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ESG AND DIGITALIZATION: THE IMPORTANT PRIORITIES OF MODERN ECONOMY

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In the context of modern economy, which is constantly evolving, businesses must adapt to keep up with the changing reality.Two key priorities of development in today’s economy are ESG and digitalization. The first one stands for environmental, social, and governance. It refers to a set of criteria that business entities use to evaluate their own impact on the environment, society, and to disclose the details about their corporate governance. Digitalization, on the other hand, refers to the use of new technologies and tools to transform daily operations and processes. This article will explore and reveal why ESG and digitalization are important priorities of modern economy, their impact on companies’ decision-making processes, and the potential benefits and challenges related to integrating ESG and digitalization strategies.

In 2015 member states of the United Nations adopted the 2030 Agenda for Sustainable Development, providing a shared blueprint for the development of the world in a way that implies peace and prosperity for the planet and people. In this regard the 17 sustainable development goals were declared, and it is expected that countries, including developed and developing, will take relevant actions in a framework of global partnership. Among goals there are sustainable cities and communities, responsible consumption and production, climate action, etc [1]. The achievement of the goals is impossible without active participation of all economic parties, and businesses play a significant role in this process.

At the same time, ICT industry can make a great contribution to the achievement of the goals, especially in the processes of building resilient infrastructure, as well as promoting inclusive, sustainable industrialization and of course fostering innovation. Today is a perfect time to combine digital and ESG approaches because the world is now at the beginning of the new IT era. The world has the opportunity to smartly introduce the ESG elements into developing IT tools [2].

The goals mentioned above can help to guide organizations through their path to sustainable growth, socially responsible business, and transparent corporate governance. The increase of ESG accountability is a very important component for achievement of sustainability goals. Operational costs as well as human errors may be reduced when workflows and processes are not done manually [3].

The practices of businesses attract the attention of governments, investors and other stakeholders. ESG criteria allow evaluating various aspects of companies' activities. Environmental criteria help to understand their impact on the environment, including carbon footprint, use of natural resources, etc. Social criteria evaluate how they manage relationships with staff, suppliers, clients, and the communities in which they operate. Governance criteria allow assessing leadership, executive pay, and internal controls.

ESG is important for several reasons. First, it helps businesses to realize their impact on the environment, society, and their own governance. This can lead to improved sustainability practices, long-term financial and other performance, and, thus, to increase stakeholders' trust. Second, investors now may be interested in ESG information because they may believe that firms that prioritize ESG are more likely to be sustainable in the future. Third, firms that take into account relevant requirements may also be more attractive to lenders, as they may be perceived as lower-risk borrowers.

Good ESG practices are becoming an important factor in financial decision-making. For instance, an investor who is interested in sustainable development of its partners may choose to invest in a company that pays great attention to ESG approaches over a company that does not. This investor may believe that such company is more likely will have in the future sustainable financial performance, and therefore, the investor will have a better return on investment. At the same time, lenders may be more willing to lend to firms prioritizing ESG practices because they are interested in decreasing of risks level. These firms may have lower operational risks, including environmental or social risks, which could also lead to lower risks for lenders.

Companies are usually using ESG criteria to assess their risks and opportunities. The results allow them to identify areas where they have problems and improve their relevant practices. ESG aspects also help to inform stakeholders, society as a whole, to attract and retain clients and employees for whom sustainability plays an important role. For instance, a company that produces disposable plastic goods may face increasing scrutiny and requirements from its consumers and investors because of the potential negative impact on the environment. In response to new challenges, a firm may decide to invest in research and development that will allow to create more sustainable production or to reduce its carbon footprint (by using new technologies or renewable energy sources). By doing so, a firm can noticeably improve its sustainability practices and finally improve its long-term performance.

Meanwhile, digitalization implies the process of converting information and real world's objects into a digital form. This process involves the use of digital technologies, different computers and devices, the internet services to create, store, and share digital information. The general goal of digitalization of business processes is to improve their efficiency, productivity, and introduce innovation by making relevant information and data more accessible for stakeholders and easier to manage.

Digitalization is also very important for modern businesses for several reasons. First, it enables firms to access and analyze in details large amounts of information in real-time, and this can help them to develop and apply better decisions. Second, digitalization can improve efficiency and productivity of a business by automating repetitive tasks and streamlining processes. Third, it can enable firms to reach new customers and enter new markets by using digital channels, especially social media opportunities and e-commerce platforms.

It is also very important for staying competitive in modern realities with rapidly changing environment for doing business. Companies who fail to embrace new digital technologies risk falling behind other players who are able to use digitalization to gain an advantage in competition.

Digitalization is transforming firms' approaches to development and implementation of corporate strategies. Many of them are now actively using digital technologies to create new business models and to understand better their clients' needs. Digitalization is also enabling companies to expand their reach and to enter new markets, find new customers in the different parts of the world by using digital channels, social media and e-commerce tools. For instance, a firm may use digital technologies to develop a design of new goods or services that better meet their potential clients' needs. It may also use digital channels (including social media advertising or online marketplaces) to introduce to the market and sell its goods.

By automating different business processes, digitalization may seriously contribute to the improvement of companies' operations. This can definitely lead to essential cost savings and as a result to improve efficiency of business, profitability and competitiveness of the relevant firms.

Digitalization is also becoming an important trend in financial decision-making. Firms are using digital tools to understand better their financial performance and on the basis of conclusions to provide more reasonable and efficient financial decisions. For instance, they may use digital opportunities to track and analyze their financial data in real-time. As a result, it may help them to make some necessary improvements.

It is also enabling firms to access new sources of financing, to use opportunities of crowd-funding and peer-to-peer lending services. The relevant platforms can provide them with access to necessary capital because the supply of it may be more flexible and affordable at these platforms than with traditional financing mechanisms.

Investors are also interested nowadays in digitalization when making their investment decisions. They may choose by several reasons to invest in firms which are using digital tools to create new business models and to get better information about their clients, as well as to improve their financial performance and to access through different platforms new sources of financing. Firms which embrace digital achievements can significantly improve their efficiency, productivity, and as a result profitability. They can better position themselves on the market and successfully compete in the modern realities.

It may also be noted, that digital transformation in a company can increase ESG engagement, because it changes not only the internal behavior in the organization, but also causes changes in the relationship between the company and its external stakeholders [4].

Digitalization and ESG may seem unrelated at first glance, but there are growing numbers of firms which integrate both strategies. One of the reasons for this is that digitalization can really help them to collect and analyze ESG-related data more efficiently. It can also better inform their decision-making processes. For instance, digital tools can be used to track a certain company's carbon emissions or to monitor its social impact.

At the same time, ESG practices can also influence a firm's digitalization strategy. It may prioritize investments in new technologies, renewable energy sources as part of its ESG strategy. Thus, this preference may lead a firm to invest in digital technologies which will help it to achieve its goal and implement the relevant tasks more efficiently.

The digital transformation can underpin a successful ESG strategy in several ways. The first one implies helping the processes of necessary data evaluation and monitoring by decreasing limits on data harvesting and processing, including supply chain data. The second one is related to superior risk assessment, prediction and forecasting. Modern achievements in artificial intelligence essentially help firms to predict ESG risks, which were unforeseen previously. That is why 80% of G20 firms recently reported that they use artificial intelligence when analyzing and developing risk scenarios. And the third one is associated with an increase of reporting transparency. It is very important, because of ESG reporting complexity, taking into account many aspects related to investors, regulators and a society, problems of green and social washing [5].

Thus, integrating ESG and digitalization strategies can have different potential benefits. First of all, it can help firms achieve their long-term goals more efficiently. Digital tools are helping them to track and analyze their ESG data in real-time, which can provide decision-making processes with necessary information and help them in identification of areas where improvements of performance can be reached. Artificial intelligence and the internet of things are rapidly developing in recent years. They are capable of tracking and measuring each individual asset and the operations of company due to the use of on-site smart sensors. All the information gathered can be populated easily, and often automatically, into relevant reports [6].

This integration can also improve a firm's reputation and stakeholder engagement. Participants of economic relations who prioritize ESG and use digital tools to achieve their goals are likely to be viewed more successful and favorable by different stakeholders.

At the same time, the integration can create new business opportunities. For instance, the relevant firms may be able to enter into new markets or attract new clients who value sustainability. And this can be a reason of increased profitability of firms over the long-term.

However, companies may face some challenges associated with implementation of ESG and digitalization strategies. Some data management issues may arise due to the fact that companies have to collect and process comprehensive data on their environmental and social impacts, governance aspects, which can be very complex and resource-intensive. It is necessary to identify and manage potential risks, when collecting data, because of the risks associated with data privacy, ethical sourcing and cybersecurity can arise.

Modernization of technology infrastructure often may need significant investments in relevant systems. Implementation of the strategies also requires a shift in organizational culture and the readiness to upgrade workers' skills. This implies the formation of a sustainability-focused mindset among staff, collaboration between different departments, providing trainings on digital technologies. Companies, at the same time, need to provide transparent and meaningful communication with their stakeholders and take into account regulatory framework, surrounding ESG and digitalization, which is evolving rapidly.

Addressing the challenges above may require a well-defined implementation plan. It is important for companies to proactively address them to have a successful integration of ESG and digitalization strategies, and to reap as a result the benefits associated with sustainability and technological improvement.

Overall, good ESG and digital practices improve firms' reputation and also stakeholders' engagement. They can also create new business opportunities. All of these are extremely important for ensuring competitiveness of companies in today's economic realities.

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