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ESG and innovation: the new business paradigm

The 21st century has been characterized by an unprecedented acceleration in all areas, especially with respect to advances in science and technology. Although most of these advances have been synonymous with progress and development, such as the metaverse, artificial intelligence or satellite internet, among others, largely thanks to initiatives of the business sector, it is worth mentioning that this has also marked the need to establish limits to the actions of companies because, together with these advances, adverse social phenomena have arisen that require immediate solutions, such as forced labor displacement, planned obsolescence or the emergence of new groups in vulnerable situations, such as digital workers.

This has led States and, above all, international organizations to advocate the development of regulatory instruments that impose limits on corporate actions, because although innovation generates benefits, it is also true that it can represent severe and harmful threats to human dignity, resulting in an unfortunately growing phenomenon: human rights violations committed by corporations. In the midst of this debate, where innovation has played a leading role, the ESG Criteria appeared as a solution to ensure that innovation is not an exercise in the interest of development at the expense of the rights of third parties, especially the most vulnerable, but rather that it directs, but above all enhances, the multiplying impact of corporate work towards social causes and building sustainable societies, without sacrificing profitability.

However, for this to be feasible, it is essential to understand what the ESG Criteria are and what their origin is, as well as their indissoluble link with innovation and technological development because, although it is a topic that is being talked about with increasing frequency, the reality is that its understanding is still limited and can even be easily confused with issues that, far from constituting good practices, are forms of simulation or insufficient actions with no social impact whatsoever.

I. Origin of the ESG Criteria

Contrary to what may be believed about the recent emergence and development of ESG criteria, the reality is that their formation, but above all their systematization, has been going on for several decades. One of the first antecedents was undoubtedly the conception of what is currently known as 'Corporate Social Responsibility', understood as the form of action adopted by any organization that seeks to conduct its business in a sustainable and ethical manner, thereby reducing the negative impact that it has or may have on its stakeholders, the environment and society in general[1] .

CSR was first conceptualized in the 1950s by the American economist Howard Bowen, a pioneer in the analysis of the relationship between business and society who, in 1953, developed the concept of social responsibility in his work "*Social Responsibilities of the Businessman*", identifying it as the obligations of business to promote corporate policies for decision making or desirable lines of action, in terms of the objectives and values of society[2] . Subsequent to Bowen, many other authors such as Edward Freeman and Michael B. Carroll, among others, expanded the study of CSR, thus building a new discipline that would eventually lead to the development of the ESG Criteria.

In 1985, the term '*Environment, Health and Safety*' or EHS became popular as a result of the *Responsible Care* business initiative, promoted by the Canadian chemical industry through the *Canadian Chemical Producers Association* (CCPC) and chaired at that time by Jean Belanger. This consisted of reinforcing safety measures in the chemical industry in order to prevent and avoid disasters, implementing actions to protect the environment and ensuring occupational health and safety. This initiative was widely accepted by the industry after the Bophal chemical-environmental catastrophe in India, one of the largest in the world, with almost eight thousand deaths due to exposure to highly harmful chemicals[3] .

Later, in the 1990s, following the Second Earth Summit held in Rio de Janeiro in 1992, the *Business Council for Sustainable Development* was created, which, years later, would become the *World Business Council for Sustainable Development*. It was thanks to this organization that the term 'business sustainability' was incorporated into the corporate narrative, as it was based on the idea of the need for companies to create long-term value among their stakeholders through the implementation of business and commercial strategies based on ethical, social, environmental and economic aspects. This discourse served as a prelude to what years later would become known as ESG.

It was in 2004, following the International Finance Corporation (IFC) report entitled "*Who Cares Wins*", that the term *Environmental, Social & Governance* was used for the first time[4] . In this report, reference was made to a series of criteria necessary for risk reduction in companies, which would make it possible to identify where it is safer to invest, while warning that the incorporation throughout business management of environmental care practices, social impact and good governance and transparency mechanisms, among others, allow for improved financial performance, compliance with strategic objectives, and generate a good reputation, strengthening the loyalty of its clientele. The ESG Criteria

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[1] López, Cristina (2019). "*Corporate Social Responsibility (CSR): What it is and its advantages.*" *United Nations* High Commissioner for Refugees (UNHCR); Available from: https://eacnur.org/blog/responsabilidad-social-corporativa-que-es-tc_alt45664n_o_pstn_o_pst/
[2] Bowen, Howard. R. (1953). "*Social Responsibilities of the Businessman*". New York, United States of America: Harper.
[3] Belanger, Jean & Topalovic, Peter & Krantzberg, Gail & West, Joanne (2011). "*Responsible Care: History & Development*." CIAC. Available at: https://www.researchgate.net/publication/242545221_Responsible_Care_History_Development
[4] International Finance Corporation (2004). "*Who Cares Wins- Connecting Financial Market to a Changing World.*" Available at: https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/publications/publications_report_whocareswins__wci__1319579355342

emerged as an effort of international cooperation to involve the private sector in the construction of sustainable societies, through guidelines to avoid excesses in their actions, starting as a series of self-regulatory criteria that have evolved over time to mandatory requirements by society and the State.

II. Functionality of ESG Criteria

The ESG Criteria (or ESG for short) have a main function, to ensure the construction of sustainable businesses and societies, understood as the satisfaction of current needs without compromising the ability of future generations to meet theirs, ensuring a balance between economic growth, environmental care and social welfare[5] .

Consequently, it can be said that sustainability is inextricably linked to the respect for and guarantee of human rights, since these generate the essential conditions for sustainable development. For example, a person is not truly free if he or she lacks food, education or adequate housing, or societies in which people have access to basic social protection, as well as economic resources and opportunities, are less vulnerable to social fractures and radicalism. In short, the functional basis of sustainability is human rights and, consequently, the ESG Criteria are tools to ensure respect for them in the broadest sense in order to guarantee sustainable development in the actions of any organization.

For this reason, the ESG Criteria cover the three major spheres of impact on society from a business or organizational standpoint, which are the environment, society and good corporate governance. In this sense, these criteria are limited to the following:

a. Environmental - those actions and measures aimed at protecting the environment; it is sought that the use of natural resources by a company, and the impact that its operations and its value or supply chain may have on the environment, be reduced or mitigated as much as possible, such as the elimination of carbon emissions, among other examples.
b. Social - corporate considerations on the impacts of business activity on its customers, employees, local communities and other stakeholders and society in general, particularly where a company or organization has a presence or carries out its activities.
c. Governance - consisting of the development of business and corporate governance structures that enable the performance of an organization's policies and standards, as well as the ability to conduct audits, implement control and compliance standards, as well as transparency and disclosure of relevant information, among other elements of good governance.

It can therefore be concluded that ESG or ESG means compliance with the minimum obligations that a company or organization must fulfill in environmental, social and good governance matters, constituting a generic and indispensable universe of corporate human rights obligations that must be fulfilled in order to guarantee corporate or

[5] United Nations (UN). "*Sustainability*." Available at: https://www.un.org/es/impacto-acad%C3%A9mico/sostenibilidad

organizational sustainability. It is imperative to specify that, despite the fact that there are specialists who maintain that respect for human rights belongs only to the social area, this is a mistake because all of the ESG Criteria constitute per se substantive obligations in this area[6] .

III. Technology, Innovation and Sustainability

An inescapable fact is that innovation and technology are becoming key elements in the development of sustainable and responsible solutions to emerging ESG challenges. It can therefore be said that ESG criteria and innovation constitute the new paradigm of business management.

Technological development has made it possible to innovate the management of any company or organization, and the ESG Criteria are proof of this because, given the inevitable social and environmental deterioration that the world is going through, the generation of new technologies requires that they be guided by these principles in order to eliminate pollutants, reduce the inequality gap and ensure integrity, thus constituting tools to alleviate the social ills that currently afflict humanity. However, although the technological boom has brought great benefits, it is also true that it has had adverse impacts, which is why the ESG Criteria are essential to limit those business activities that, for the sake of development, could have unforeseen negative effects.

The banking-financial context, for example, clearly shows the chiaroscuros of technological development. While increasing security in the management of bank accounts, the use of biometric data has been prioritized, which, although it increases the security and processing of financial resources, it can be exclusive, for example, in the case of people with disabilities who lack one or both limbs, for whom it would be impossible to open a bank account due to the requirement of fingerprints. According to a recent report by the *AI Now Institute*, after analyzing eight regulatory approaches to biometric technology around the world, the Institute found that while there was a mix of data protection laws that provided data safeguards, they still had worrying social limitations that favored the exclusion of certain social groups[7] .

Derived from the above, it is possible to more easily notice the positive impact of the correct implementation of ESG Criteria, as happened in 2020 with IBM's facial recognition software. After it was discovered in 2018 that it operated based on race and gender bias, it led the multinational after an exhaustive investigation and in congruence with its ESG policies, to take the decision to stop researching, developing or offering its clientele technological solutions based on facial recognition, due to the potential of such software to establish surveillance systems that discriminate people based on their racial profile[8] .

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[6] Méndez López, Adalberto (2022). "*New Dimensions of Corporate Social Responsibility*," Fortuna, Business and Finance Magazine. Available at: https://revistafortuna.com.mx/2022/01/04/ombudsman-corporativo/

[7] Amba Kak, ed. (2020), "*Regulating Biometrics: Global Approaches and Urgent Questions*" AI Now Institute. Available at: https://ainowinstitute.org/regulatingbiometrics.html

[8] Editorial in El País (2020), "*IBM abandons facial recognition technology due to ethical doubts about its use*", El País newspaper. Available at: https://elpais.com/tecnologia/2020-06-09/ibm-abandona-la-tecnologia-de-reconocimiento-facial-por-las-dudas-eticas-sobre-su-utilizacion.html

In light of the pursuit of human rights, a fundamental basis for the efficient operation of the ESG Criteria, it is possible to find examples of exemplary practices, such as the International Committee of the Red Cross (CICIR) which, thanks to innovation, implemented biometric technology and facial recognition for humanitarian work. The international organization saw the advantages of this technology to make its work more efficient in countries in conflict, but realized that this information, if it got into the wrong hands, could pose serious threats such as political persecution. This led the organization to opt for a solution that would allow it to benefit from the advantages of technological innovation without compromising its work, such as tokenization and credentialization of beneficiaries[9] .

In this regard, this measure consisted in the deposit of biometric information on cards and tokens personalized to the recipients of humanitarian aid, with which they could identify themselves and verify to the ICRC whether or not they had received such aid. This, with the understanding that if the person wanted to stop being a beneficiary, this card, exclusive to the users, would be cancelled and destroyed, thus not committing the ICRC to share databases with governments that could use such information to initiate prosecutions against this population, while ensuring due compliance policies regarding the use of resources, because thanks to this measure the ICRC could verify the use and destination of humanitarian aid, without compromising the information of the beneficiary.

This last example shows how innovation and technological development can guarantee a social impact if it is guided by solid human rights criteria, being a good example of the flexibility and adaptability of the ESG Criteria to any type of organization, without meaning that they are exclusive to the business sector. Therefore, it can be said that the ESG Criteria are, consequently, that guiding measure to ensure that any company or organization not only generates profits or meets its objectives at the expense of others, but also allows them to do so while benefiting society.

IV. Final takeaways

When the innovation and multiplying capacity of the business activity is diligently directed with parameters of sustainability and social responsibility, this binomial has an impact with benefits for humanity on a large scale, without compromising its profitability. It is at this juncture where the functionality and usefulness of the ESG Criteria is demonstrated.

The current paradigm of business management is technological innovation and the ESG Criteria, whose combination allows the work of any company or organization to be more efficient, while avoiding risks for them. In other words, it requires a necessary paradigm shift in planning, giving priority to prevention over reaction, thus enabling the construction of more sustainable societies.

[9] Hayes, Ben & Marelli, Massimo (2019). "*Facilitating innovation, ensuring protection: the ICRC Biometrics Policy*" ICRC, Humanitarian Law & Policy. Available at: https://blogs.icrc.org/law-and-policy/2019/10/18/innovation-protection-icrc-biometrics-policy

There is a growing global demand, both from the consumer public and from governments, to develop measures that prioritize, but above all guarantee, sustainability as a guiding criterion for public and business activity. While innovation is the market trend, ESG criteria will be, if they already are, the most important emerging regulatory reality for business and organizational management.

In order to be highly competitive, technological development must be conceptualized and materialized under the guidance of the ESG Criteria, otherwise it may dangerously face social rejection. This can take various forms, the most common being the power of the consumer public to punish an industry by rejecting its purchases, while another will be the increased regulation and punishment of unethical, polluting or socially and environmentally adverse conduct by the State against those industries that do not seek or prevent these risks.

Finally, the ever-increasing judicialization of human rights violations committed by companies and private organizations is leading ESG Criteria to become a priority for business management as an element of efficient risk prevention. The experience of different courts around the world has shown that these litigation actions generate serious losses for companies, not only economic but also reputational, with major impacts for the industries, being the technology industry one of the industries facing a relevant degree of exposure.

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