



The ESG imperative for technology companies



Technology companies are aware of the importance of embedding environmental, social, and governance (ESG) practices into their operations but have yet to truly act on it. Will COVID-19 finally be the catalyst that impels meaningful action?

The recovery from COVID-19 will take time. The new reality that awaits us will likely have fresh paradigms for society, the economy, the manner in which we conduct business, and perhaps even how we [address climate change](#).

For technology companies, in addition to the purely financial results, it is likely that stakeholders will quickly look to evaluate their COVID-19 reaction and performance through ESG criteria:

- **Environmental:** how a company acts in its role as a steward of nature
- **Social:** how well a company manages relationships with employees, suppliers, customers, and the community
- **Governance:** concerned with a company’s leadership, internal controls, executive pay, audits, and shareholder rights

Why ESG is crucial for technology companies

Investor analysis

Companies are being analyzed and rated by a number of indices and research firms (based on company disclosures, interviews, media sources, and other data sets) which provide ESG ratings and reports for investors to understand a company’s management of ESG issues. Investors will also examine the ESG rating of an acquisition target when evaluating a potential transaction. In order to achieve long-term, sustainable success, the majority of tech company CEOs (57 percent) agree they must look beyond purely financial growth.¹


Customer expectations


Customers not only require tech companies to offer products/services at competitive prices and quality, but are increasingly looking for them to improve their ESG performance. Anyone can now reveal stories via social media relating to ESG failures or undesirable business practices. These stories can circulate globally before companies can respond, causing severe reputational damage. Tech CEOs are well aware of this, and 74 percent feel it is their personal responsibility to ensure their organization’s ESG policies reflect the values of their customers.¹


Social responsibility and corporate citizenship

Corporations have the resources to accomplish exponentially more than individuals, and as a result bear the responsibility to be good corporate citizens. This is widely recognized by investors, customers, regulators, employees, and corporate leaders. However, while many companies certainly support philanthropic and volunteerism endeavors, almost half (45 percent) of tech company CEOs are struggling to link their growth strategy with a wider societal purpose.¹

Technology company CEO views on ESG

 **#1** CEOs say environmental/climate change is the biggest risk to growth

 **74%** believe it is their personal responsibility to ensure their organization’s ESG policies reflect the values of their customers

 **57%** say they must look beyond purely financial growth to achieve long-term, sustainable success

Source: KPMG Global CEO Outlook 2019

© 2020 KPMG LLP, a Delaware limited liability partnership and the U.S. member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity. All rights reserved.

There is also increasing attention on responsible human capital practices. Proposed legislation in the U.S. would require company annual 10-K filings to include a disclosure of workforce demographics, workforce stability, training and capabilities, health and safety, culture and empowerment, and compensation and incentives.

Profitability correlation

Environmental and social changes continue to alter the business landscape. Hard-to-plan-for incidents such as COVID-19, climate change events, and cyber breaches are causing businesses high losses from suspension of operations or theft of customer or company data. Organizations that possess adaptive capacity in response to environmental and social risks will be better positioned to compete and thrive than peers that do not. Prepared organizations will be able to improve the efficiency and resiliency of their business including supply chains, IT operations, and disaster recovery/business continuity plans.

The current state of ESG at technology companies

Heightened awareness and appreciation for ESG issues has not fully translated into business practices yet. What technology companies think about ESG is very different from what they are actually doing about ESG. Tech companies will be asked by investors, employees, and customers to detail their COVID-19 reaction through an ESG lens. But beyond the virus, other catalysts like climate change and social equality are much more long-lasting and illustrate the need for companies to permanently embrace sustained, robust ESG practices.

This is proving to be a challenge at technology companies. Yet COVID-19 represents a sudden and unexpected opportunity for tech companies to review their ESG practices. Perhaps technology leaders will be prompted to increase their ESG efforts, which would be a lasting, positive outcome for all.

What tech companies are THINKING about ESG



#1 Environmental/climate change is the biggest risk to growth¹



86% think the tech industry requires more regulation and standards in the area of sustainability²

74% of tech CEOs feel it is their personal responsibility to ensure their ESG policies reflect their customers' values¹



79% agree that their organization's growth will be determined by their ability to shift to a clean technology economy¹

57% agree they must look beyond financial growth to achieve sustainable success¹

What tech companies are DOING about ESG



26% have significant incorporation of ESG into their strategic planning²

34% say climate change is having a high impact on their company's investment/funding²

45% are struggling to link their growth strategy with a wider societal purpose¹

55% feel their sustainability experts are very effective¹

37% believe their governance experts are very effective¹

Technology companies increase ESG practices during COVID-19

While they still have the opportunity to raise their level of corporate ESG practices, technology companies have shown us a glimpse of what this future would look like throughout the COVID-19 timeframe.

Environmental

Environmental criteria consider how a company acts in its role as a steward of nature, such as energy use, recycling practices, pollution, and natural resource conservation. The criteria can also be used to assess environmental risks and how the company is managing them.

As many countries shut down activity in the attempt to slow the spread of COVID-19, pictures and technological measurements revealed a drastic reduction in air and water pollution. These show a possible future powered by clean energy, workforce transformation, and environmental stewardship.

Social

Social criteria examine how well a company manages relationships with employees, suppliers, customers, and the community. For example:

- Does the company give back to the community, either monetarily or through volunteerism?
- Do the working conditions and practices show high regard for employees' health and well-being?
- Does the company offer discounts or concessions on its products and services (for example high speed internet) during times of crisis?

Technology companies' examples of corporate citizenship abound during COVID-19. Their efforts included donations of funds, medical equipment and technology, and emergency supplies. These are separate from the herculean efforts of keeping their business offerings available that enable the world to stay connected and productive: ecommerce and social media platforms, cloud networks, and online collaboration and education tools.

Governance

Governance criteria is concerned with a company's leadership, internal controls, executive pay, audits, and shareholder rights. Stakeholders may want to be reassured that a company uses accurate and transparent accounting methods, doesn't engage in any illegal practices, that stockholders are given voting opportunities on important issues, that conflicts of interest are avoided when choosing board members, and that political contributions are not being made to obtain unduly favorable treatment.

Global ESG standards for corporations

Amid demand for ESG action, 86 percent of global tech executives believe the technology industry requires more regulation and standards in the area of sustainability and energy efficiency.² However, there are some existing standards offering guidance and others being developed.

United Nations

The United Nations' [Sustainable Development Goals](#) (UN SDG) were adopted in 2015. They are a universal call to action for countries to end poverty, protect the planet, and improve the lives and prospects of everyone.

World Economic Forum

The UN SDG provides guidelines for countries to strive for. However, on the corporate front, the absence of standardized ESG reporting hinders the understanding of business performance by investors and the public. This also prevents effective communication about a company's long-term and sustainable value creation.

At the 2020 World Economic Forum (WEF), it was announced that the WEF, in collaboration with KPMG and the other Big Four accounting firms, prepared a [proposal for common ESG metrics and disclosures](#). The proposal, supported by many of the world's largest companies, recommends a set of core ESG metrics and disclosures that would be consistent across industry sectors and countries.

Sustainability Accounting Standards Board (SASB)

In 2018, the [SASB](#) (an independent, nonprofit standard-setting organization) published a set of 77 industry standards to enable businesses to identify, manage, and communicate financially material sustainability information to their investors.

Task Force on Climate-related Financial Disclosures (TCFD)

The Financial Stability Board (FSB), at the request of G20 Finance Ministers and Central Bank Governors, established the [TCFD](#) to develop recommendations for more effective climate-related risk disclosures. The TCFD is currently supported by over 1,000 organizations.

Business Roundtable

In August 2019, a new [Statement on the Purpose of a Corporation](#) was signed by 181 CEOs. The new Statement outlines a modern standard for corporate responsibility—one that benefits all stakeholders and not just shareholders.

Assessing ESG readiness

Technology companies can ask these questions to help assess how well they are adapting to environmental and social changes, along with how well their ESG practices are connected to their financial and operational performance.

- How do our investors perceive social and environmental issues?
- Do we have confidence in the data being reported and that it responds to our investors' concerns?
- Are we ready to respond to tougher customer demands to be more socially responsible and environmentally friendly?
- Do we have ESG controls integrated in our corporate governance structure?
- How can our business grow and simultaneously reduce its carbon footprint?
- Are we investing in the innovation of greener products and services to respond to market needs?
- Are the current risk management systems effective at capturing emerging environmental and social risks and opportunities?
- Is our organization's reputation at risk for not meeting our customers' expectations regarding social and environmental performance?
- How would our facilities and supply chain be affected by environmental impacts like extreme weather, water scarcity, etc.?

How KPMG can help

Sustainability services

The journey to a sustainable business model that is responsive, adaptive, and resilient can be challenging. [Sustainability services](#) professionals can help companies navigate the complex and evolving policy, regulatory, and business landscapes to better understand the risks and opportunities related to climate change and sustainability and help them capitalize on the resulting commercial opportunities. [Climate Change & Sustainability services](#) professionals can help companies build long-term value in a rapidly changing world.

Board Leadership Center

The KPMG Board Leadership Center champions outstanding governance to help drive long-term corporate value and enhance investor confidence. Drawing on insights from KPMG professionals and governance specialists worldwide, the Center delivers practical thought leadership—on risk and strategy, talent and technology, globalization and compliance, financial reporting and audit quality, and more—all through a board lens. The [KPMG Board Leadership Center](#) also offers resources that can help directors in shaping a company's ESG approach—understanding why it matters, what it looks like, and how it connects to long-term performance.

References:

¹ Global CEO Outlook, KPMG International, 2019

² Technology Industry Innovation Survey, KPMG LLP (U.S.), 2020

About the research

The Technology Industry Innovation Survey, conducted by KPMG LLP (U.S.) and now in its eighth year, included responses from over 800 global leaders in the technology industry. Twelve countries were represented and 54 percent of the respondents were C-level executives. The online survey was conducted from December 2019 to January 2020.

The Global CEO Outlook, conducted by KPMG International, included responses from 110 technology sector CEOs in 11 countries. The survey was conducted between January 2019 and February 2019.

Contact



Tim Zanni
Global and U.S. Technology
Sector Leader
KPMG LLP (U.S.)
tjzanni@kpmg.com

Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates and related entities.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

© 2020 KPMG LLP, a Delaware limited liability partnership and the U.S. member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. 8555MGT

The KPMG name and logo are registered trademarks or trademarks of KPMG International.

kpmg.com/socialmedia

