

# Why we need companies to report on their “digital ESG”

*Rapid digitalisation is often described in techno-deterministic terms. Fantastical narratives around crypto, blockchain, Web3, metaverse, etc., can go unchallenged when they are woven into a breathless thread of inevitability. Some regulators may even unwittingly encourage this view. We have paid the price in the form of lost privacy, algorithmic data manipulation, gambling in crypto exchanges, cyber breaches blamed on users, and other consequences. **Yuhyun Park** and **Lutfey Siddiqi** write that it is time to require that businesses produce an environment, social, and governance report of their digital activities.*

Remember the Rio Earth summit of 1992? Or the millennium development goals of 2000?

What made the 2015 UN Sustainable Development Goals (SDGs) and the Paris Climate agreement special is the explicit and prominent role accorded to *the private sector*. The extent and scale of changes required to deliver the global goals would necessitate the intentional involvement of private enterprise, private capital, and private-sector innovation.

In recent years, the sustainability movement has gathered momentum with the growing mainstreaming of the concepts of stakeholder capitalism and responsible investing. Systems-level changes are afoot with national and international authorities shaping, nudging and crowding-in private resources towards sustainability goals.

There is growing recognition that the impact of corporations, and the impact of the capital powering them, needs to include a wider set of consequences than is accounted for in traditional financial reporting. Adverse consequences on the environment or on local communities need to be acknowledged and charged for. Similarly, positive impact needs to be incentivised and rewarded.

## ESG

The acronym ESG is now widely used to frame the environmental, social, and governance-related footprint of an enterprise. It is acknowledged that there is often a failure of the market to incorporate material costs and benefits – what economists call “externalities”. These externalities are most salient when it comes to the emission of greenhouse gases and their impact on catastrophic climate change.

As a result, the “E” of ESG garners the most attention and considerable effort is rightly expended in the design of mitigation and adaptation technology, transition strategies, standards of measurement and disclosure, and financing pathways. By contrast, the social impact of enterprise can be felt across a wide and diverse range of arenas. Creating a widely applicable taxonomy for the “S” of ESG is a greater challenge for regulators and rating agencies.

The looseness of definitions, selective reporting, and apparent mismatches between the scale of marketing claims and actions, have invited criticism of the concept and practice of ESG in recent months. This spotlight and scrutiny should result in welcome refinements to the approach. Nevertheless, the fact that “ESG washing” has replaced “ESG ignoring” as the main concern should be positive overall for the sustainability agenda.

What is less positive is an apparent blind-spot when it comes to adverse effects in the digital realm and a lack of accounting for the complete set of consequences, intended or unintended, of relentless digitalisation.

## What is the problem?

The past decade or so has seen the acceleration of technological breakthrough on multiple levels that are collectively dubbed as the fourth industrial revolution. Characterised by extreme automation and extreme connectivity, this revolution has upended business models, industries, companies, and regions.

Disruption has occurred (and continues to occur) in waves: for example, the same radiologist sitting in Asia empowered by file transfer technology to assist American doctors with their diagnoses, has subsequently been disempowered by artificial intelligence.

At a macro level, tech-driven changes seem to have contributed to income and wealth inequality, skills mismatches, and less stable formats of employment. A [2021 UNCTAD Report](#) shows that it is the lack of digital skills amongst small and medium enterprises (SMEs), women, the elderly, and children that contributes to widening inequality in developing countries.

At the level of individuals, they may have contributed to anxiety and mental health issues. In its most pernicious form, the business model of some platform companies relies on sophisticated manipulation methods to drive addictive engagement. Big data analysis and artificial intelligence is not just used for better matchmaking between supply and demand; the algorithm is optimised to extract the attention of users, often at the expense of their well-being or fostering misinformation and tribalism.

According to a [2021 study](#) published by Nature Human Behaviour, 60% of eight-to-twelve-year-old children have experienced at least one cyber-risk such as cyberbullying, gaming disorder, sexual grooming, and violence. This is corroborated by [another survey](#) published by the World Economic Forum which shows that 70% of 8-to-17-year-olds have experienced at least one cyber risk.

The paradox of the fourth industrial revolution is that on the whole, it has thrown up the tools that could help solve virtually every one of the sustainable development goals. There is no question that technological advancement needs to continue in order to expand our solutions toolkit.

However, the tools should not become master of the craftsman, and the craft itself should be open to critique, standards, and regulations.

For the past few years, several captains of industry have espoused rapid digitalisation in techno-deterministic terms whose desirability is almost axiomatic. Cost-cutting and headcount reduction measures are couched as initiatives to give customers “what they want” or “better options” while underplaying the risks that they might open up. Fantastical narratives around crypto, blockchain, Web3, metaverse etc. can go unchallenged when they are woven into that same breathless thread of inevitability.

Some regulators may have also encouraged the view that “digital is unambiguously positive” so as not to stifle innovation or lose business to other jurisdictions.

Perhaps that is why gambling on crypto exchanges and the marketing of crypto to retail customers has remained almost unregulated for some time. Perhaps that is why issues of data privacy or algorithmic data manipulation go unaddressed in some jurisdictions. Perhaps that is why some banks take pride in saying “we are really a technology company that happens to be in banking”. Perhaps that is why, when there is a breach of cybersecurity, the tendency is to blame the user (who had fallen prey to predictable social engineering techniques) before placing responsibility on the bank or the telecom company. Perhaps that is why social media companies can claim safe harbour in their role as “just intermediaries” when their platforms may be used by online predators targeting underaged victims. Perhaps that is why, online gaming and smart phone companies can ignore [research](#) and deny responsibility for heightened mental health issues exacerbated by their products.

### **What is a possible solution?**

Don't get us wrong. We are not against technological advancement. However, the fact that the automobile was a positive invention does not mean that seatbelts, traffic rules, speed limits, road humps or driving licenses were not necessary. It also does not mean that we make no distinction between cars with low and high carbon footprint.

A possible solution is to require companies to produce a digital-ESG report.

In the same way that ESG reports deal with direct and indirect impact – scope one, two, and three when it comes to emissions – this report needs to be holistic in accounting for the full reach of the company's impact. Similar to the way that the company's climate impact is reported, this report needs to cut across the governance, strategy, and record-keeping functions of the organisation.

Similar to the taskforce for climate-related disclosures ([TCFD](#)), or the taskforce for nature-related disclosures ([TNFD](#)), we propose a taskforce for digital-related financial disclosures (TDFD). The template of the Digital ESG report could mirror that of TCFD or TNFD for ease of application, while the conceptual work might derive from work of the [IEEE DQ Global Standards](#) for digital intelligence (IEEE 3527.1™) and others.

The digital risk chapter of a company’s sustainability report will ensure that negative spill-over effects of digitalisation (such as digital frauds, transition anxiety or inappropriate risks for specific groups) are managed and that measures are taken to mitigate risks emanating from rapid tech adoption. Conflating benefits and avoiding these risks and costs have given some corporations a free pass for too long.



*Notes:*

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