
ESG in the Middle East

ESG is rapidly gaining momentum in the Middle East, bringing both risks and opportunities for businesses. The hosting of COP27 in Egypt in 2022 and COP28 in the UAE this year is a strong signal to the rest of the world of the commitment of governments in our region to sustainability. The region is also attracting significant investment in green and climate technology; **More than $6bn has been invested** in regional climate technology in the past decade, with $1.62bn invested in the first half of 2022 alone.

The region, and GCC countries in particular, is ideally placed to pioneer climate technologies. The cost of producing solar, wind and green hydrogen are about **one-third of the global average.** And when it comes to investment potential, sovereign wealth funds are also in a position to fund a major push in climate tech innovation at a time when the global economy has slowed.

And the region is starting to live up to its ambition to lead the world when it comes to driving the energy transition both in strategic and practical terms. Landmark commitments, including the UAE's Net Zero 2050 strategic initiative, and the Net Zero target for 2060 set by both KSA and Bahrain, are contributing to a clear vision and direction for public and private sector organisations across the Middle East.
The UAE has also committed to 2023 as its **Year of Sustainability,** which will include initiatives, activities and events and solidifies its commitment to addressing climate challenges and promoting sustainable practices at an individual and community level.

Even so, a 2022 PwC **report** found that many organisations in the region are still in 'start-up mode' when it comes to ESG strategy and implementation, with only 18% of respondents saying their companies had teams and systems in place to cover the full remit of ESG functions. Organisations in the regions need to improve their ESG strategy and implementation at pace – and digital technology will help them do it.



Meeting the challenges of ESG reporting

One of the biggest challenges for businesses is in ESG reporting. Currently only around 30 countries and territories worldwide require some form of ESG disclosure – but while the Middle East is at a relatively early stage in the ESG journey, it is moving relatively quickly in terms of regulation. The UAE's Securities and Commodities Authority (SCA) has already mandated ESG reporting for publicly listed companies, and the KSA Stock Exchange released its own ESG disclosure guidelines in 2021.

ESG reporting requirements worldwide – including Climate Related Financial Disclosures (CRFD) in the UK, Non-Financial Reporting Directive (NFRD) in the EU and other territories including Malaysia, New Zealand, and Canada – are steadily mounting up. While most apply to financial institutions and large or listed companies, they can impact smaller organisations in their supply chains. As requirements evolve, it is expected that small and medium-sized companies will increasingly come into scope for ESG-related disclosures.

In other words, further ESG reporting requirements are an inevitability. But this is not necessarily seen as an onerous task; 86% of large companies in the Middle East would welcome increased ESG regulation, and many see ESG as an opportunity to enhance their brand and reputation. Even so, some organisations see ESG reporting as a compliance burden rather than an opportunity and as a result, often approach it as a box-ticking exercise.

Meeting ESG reporting requirements can be a significant challenge. **BlackRock surveyed** investors with US$25 trillion of assets and said just over half (53%) of global respondents said they were concerned about "poor quality or availability of ESG data and analytics". This challenge exists because producing highly available, quality data is difficult and requires time, persistence, and investment.

Digital technology is central to the reporting solution

Reporting requirements, such as those relating to net zero, demand a number of different solution capabilities which all need to be integrated and work in harmony to be effective.

But the most significant challenge is data. Our research found that 31% of organisations in the Middle East believe that a lack of data and measurement was a barrier to effective implementation of an ESG strategy. Source data required for ESG reporting - which includes human capital, cyber security, greenhouse gas emissions, and safety - will typically be produced and processed by multiple financial and transactional systems. Any gaps in data requirements will need to be identified and existing systems reconfigured. Data quality is also vital – requiring the appropriate governance and control environment to protect the consistency, integrity and security of the organisation's ESG data.
But robust data collection systems and the powerful analytical tools that are available pay dividends when it comes to ESG strategy and reporting. Strong systems and quality financial and non-financial data mean that clear KPIs can be set to measure progress and the effectiveness of various ESG initiatives.

Even so, the systems and data challenges of ESG reporting cannot be met by the technology function alone. Success will require significant collaboration with stakeholders across the organisation – and that requires a top-down approach and strong leadership from the c-suite.

Enabling ESG transformation through responsible use of digital technology

ESG reporting is by no means the only area where digital technology holds the key to ESG transformation. ESG and digital technology is very much a two-way relationship. Digital technologies are already being used across the Middle East as part of environmental projects, including drones and robotics to improve efficiency, reduce waste and provide less carbon-intensive means of environmental management. ESG frameworks, in turn, can help organisations apply a broader approach to sustainability and highlight the potential risks in applying new digital technologies.

Digital technologies such as robotics can be used to enable environmental initiatives such as waste reduction and reducing carbon intensive activities. However, they also have an undeniable social impact in the form of job displacement and reduced human-to-human contact.

Microsoft's Chat GPT has recently brought to light similar social challenges around the use of artificial intelligence (AI) including the potential for bias and discrimination. It has also highlighted the relative immaturity of regulations in this area, which adds to the challenge.

Alongside mitigating these emerging opportunities and risks, changing the way we use digital technology can significantly move the dial on organisations' environmental and social impact – such as, for example, embedding ESG metrics as part of the technology sourcing processes (such as considering carbon footprint as part of evaluating cloud technologies) and introducing electronic waste management. Digital technology can also play a central role in enabling an organisation's governance through systems which provide improved transparency, decision-making capability and empowerment of compliance.

Digital technology is essential to the ESG ambitions of the Middle East

Business leaders across the Middle East are working with a new urgency to mitigate the risks of climate change as part of their wider ESG strategy. Our latest CEO survey shows that 48% of CEOs in the region have produced or are working on climate-friendly products or processes – a year ago only a quarter of business leaders said the same.

The survey also illustrated how important digital technology is to this transformation. 58% have implemented (or plan to implement) a data-driven, enterprise-level strategy for reducing emissions and mitigating climate risks in their business. Digital technology, in other words, could make the difference between success or failure – 66% of Middle East business leaders identify technology disruption as the issue that will have the single biggest impact on their organisation's profitability (positively or negatively) in the coming decade.

Embedding ESG principles across all areas of economic and social evolution is essential to realising the ambitions of the Middle East, enabling it to become a world leader on the global sustainability stage. Digital technology will enable us to reach those goals.

Key takeaways

- **Digital technology is the key component of an ESG strategy.** Integration of digital technology from the outset will optimise the enablement of ESG goals and initiatives.
- **ESG reporting needs should be identified as early as possible**. ESG reporting often requires complex solutions – early identification of the digital technology needed to deliver robust ESG reporting, internally and externally, will keep your organisation ahead of the curve.
- **Be aware of the ESG risks and opportunities associated with digital technology**. An awareness of ESG issues will help to create a sustainable outcome and a positive impact on the environment and society.

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