

De impact van ESG op IT

Presentatie SAI – 24 oktober 2023

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GUBERNA in a nutshell...

Purpose

Better Boards, Better Organisations, Better World

Mission

Promote good governance in all kinds of organisations

Knowledge Centre

Research

Services

Education

Tools

Member
activities

Advocacy

Network

> 3000 members

> 2.200 Alumni



LISTED



PUBLIC



FAMILY



SME



SOCIAL



HOSPITAL



FINANCIAL

with a

Segmented, tailor-made
approach

***content inspires
network –
network
inspires content***

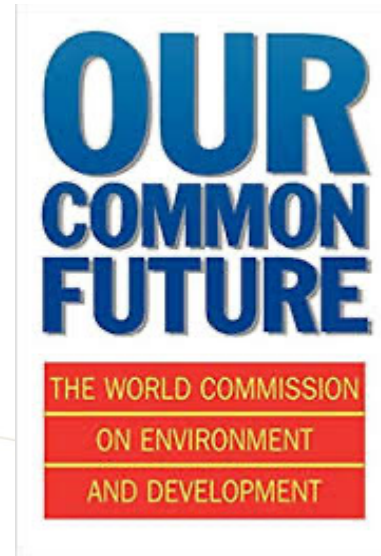
DEFINING ESG (IN CORPORATE GOVERNANCE CODES)

What is sustainability?

- “Sustainability: Our common future”
- “The limits to growth” Club of Rome 1972
- Brundlandt (1983):

“Sustainable development must meet the needs of the present without compromising the ability of the future generations to meet their own needs”

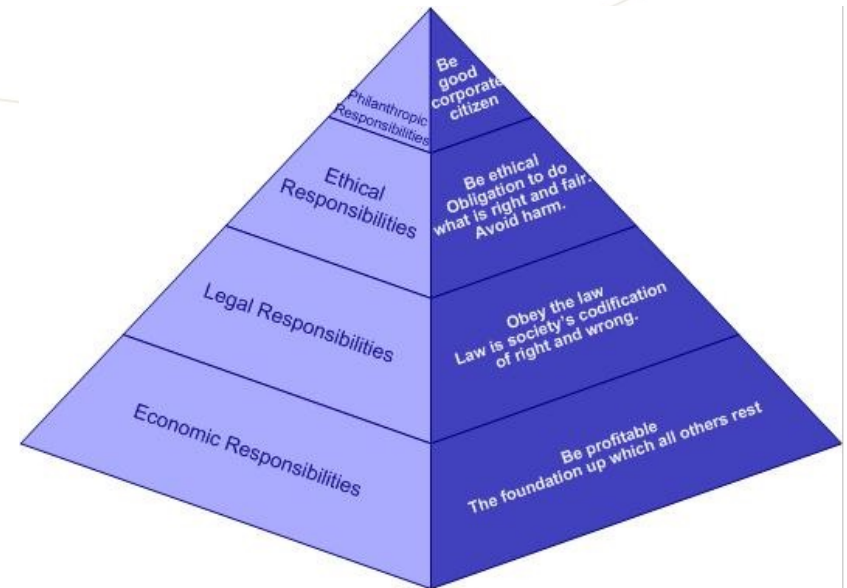
➔ 2023: De-growth?



Corporate Social Responsibility (CSR)

- Multitude of definitions:
 - bv.: “Context-specific organizational actions and policies that take into account stakeholders’ expectations and the triple bottom line of economic, social and environmental performance.”” - Aguinis & Glavas, 2012

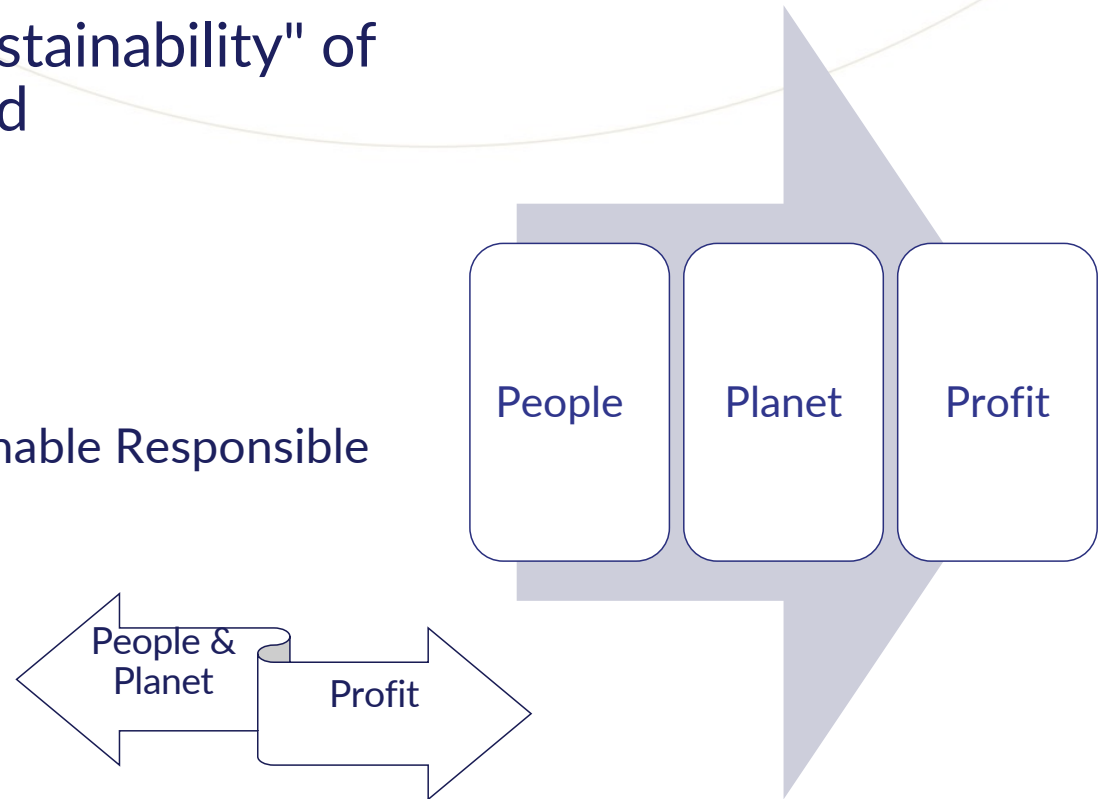
- Triple P



Carroll's CSR Pyramid

Environmental, Social and Governance (ESG)

- Framework by which the "sustainability" of organisations can be assessed
- Tool for investors:
 - Sustainable Finance (SRI: Sustainable Responsible Investing)
 - Role of rating agencies



ESG = aspects of sustainability



Environment

GHG
Water
Waste
Pollution
Forestry
Biodiversity



Social

DEI
Employee wellbeing & labour
Health & safety



Governance

Remuneration
Board Composition
Corruption
Policy
Donations & lobbying

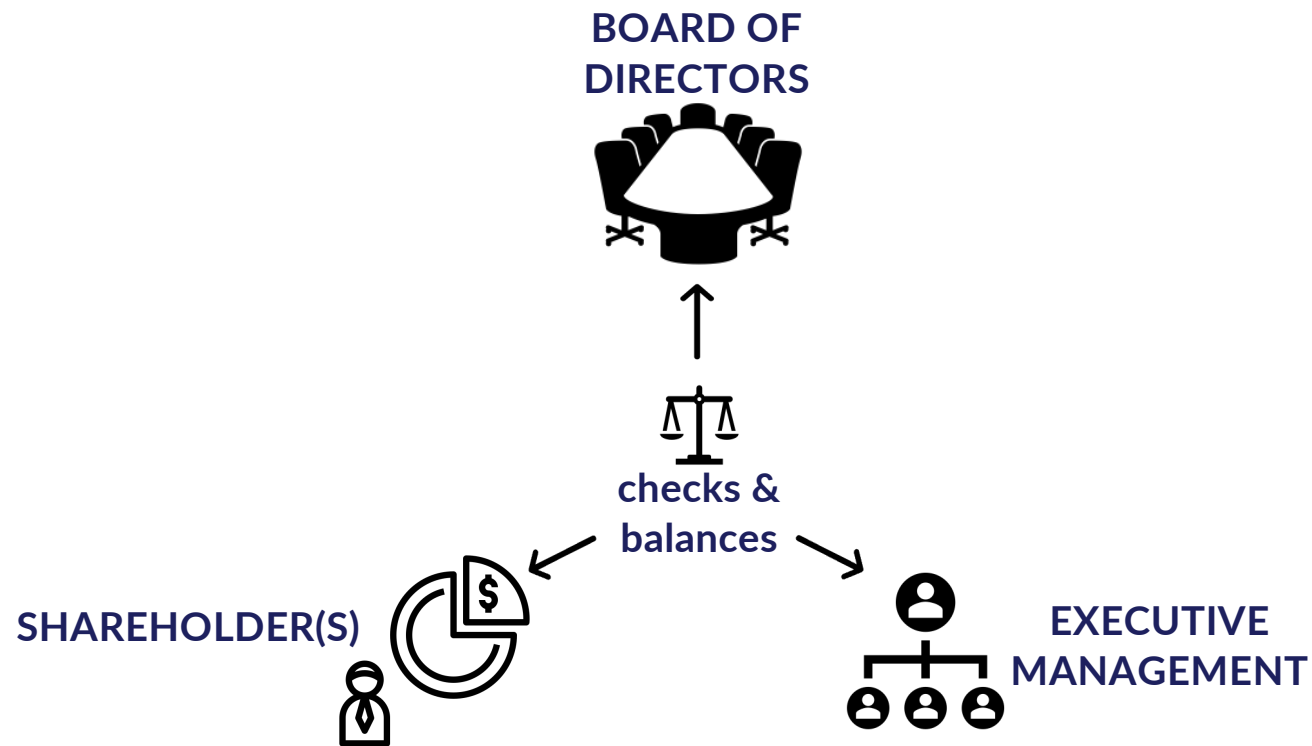
Code 2020 for listed companies

2.1 The board should pursue **sustainable value creation** by the company, by setting the company's strategy, putting in place effective, responsible and ethical leadership and monitoring the company's performance.

2.2 In order to effectively pursue such sustainable value creation, the board should develop an inclusive approach that balances the legitimate interests and **expectations of shareholders and other stakeholders**.



THE GOVERNANCE TRIPOD

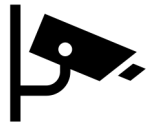


THREE ROLES OF THE BOARD



STRATEGY

The board decides on the organisation's values, mission and strategy, gives direction, determines risk appetite,....



MONITORING

The board takes its responsibility regarding supervision (internal control, risk management, monitoring of results and financial statements)



LEADERSHIP

The board delegates powers to the CEO who appoints, guides and controls management, is a sounding board for management and challenges it in a positive way

“The board should reflect actively on each of the above elements and discuss them at regular intervals. It should provide clear **guidance as well as support** to the executive management when facing **potential trade-offs and strategic choices** involving sustainability issues. It should also systematically **monitor ESG performance** and include this in executive management’s **performance evaluation.**”

Implementing ESG is a tango between management and board



Management **prepares** the strategy



The board **approves** the strategy



Management then **executes** the strategy



The board **monitors** the execution

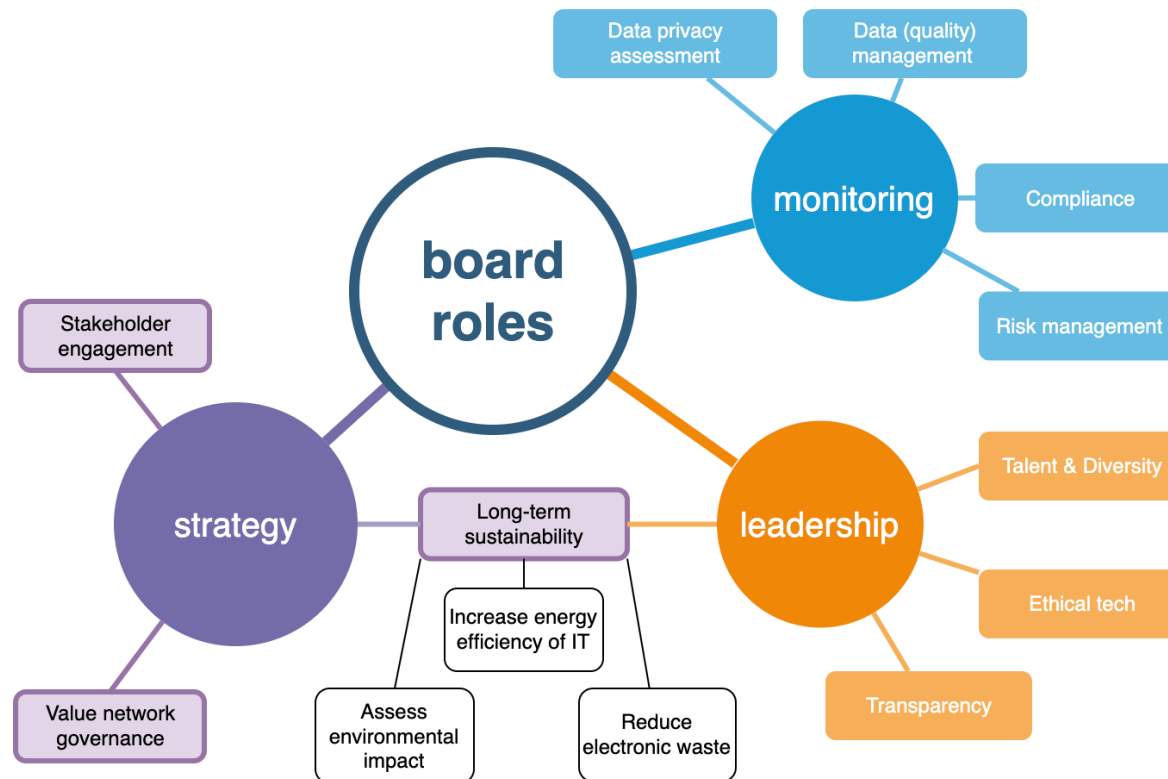


Management **reorients** strategy if needed, and keeps board **informed**

24 October 2023

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SITUATING IT-RELATED ESG TOPICS WITHIN THE BOARD ROLES



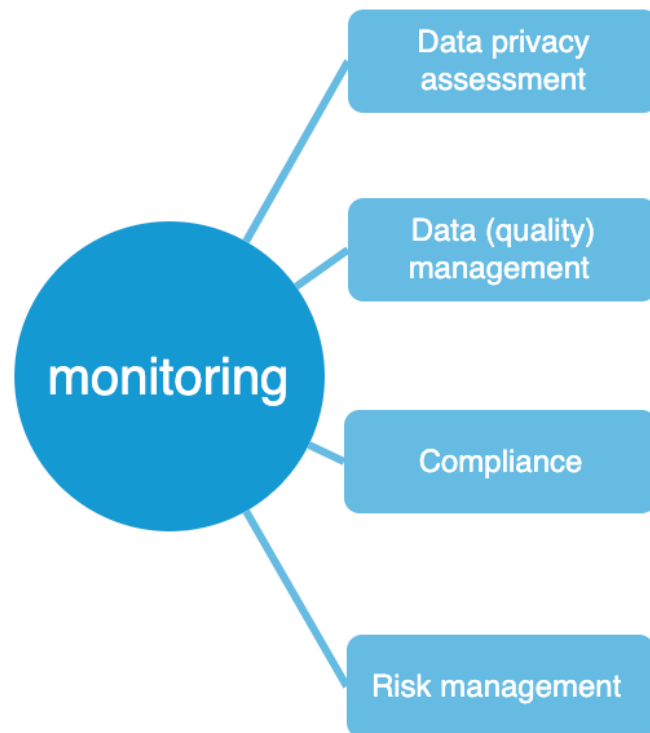
HOW A BOARD MEMBER WILL LINK ESG WITH THE STRATEGY ROLE



Strategy role

- Inscribe as priorities **in purpose, vision, mission, strategy.**
- **Create policy framework** with & by executives for identified issues (eg. privacy & security, information quality, talent development, ethical principles)
- **Allocate sufficient resources** (tech infrastructure, staff, training, initiatives, regulatory research and compliance efforts)
- **Cooperation with and transparency** towards 3rd parties

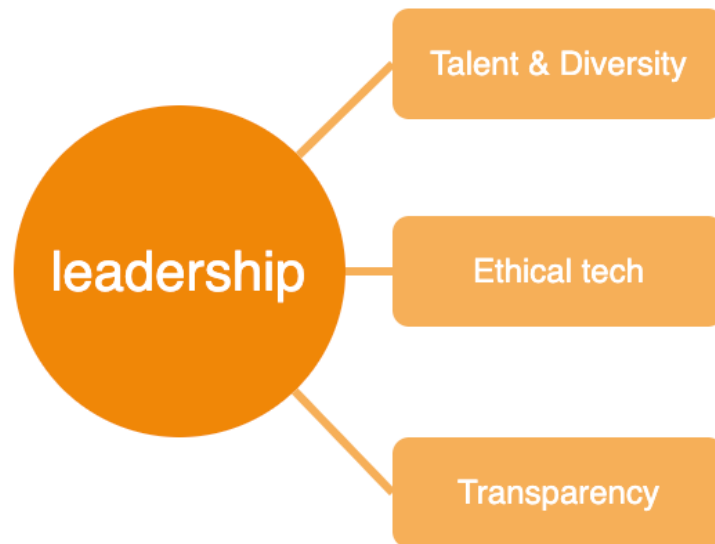
HOW A BOARD MEMBER WILL LINK ESG WITH THE MONITORING ROLE



Monitoring role

- **Compliance** with legal framework & soft law
- **Regular audits** of IT practices (internal or external)
- **Continuous** monitoring (data validation, cleaning, profiling,...)
- **Resilience planning** (e.g., incident response plans)
- **Outcome KPI's** (violations, incidents, response times, trainings, employee compliance, etc...)

HOW A BOARD MEMBER WILL LINK ESG WITH THE LEADERSHIP ROLE



Leadership role

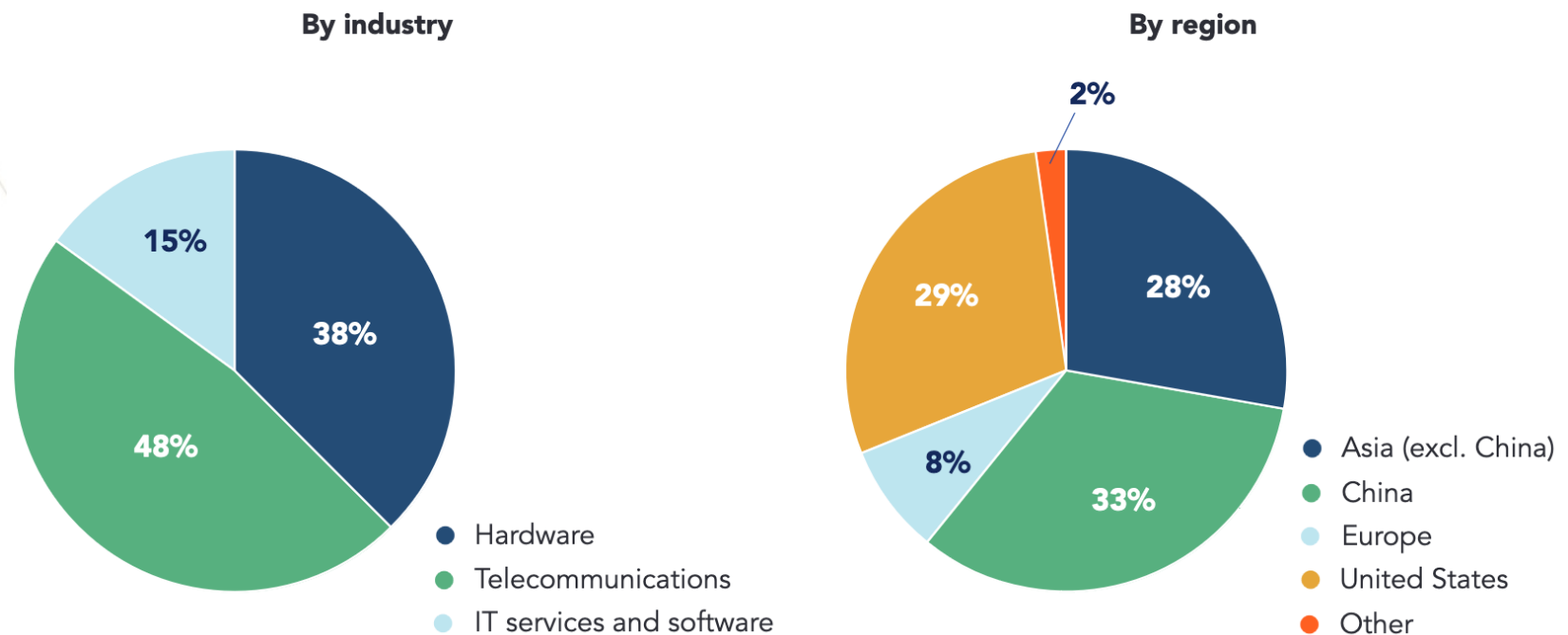
- **Appoint, retire & remunerate** C-level executives
- **Lead by example:** privacy, data-driven decisions based on high-quality and secure data etc. are non-negotiable ethical and legal standards
- **Educational initiatives** on data privacy, data literacy, data governance, talent diversity, ethics, stakeholder involvement,...
- **Ambassadorship** towards stakeholders



CASE STUDIES OF ESG ISSUES ON THE BOARD'S AGENDA

Strategy => Sustainability issue: Operational GHG emissions among hardware, telecom and software companies (200 global companies)

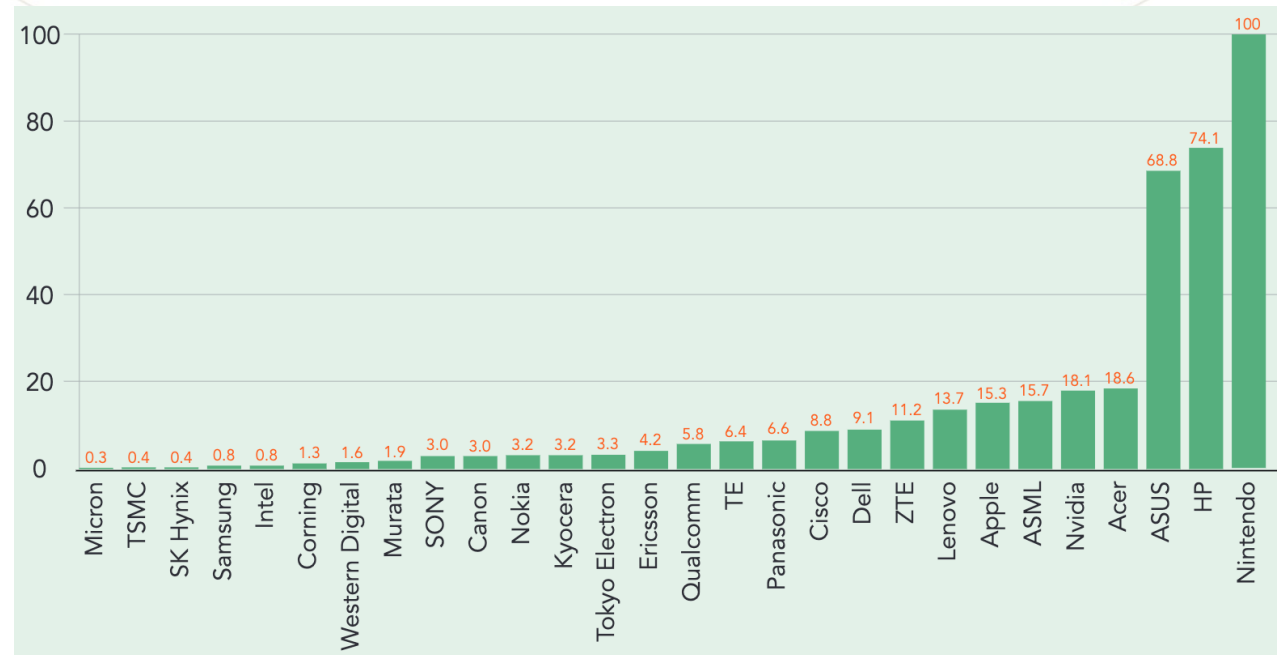
Figure 1.1: Distribution of operational GHG emissions, DIB200 companies, 2021



Source: p. 11 of ITU Green digital companies 2023 - Monitoring emissions and climate commitments:
<https://www.itu.int/pub/D-THEM-33-2023-01>

Strategy => Sustainability issue: Ratio of supply chain (scope 3) to operational emissions (scopes 1 and 2)

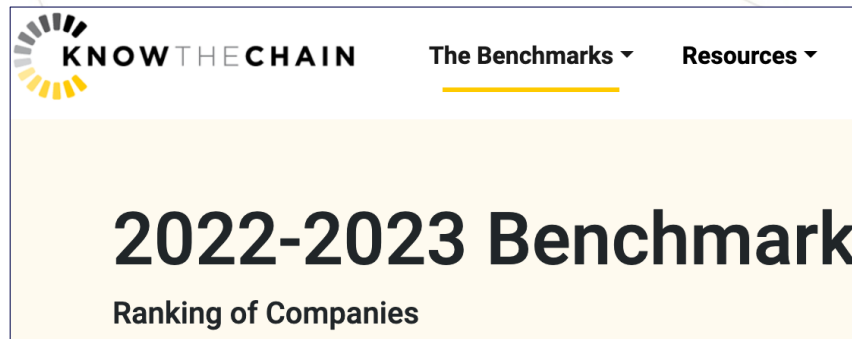
- Manufacturers of branded digital goods (e.g. Nintendo, HP, Asus) have relatively highest scope 3 score due to a high degree of outsourcing
- Also higher score for companies that manufacture equipment to make semiconductors (e.g. ASML) and fabless semiconductor companies (e.g. Nvidia)



p. 19 of ITU Green digital companies 2023 - Monitoring emissions and climate commitments report.

Strategy => Value network governance issue: Due diligence on forced labour

Soft law



ComputerWeekly.com

Tech firms failing to address forced labour in supply chains

Subpar due diligence processes in the tech sector – including poor purchasing practices, sparsely implemented collective bargaining coverage, and a lack of redress for workers – is leaving supply chain workers open to abuse, says KnowTheChain



By Sebastian Klovig Skelton, Senior reporter

Published: 10 Jan 2023 13:45

Hard law

- EU draft regulation on “prohibiting products made with forced labour on the Union market”
- Commission proposal was adopted on 16/10/23 with amendments by the Internal Market committee and International Trade committees => Proceeds to plenary session
- Legislative train:
[https://oeil.secure.europarl.europa.eu/oeil/popups/ficheprocedure.do?lang=en&reference=2022/0269\(COD\)](https://oeil.secure.europarl.europa.eu/oeil/popups/ficheprocedure.do?lang=en&reference=2022/0269(COD))

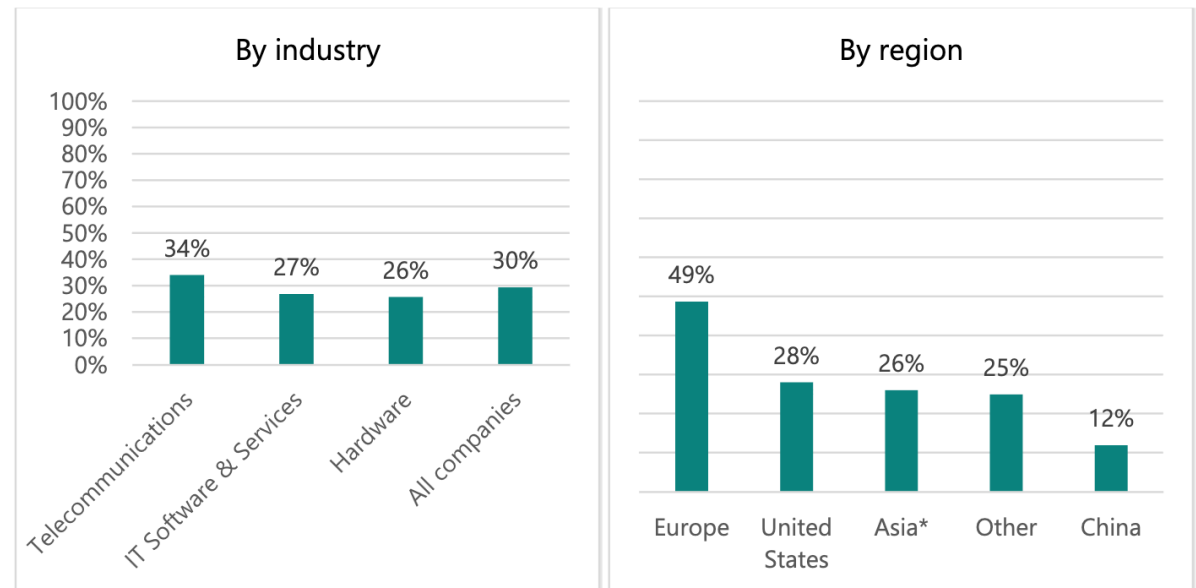
Sidenote: American Chamber of Commerce proposed amendments to EU forced labour regulation

Art. 2(b), Definitions (Forced Labour)	
'Forced labour' means forced or compulsory labour as defined in Art. 2 of the Convention on Forced Labour, 1930 (No. 29) of the International Labour Organization, including forced child labour;	'Violation of the prohibition of forced labour; this includes all work or service that is exacted from any person under the menace of any penalty and for which the said person has not offered himself or herself voluntarily, for example as a result of debt bondage or trafficking in human beings; excluded from forced labour are any work or services that comply with Art. 2 (2) of International Labour Organization Forced Labour Convention, 1930 (No. 29) or with Art. 8 (3) (b) and (c) of the International Covenant on Civil and Political Rights'

- Source:
http://www.amchameu.eu/system/files/position_papers/amcham_eu_proposed_amendments_to_the_forced_labour_regulation.pdf

Strategy => Value network governance issue: Publicly available policy statements expecting business relationships to commit to respecting the five ILO fundamental labour rights

- Hardware companies—with the most tangible supply chains among the digital industries—score lowest
- Europe highest scoring region

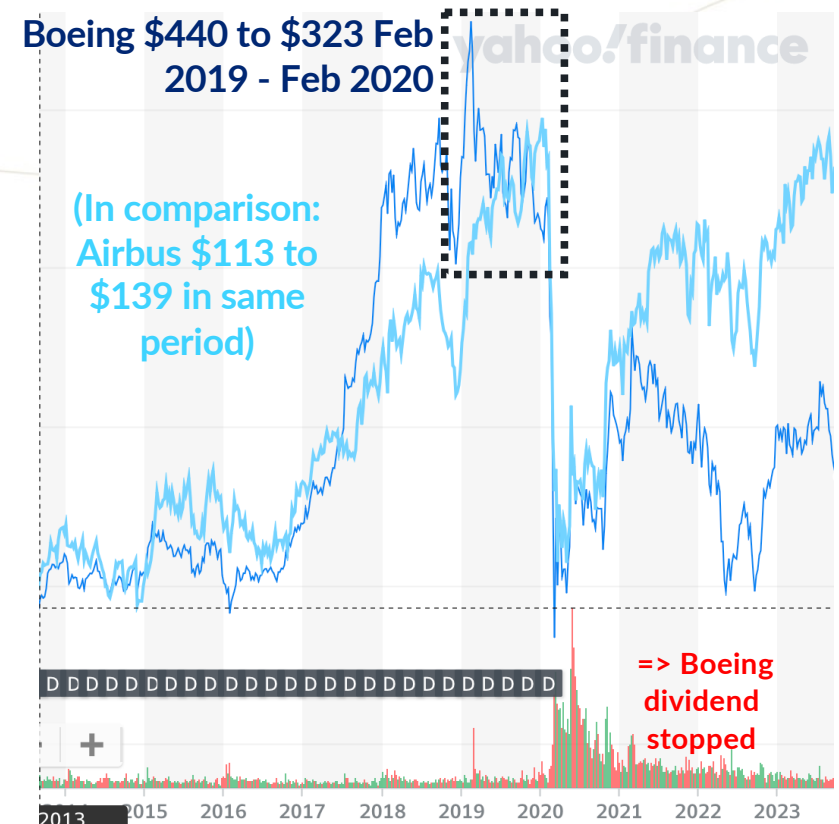


Note: Asia* excluding mainland China.

p. 40 of World Benchmarking Alliance (2023) Digital Inclusion Benchmark Report.

Monitoring => Risk management issue: Insufficiently informing customers of system characteristics

- 2018 and 2019 Boeing 737 Max crashes kill 346 people
- “Maneuvering Characteristics Augmentation System (MCAS)” override became part of optional additional pilot training (reducing costs for airliner customers)
- Failure of safety and accountability standards
- Reputation and credibility damage; criminal probes; \$20 billion in fines, compensations and legal fees; 1200 cancelled orders



Monitoring => Compliance issue: Volkswagen emissions scandal

- Turbodiesel engines software system only activated emissions controls during laboratory emissions testing
- Jan 2017: Volkswagen pleads guilty: US \$2.8 billion criminal fine + \$1.5 billion civil penalties. Many other court cases in many other countries and US states
- Nine people criminally charged, sentenced to prison terms (for example: general manager 7 years prison + \$400k fine)

CEO Martin Winterkorn



Chair Ferdinand Piëch (deceased 2019)

- March 2017: Former chairman Ferdinand Piëch claims Winterkorn knew about the emissions scandal early; Volkswagen makes official statement denying this
- Winterkorn “is a fugitive of justice in the US, wanted by the EPA for conspiracy to defraud the US, conspiracy to commit wire fraud, conspiracy to violate the Clean Air Act, and three counts of wire fraud.”

Monitoring => Data privacy issue: Data breaches of users' private data

- Cambridge Analytica accessed personal data of Facebook users in 2018 without their consent
- Breach of privacy and ethical standards
- Damage in public backlash, regulatory scrutiny, legal actions (\$5B FTC fine), loss of trust from users and advertisers.



Cambridge
Analytica

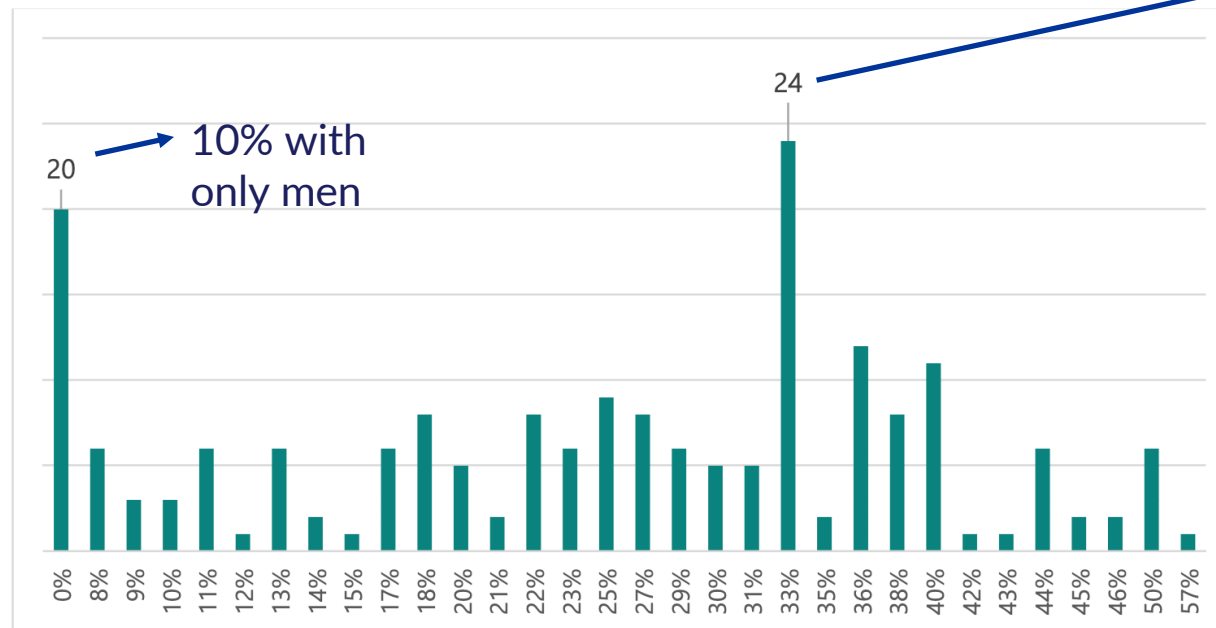
- Founded 2013, defunct 2018



- Renamed to Meta in 2021



Leadership => Diversity issue: # of companies by % of women in highest governing body (200 global ICT companies, 2021)

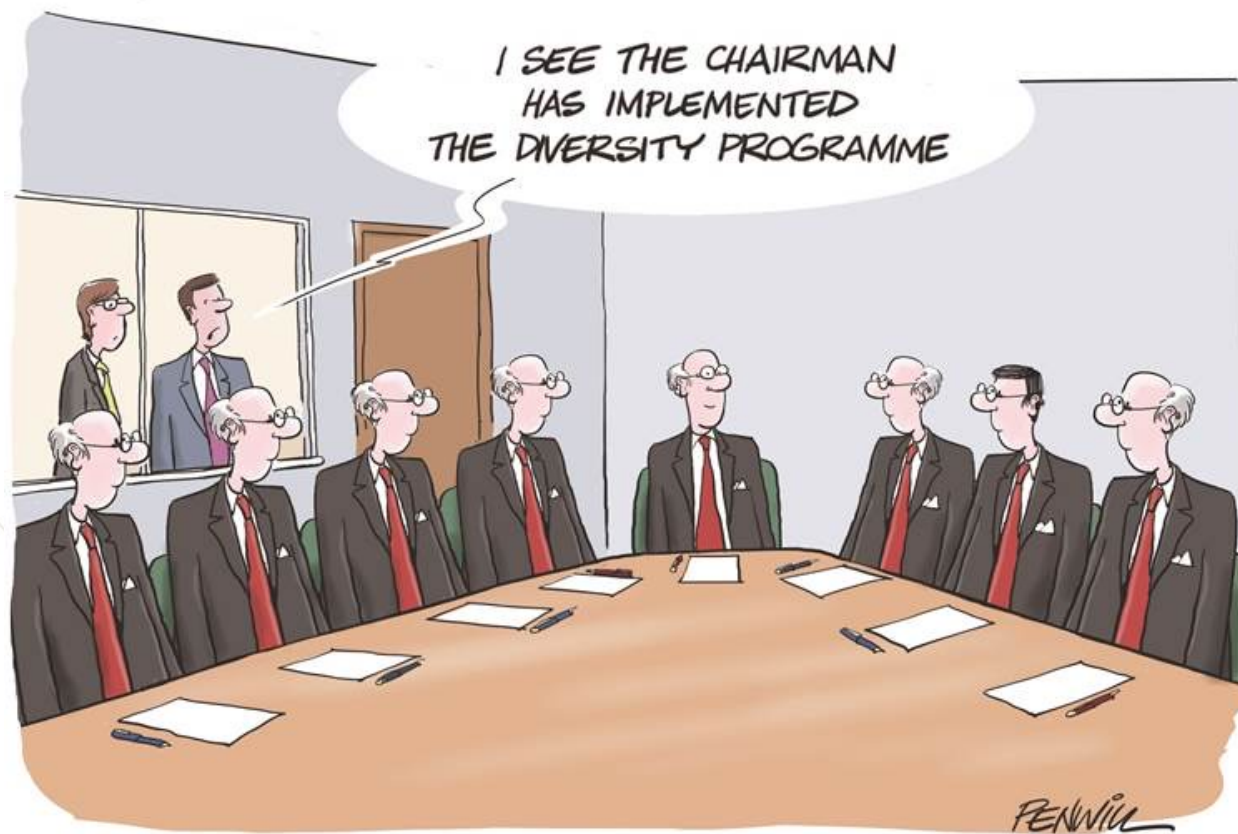


Pushed by:

- Voluntary initiatives (e.g., 30percentclub.org, womenonboard.be)
- Hard law such as *EU Women on Boards Directive (2022)*: By mid-2026 every **listed company** within EU needs to have at least 40% female non-executive directors **or** have a female representation of executive and non-executive of at least 33%.

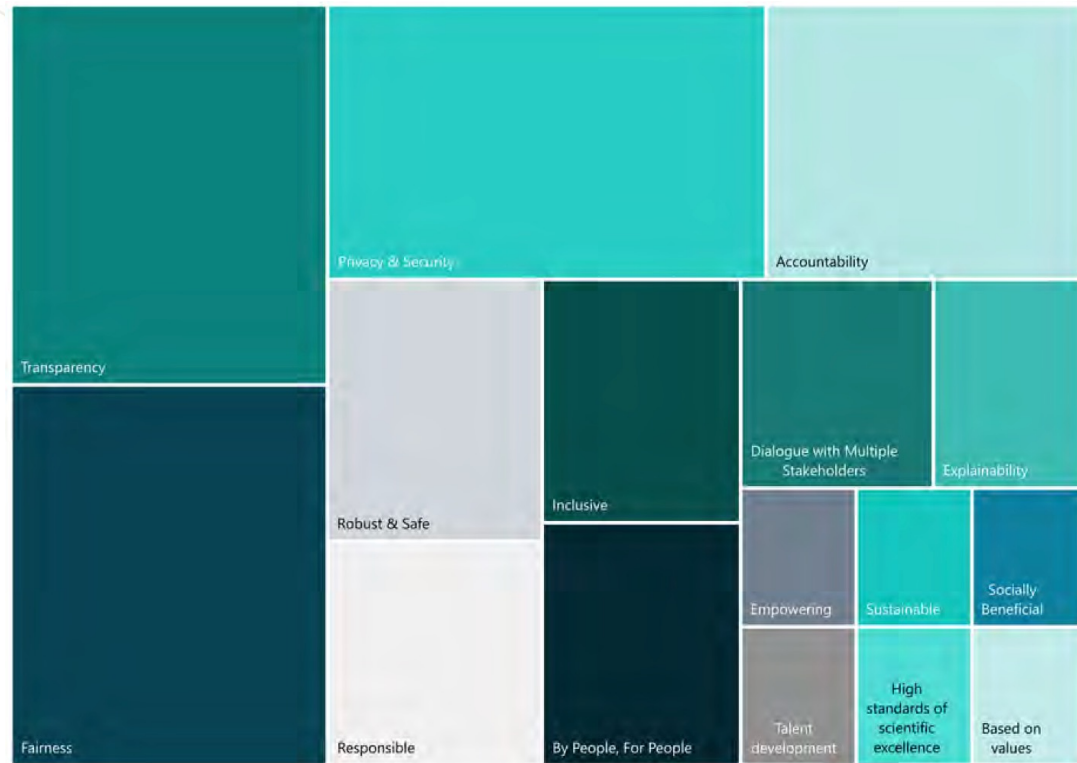
p. 26 in World Benchmarking Alliance (2023) Digital Inclusion Benchmark Report.

<https://assets.worldbenchmarkingalliance.org/app/uploads/2023/04/Digital-Inclusion-Benchmark-2023-insights-report.pdf>



Leadership => Ethical tech issue: Frameworks in large tech companies, by # of mentions

- Four most popular principles in tech company ethical frameworks:
 - Transparency
 - Fairness
 - Privacy & security
 - Accountability



p. 29 from World Benchmarking Alliance (2023) Digital Inclusion Benchmark Report.

Leadership => Ethical tech issue: Using IT for job-related automated profiling

Probing the Dark Side of Google's Ad-Targeting System

Researchers say Google's ad-targeting system sometimes makes troubling decisions based on data about gender and other personal characteristics.

MIT
Technology
Review

By Tom Simonite

July 6, 2015

RETAIL OCTOBER 11, 2018 / 1:04 AM / UPDATED 5 YEARS AGO



REUTERS

Amazon scraps secret AI recruiting tool that showed bias against women

- *Google* ad algorithm showed advertisements for high-level job postings more often to white men, then white women, then other categories.
- *Amazon* automated hiring tool used AI on resumes of past 10-years; downgraded resumes including “women’s” (even “women’s chess club captain”)
- Algorithmic discrimination on legally protected categories = not allowed. But which other categories ethical? => Ongoing academic debate (see e.g. Sandra Wachter’s work at Oxford Internet Institute)

Leadership => Transparency issue: Using IT for automated price variations or product preferencing

How AI Can Help Companies Set Prices More Ethically

Harvard
Business
Review

by Mark E. Bergen, Shantanu Dutta, James Guszczka, and Mark J. Zbaracki

March 26, 2021



- Debate on ethics of 1st and 3rd degree price discrimination
 - First degree = Different price for **each individual** for same product
 - [Second degree = Different prices for different volumes purchased]
 - Third degree = Different prices for **different groups** for same product

A Framework for Detection, Measurement, and Welfare Analysis of Platform Bias

NBER | NATIONAL BUREAU of
ECONOMIC RESEARCH

Imke Reimers & Joel Waldfogel

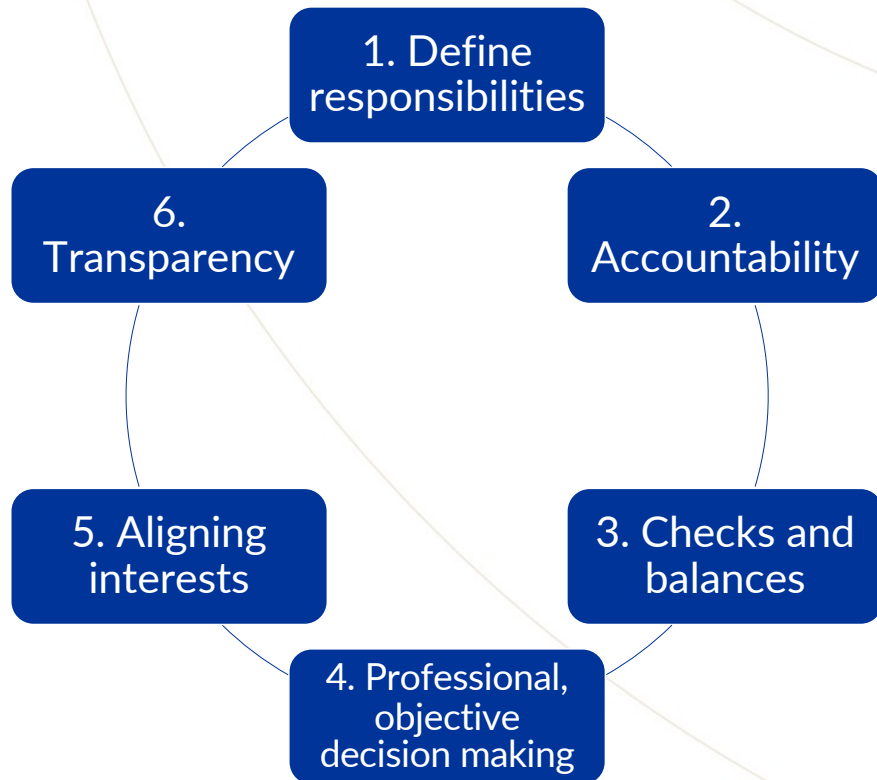


- Digital Services Act: Forbids self-preferencing of products by gatekeeper platforms
 - Act is also relevant if you work with any of the 6 gatekeepers (Alphabet, Amazon, Apple, ByteDance, Meta and Microsoft) and one of their “gatekeeping products”.
 - See eg. NBER Working paper with data from Amazon, Expedia, and Spotify.



CONCLUSION: TACKLING TECH-RELATED ESG ISSUES ON THE BOARD LEVEL

Essential building blocks for ESG governance



1. Division of labour (of expertise, experience, diversity of viewpoints) and clear delegation
2. Delegation & Communication = Top-down & bottom-up accountability in reporting
3. Oversight creates trustworthiness
4. Decisions ought to be taken in company's long-term interest
5. Conflict of interest = External happy confluence of interests
6. Sunlight is the best disinfectant

Board level main success factors for including ESG

1. **Clearly articulated** ESG objectives, preferably SBTs (but they must simultaneously help us to differentiate us in the market)
2. **Proactive** rather than reactive (but simultaneously geared towards increasing efficiencies, winning and retaining customers, attracting and retaining the best talent)
3. **Think dynamically** rather than statically. There will be a learning curve in the coming years before the new solutions are as cost-effective as existing solutions
4. ESG objectives must **permeate the entire organisation**, not just be KPIs for the C-level
5. **Cooperation/partnering** throughout the value chain will be needed

Board level main obstacles for including ESG

1. **Corporate culture** can severely limit progress. Internal resistance due to board, shareholder or management resistance / lack of awareness / scepticism / siloed decision-making ...
2. **Lack of maturity** in terms of regulation and data availability. Need to invest in knowing relevant regulations and collecting and analysing data that allows scoring on ESG dimensions. (Not obvious for smaller / younger companies)
3. **Trade-off** between short-term profits and long-term goals where lucrativity is not always immediately obvious
4. Finding the **right ecosystem partners** to share costs and accelerate progress

A close-up photograph of several hands of different skin tones clasped together in a circle, symbolizing unity, teamwork, and support. The hands are positioned in the center of the frame, with some fingers interlaced. The background is a soft, out-of-focus grey.

**Better Boards,
Better Organisations,
Better World.**

Thank You