

ESG approach as a driver of innovation in organizations

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We are currently living in a critical era, where climate change caused by human action has generated an unprecedented environmental crisis. Extreme climatic events, such as the flooding we are witnessing in Rio Grande do Sul, will become increasingly frequent. In view of this, the development and use of sustainable technologies and practices are essential for protecting the environment and safeguarding the existence of future generations.

In a context of energy transition, the importance of activities in a "zero carbon" economy is becoming clear, fostering economic growth and job creation in emerging sectors of this new "green economy". The Environmental, Social, and Governance (ESG) approach has therefore emerged as a fundamental tool for promoting sustainability in companies.

In environmental terms, ESG focuses on the adoption of environmentally appropriate practices by companies in order to reduce greenhouse gas emissions and environmental degradation. These practices involve energy self-sufficiency policies, with the implementation of energy generation from renewable sources (such as wind, photovoltaic or biomass), as well as policies to improve operational efficiency, by rationalizing the use of resources and reusing waste and/or by-products.

In social terms, ESG focuses on the adoption of socially responsible business practices, encompassing fair working relationships (also extending to issues of diversity and inclusion) that guarantee a healthy environment for all employees, as well as prioritizing a respectful relationship with all stakeholders (customers, competitors, investors, suppliers and employees) and society in general, through local development initiatives and engagement with the community in which the company operates.

Governance, on the other hand, involves a set of practices and rules that establish the guidelines for companies' operations, with the aim of ensuring that the business is conducted in an ethical, responsible and transparent manner. Respect for ethical issues, compliance with regulations (accounting, environmental, labor and/or the sector in which the company operates) and business risk management weave a solid governance framework, earning the trust of investors and consumers, which helps with the company's long-term prospects.

Recent studies have shown that investment in ESG practices is a driving force behind company development and a precursor to corporate technological innovation. The effort made to meet the requirements established by the adoption of an ESG framework leads companies to improve their managerial efficiency in various aspects and at various organizational levels, whether operational, tactical and/or strategic. In addition, the adoption of ESG practices favors the acquisition of loans, since it facilitates access to specific credit lines, which usually have better conditions in terms of rates and payment terms. Other advantages include improved market expectations for the business,

improved company image, improved attraction and retention of talent for the organization and greater company resilience to geopolitical noise in terms of market prices.

In the environmental context, Brazilian companies are in a privileged position given the country's climate, which favors the technical and economic viability of generating distributed energy from renewable sources. However, from a social and governance point of view, the recent accusations of slave labor, as well as the proven tax fraud committed by a large retail company, make it clear that we have a long way to go. Brazil is a continental country with great cultural, climatic and economic diversity, which in itself makes it difficult to implement any policy or action, whether public or private, to encourage innovation on a large scale. Furthermore, as we are still a developing country, we have a market that is not yet mature. Allied to this, Brazil has a number of shortcomings in basic sectors such as sanitation, security and infrastructure, as well as in terms of training skilled labor and technological development, which hinders the country's full development.

In such a challenging context, the pursuit of social justice can be an effective strategy for enabling the country's economic development, paving the way for the construction of a more innovative environment for companies. Thus, adopting practices linked to the ESG approach can not only boost innovation, but also improve social well-being, making this approach a crucial pillar in our journey towards a healthier and more sustainable planet.

Further Reading

ON THE RELATIONSHIP BETWEEN ESG PRACTICES AND INNOVATION IN COMPANIES:

1. YANG, Xiangyang et al. ESG performance and corporate technology innovation: Evidence from China. **Technological Forecasting and Social Change**, v. 206, p. 123520, 2024.
2. ZHOU, Hailing; LIU, Ji. Digitalization of the economy and resource efficiency for meeting the ESG goals. **Resources Policy**, v. 86, p. 104199, 2023.

ON THE DISTRIBUTED GENERATION OF ELECTRICITY FROM RENEWABLE SOURCES IN THE BRAZILIAN CONTEXT:

1. ROCHA, Luiz Célio Souza et al. A stochastic economic viability analysis of residential wind power generation in Brazil. **Renewable and Sustainable Energy Reviews**, v. 90, p. 412-419, 2018.
 2. ROCHA, Luiz Célio Souza et al. Photovoltaic electricity production in Brazil: A stochastic economic viability analysis for small systems in the face of net metering and tax incentives. **Journal of Cleaner Production**, v. 168, p. 1448-1462, 2017.
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