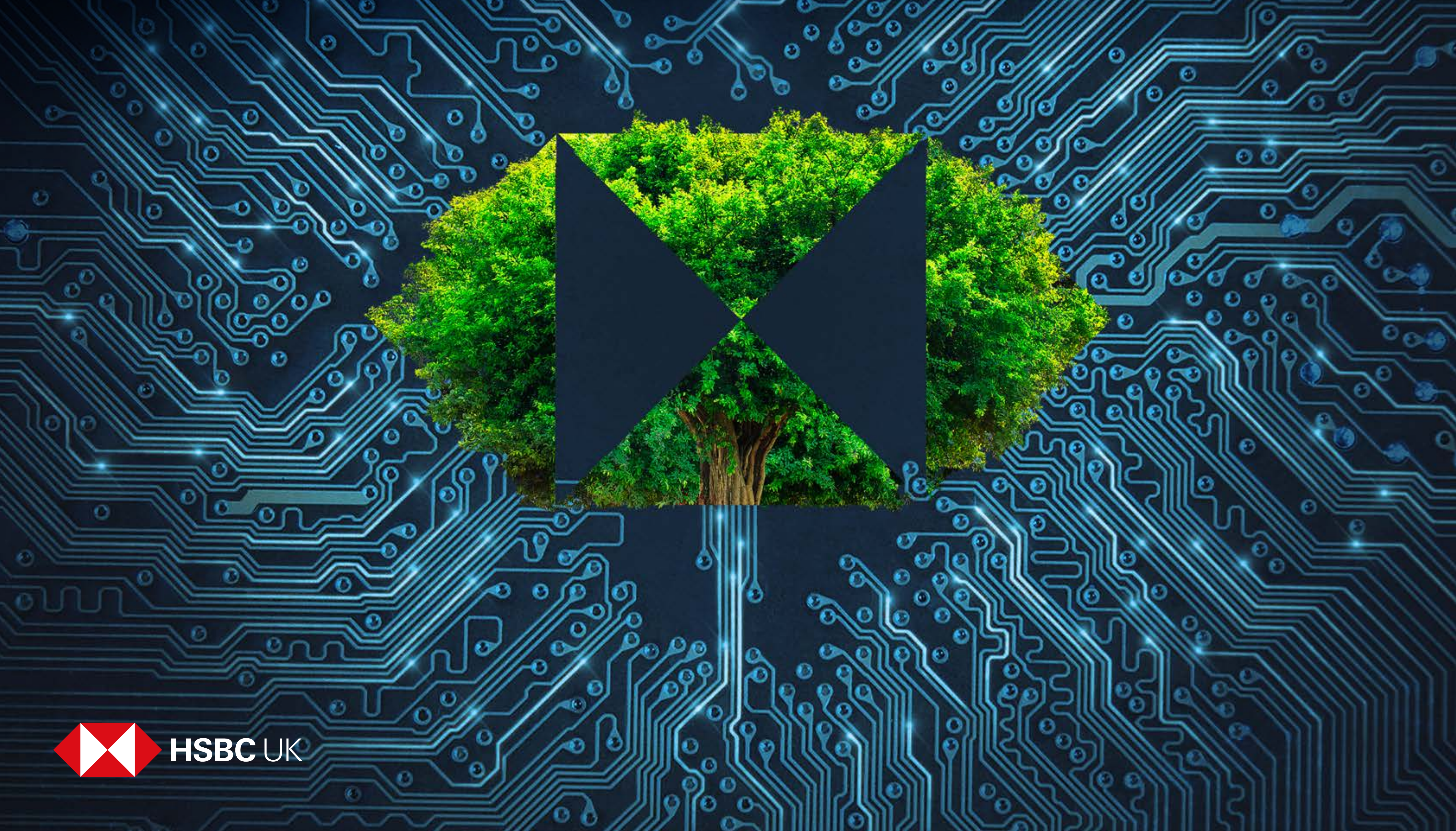
Making a positive difference

How tech can grasp the nettle of ESG

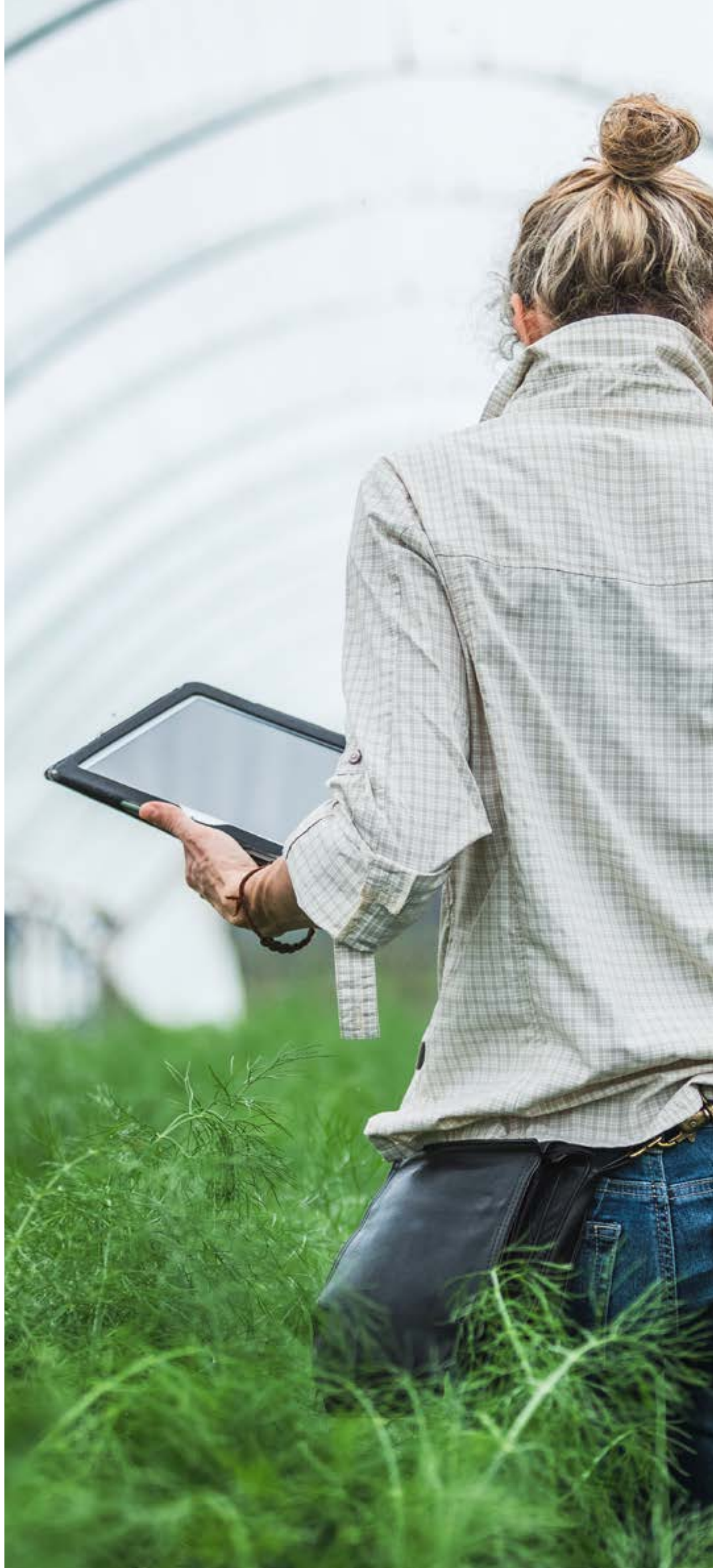


HSBC UK

Introduction

Call it ESG, call it sustainability – today every business must prove itself to be working for purpose as well as profit. The tech sector is no different, and faces specific challenges in the form of its environmental impact and its efforts to better reflect the make-up of society.

In our latest webinar, Roland Emmans, Head of Tech Sector at HSBC UK, caught up with the latest thinking on these topics and asked: where should tech businesses start with ESG? Roland was joined by the CEO of cloud services provider iomart, Reece Donovan, and HSBC UK's Head of Sustainable Finance, Rob King.



1 › A lever for growth

The positive power of sustainability

Cloud services provider iomart has embarked on a sustainability journey, with net zero emissions among its goals. There were multiple catalysts, including questions asked by stakeholders at the company's roadshows. But at the root was simply the belief of the business that sustainability was "the right thing to do", according to CEO Reece Donovan.

Few businesses can ignore the momentum of sustainability. For some, the movement chimes with their existing values. For many, it simply makes sound business sense to differentiate themselves and their products by demonstrating their sense of societal purpose.

The latest HSBC Navigator report found that more than three-quarters (78%) of UK firms expect to grow sales over the next year as a result of their increased focus on sustainability.[1] And 73% have plans to introduce net zero emissions goals to their own operations and across their supply chains. "Our customers very much see sustainability as a tool for growth," says Rob King, Head of Sustainable Finance at HSBC UK.

There are negative pressures too. For some, climate change presents an existential threat. While they might not be at imminent physical risk from flooding or wildfires, firms might find themselves exposed to 'transitional risk'. The economic disruption resulting from global heating will leave some sectors vulnerable, and render some business models unviable.

Investors and consumers now favour sustainable businesses. And with the UK government consulting on plans to require big and listed businesses to disclose the risks they face from climate change as soon as 2022, it will soon become simpler to tell how brands are performing in this space.[2]

Whatever the drivers, action on sustainability is likely to be well received. Among stakeholders of iomart, there is wholehearted support for the firm's recent initiatives, according to Donovan. "Our people want to work for a great company with a great reputation; our investors want to invest in businesses that take sustainability seriously; and our customers want to associate themselves with ethical brands," he says.

> **"Our people want to work for a great company with a great reputation; our investors want to invest in businesses that take sustainability seriously."**
>
> Reece Donovan, CEO, iomart

1 https://www.about.hsbc.co.uk/news-and-media/uk-firms-expect-focus-on-sustainability-to-deliver-growth
2 https://www.reuters.com/world/uk/uk-proposes-requiring-businesses-disclose-climate-risks-by-2022-2021-03-24/

2 › Everything starts with E

For the quickest ESG wins, look to the environment

Environmental concerns are just one piece of the sustainability picture, albeit a critical one. The other broad issues are grouped under societal impact and governance. Together they make up the increasingly ubiquitous ESG acronym – covering topics as diverse as energy efficiency, waste management, staff engagement, community relations, boardroom diversity and ethical practices.

Given such a breadth of factors to address, tech businesses not already embarked on an ESG journey could be forgiven for wondering where to start. This is a dilemma that iomart has struggled with, Donovan admits.

"The important thing is just to make a start," he declares. "For a listed business, it's essential to be taking a leadership role and setting a good example. For us it is an unavoidable topic: we have to set some metrics and hold ourselves to them."

iomart has taken a twin approach, preparing a long-term roadmap while making short-term gains such as acquiring renewable energy certificates. The business is aiming to achieve carbon neutrality, though it has yet to fix a timetable.

Donovan underlines the importance of finding the right experts to support this effort: "There were lots of things we were doing well, but when we started to engage with external experts, we discovered there's a lot to learn."

While iomart is tackling issues across the ESG spectrum, it's the 'E' that offers the quickest wins. "The faster you can make progress, the better the outcome. And we can make immediate impact on the environment by buying clean power and managing the way we consume it," Donovan says.

HSBC's Rob King echoes the importance of environmental changes, which can be as simple as switching to LED lightbulbs. Cheap and easy to install, they pay for themselves within three to five years. An increasing number of HSBC customers are also seeking to fund on-site renewable energy schemes, such as rooftop solar panels: "While these are not as economically attractive with the removal of the feed-in tariffs, they still offer a reasonable payback period of around 10 years."

Establishing a baseline and monitoring progress is critical. Among HSBC UK customers surveyed, 28% are measuring their energy usage, 21% measure carbon emissions and 20% measure packaging materials and waste.[3]

> **"The faster you can make progress, the better the outcome."**
>
> Reece Donovan, CEO, iomart

3 https://www.about.hsbc.co.uk/news-and-media/uk-firms-expect-focus-on-sustainability-to-deliver-growth

3 › Tech's hot potato

How to curb the appetite of data centres?

When tech companies consider their environmental impact, one aspect looms large. The power consumption of data centres is drawing an increasing amount of attention. There are fears that soaring demand for cloud services, and the associated storage devices and cooling systems, will put ever more pressure on global energy resources.

Of course, data centre use is not confined to tech firms. One expert has calculated that there are some 80,000 server rooms of different shapes and sizes in the UK, together eating up electricity worth £4.6bn a year – over 11% of electricity generated.[4]

The case against data centres can be overstated, however. Developments in hardware and software are driving efficiencies. According to a recent US study, a sixfold leap in global computing demand between 2010 and 2018 led to a relatively puny 6% rise in energy use.[5]

Nevertheless, continuous innovation is critical to curb data's energy appetite. To that end, Glasgow-based iomart is taking part in a pilot for the city's hosting of the COP26 climate summit this year. It is working with a Glasgow University spin-off company on ways to convert energy released from data centres into clean energy for reuse.

Donovan points out that businesses can drastically reduce the carbon output of their IT operations by moving from infrastructure in on-site server cupboards and machine rooms to more efficient, large-scale data centre operators. A study by Amazon Web Services suggested these shared centres typically use only 16% of the power required by on-site centres to perform the same computations. It put the potential carbon savings of outsourcing at 88%.[6]

Energy spent on cooling is one of the main factors in data centre inefficiencies, as measured by power usage effectiveness (PUE). A PUE of 1 is the ultimate objective, but hard to achieve, says Donovan. Above 1.3, efficiency becomes seriously compromised: "Tech businesses need to focus on driving capital investments and efficiency improvements to bring that down to a more sensible number."

Bold innovation is helping here too – Microsoft has even experimented with sinking a data centre below the freezing seas off Orkney.[7] Back on dry land, artificial intelligence holds promise. "AI is itself driving increased data usage, but it can also help us find ways to optimise data centre use," says Donovan.

> **"Tech businesses need to focus on driving capital investments and efficiency improvements."**
>
> Reece Donovan, CEO, iomart

4 https://www.datacenterdynamics.com/en/opinions/data-centers-reaching-net-zero-in-the-uk/ 5 https://www.datacenterdynamics.com/en/analysis/huge-data-center-efficiency-gains-stave-energy-surge-now/
6 https://www.aboutamazon.com/news/sustainability/reducing-carbon-by-moving-to-aws 7 https://news.microsoft.com/innovation-stories/project-natick-underwater-datacenter/

4 › Paint the big picture

Going beyond environmental targets

Energy gains might provide the most easy-to-reach fruits for tech firms to grab. But companies shouldn't ignore the S and G elements of ESG, even if they're harder to tackle. Being able to demonstrate a "holistic approach" is important, says King.

It's especially relevant when a business is using one of the increasingly popular sustainable finance products based on ESG performance. Borrowers benefit from better margins linked to their progress against agreed KPIs. These are bespoke to each agreement, but often linked to carbon reduction.

"Whenever we're involved in a financing of this kind, we encourage clients to look at a broad range of KPIs," says King. "Whether its for financing or just reporting to the market, you need to paint as comprehensive a picture as possible about what you're doing."

After environmental factors, diversity is one of the highest-profile ESG factors – and among the thorniest for the tech sector. Women hold less than a fifth of tech jobs, for example, despite making up half the workforce. And while the overall proportion of black and ethnic minority IT professionals is relatively high, only 32% are in managerial or supervisory positions, compared to 43% of white employees.[8]

There are signs of progress. New postgraduate conversion courses in AI and data science across English universities have signed up bigger proportions of female and ethnic minority students.[9]

Donovan acknowledges the sector faces a long haul to make its workforce more representative. The topic is increasingly aired in recruitment exercises, he says: "Candidates want to understand what we're doing to bring on talent, and how we're investing in diversity from top to bottom. Younger people feel very passionately about this, and if we don't listen and act, we won't retain them."

Roland Emmans sees this as an opportunity for the sector to tackle its skills shortage. "We have a fight for talent because there aren't enough people in tech with the right skills," he points out. "Creating a more diverse culture could help us to address that."

> **"We have a fight for talent because there aren't enough people in tech with the right skills. Creating a more diverse culture could help us to address that."**
>
> Roland Emmans, Head of Tech Sector, HSBC UK

8 https://www.bcs.org/more/about-us/press-office/press-releases/diversity-in-tech-the-awkward-conversation/

9 https://www.fenews.co.uk/press-releases/70794-new-analysis-shows-big-boost-in-numbers-of-women-enrolling-on-ai-and-data-science-courses

Summary

How should tech businesses go about improving their sustainability performance? Roland Emmans sums up some of the key points from the webinar experts.

- **Make a start** – Take action to get your ESG journey under way, ensuring you involve and inform all stakeholders
- **Make an impact** – Choose some targets that will deliver short-term results, most likely in energy reduction
- **Be holistic** – At the same time, set long-term goals and focus on social and governance factors as well as environmental ones
- **Grasp the big issues** – Consider how your business could perform better on prominent topics such as data centre energy use and workplace diversity
- **Share experiences** – Lead by example, talk to your peers, and exchange examples of challenges and strategies.

To view the webinar in full, click here

If you would like to discuss any of the topics raised here, please contact the Tech Sector team directly:

https://www.business.hsbc.uk/corporate/technology

Roland Emmans,
Technology Sector Head
UK Corporate Banking
HSBC UK Bank
Email: roland.j.emmans@hsbc.com
Tel: +44 (0) 7387 245 202

Or speak to your local Relationship Director.