

GBS Insights: Socially Sustainable Outsourcing and ESG

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Introduction

This white paper is a guide for Shared Services and Global Business Services (GBS) professionals on Environmental, Social, and Governance (ESG), with a particular focus on Social Sustainability in outsourcing.

We will explore wider ESG drivers and frameworks, digging into Social Sustainability imperatives GBS functions and their Business Process Outsourcing (BPO) partners. In this piece we will consider prevalent metrics and the use of data, making recommendations on steps for GBS and Shared Services functions to implement together with their outsourcing solution providers.

About the Authors

This paper was created in collaboration between Alistair Niederer, ADEC Innovations and Global CEO Alliance (GCEOA).

About Alistair Niederer

Alistair has over 20 years of experience in the BPO industry, including senior leadership roles at Teleperformance, Sutherland, TTEC and the Ember Group.

Alistair is focused on turning operational insights into practical steps for BPO providers and their clients. Alistair's latest venture, NeedleRock, taps into his extensive network and experience to deliver a positive impact through ESG and BPO advisory and services.



About GCEOA

The Global CEO Alliance (GCEOA) is a non-profit with one call to action - bringing about shared sustainability and transformative impact. GCEOA provides global sustainable solutions that enhance the health, wealth, and economic prosperity of all.



About ADEC Innovations

ADEC Innovations is a Global Business Services (GBS) partner focused on Sustainability, ESG, Resilience, Adaptability, and Impact. It is a global enterprise providing a wide range of solutions that encompass Shared Services, outsourcing, and other specialised capabilities to serve multiple business units and stakeholders.

ADEC Workforce is dedicated to delivering efficient and cost-effective outsourcing solutions across Finance & Accounting, HR, Customer Care & Technical Support, and Process



Table of Contents

Introduction	01
About the authors	01
About Alistair Niederer	01
About ADEC Innovations	01
About GCEOA	01
Background	03
Environmental Social & Governance (ESG)	03
Environmental	03
Social	03
Governance	03
Social Sustainability	04
Impact Sourcing and GBS	04
Impact Sourcing and BPO	04
Business Processing Outsourcing	05
BPO Clients	05
BPO Providers	05
Evolving GBS and BPO practices	05
The ESG Alignment Imperative	06
The interlink between GBS and BPO ESG practices	06
ESG Landscape Overview	07
ESG Frameworks	07
ESG framework, bodies and directives	08
Materiality Assessment	10
Social Sustainability within the Frameworks	10
Data-driven reporting and Impact	11
Discussion and Recommendations	12
Challenges of data-centric approaches	12

Background

Environmental Social & Governance

ESG goals and frameworks are important tools. They are being adopted by companies into policies and operational and disclosure practices to demonstrate corporate responsibility, create additional value, measure sustainability and ethical operations, and make a positive impact.

A company's ESG performance can have a significant impact on its reputation, brand value, investment quality, and ultimately its bottom line. Companies that implement ESG strategies and prioritise environmental and social stewardship can improve customer loyalty, reduce risks, increase operational efficiency, and simply create more value.

ESG evaluations are becoming mandatory in some jurisdictions, with regulators compelling corporate entities to report on their sustainability performance and overall impact. For example, the Non-Financial Reporting Directive (NFRD) set up in 2018 as an EU regulation required about 12,000 companies to disclose non-financial information in their annual reports to enhance transparency and accountability by mandating the reporting of ESG factors.

As of January 2023, NFRD was replaced by the Corporate Sustainability Reporting Directive (CSRD) with stronger rules for social and environmental regulation. A broader set of large companies, as well as listed SMEs, are required to report on sustainability – approximately 50,000 companies in total.

GBS and Shared Service functions are taking an important role in ESG reporting through CSRD, both as functions contributing to ESG practices and as holders of data used in reporting.

Environmental

The "E" in ESG refers to a company's environmental sustainability, including its efforts to reduce its carbon footprint, manage waste and pollution, and conserve natural resources.

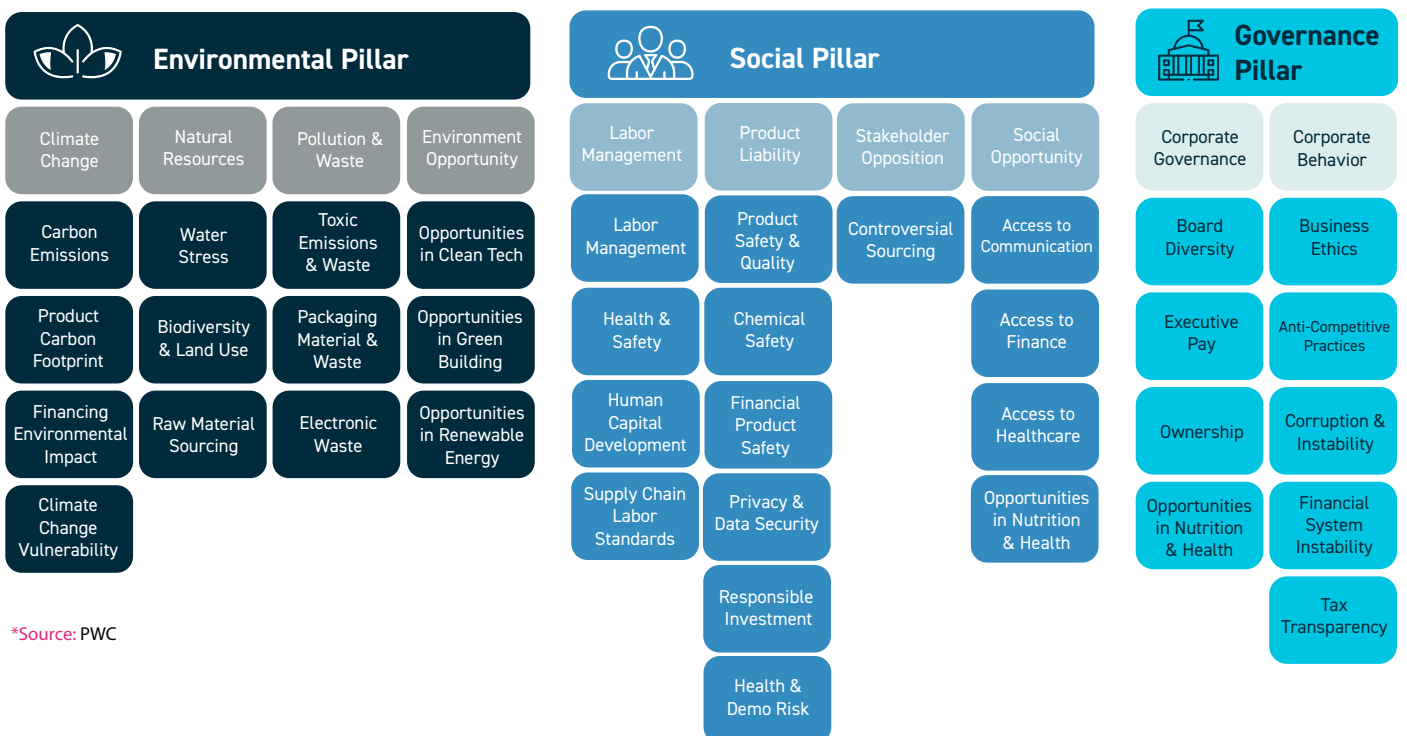
Social

The "S" refers to a company's social sustainability, including its practices related to human rights, labour standards, diversity and inclusion, employee health and safety, community development, and customer satisfaction.

Governance

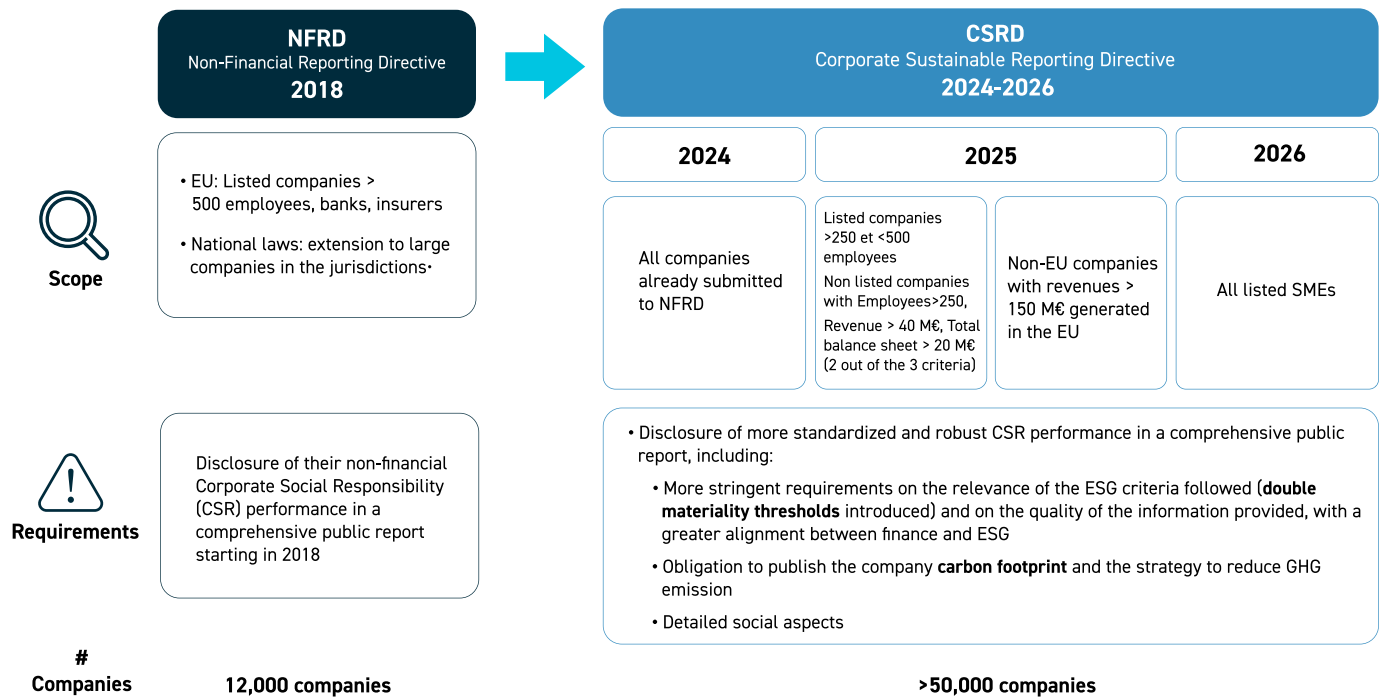
The "G" refers to a company's governance practices, including its management structure, board diversity, executive compensation, and compliance with regulations and other business ethics standards.

Evaluation and reporting areas for ESG



*Source: PWC

Indicative timing and criteria for CSRD



Social Sustainability

Previously overshadowed by Environmental factors, Social Sustainability is now gaining momentum. This is particularly important to organizations operating a GBS model. Companies strive to understand and improve their social impact across their employee base and the communities in which they exist and to better define how to engage with stakeholders, employees, customers, and suppliers.

Examples of Social Sustainability Factors

- Diversity, Equity, Inclusivity, and Belonging (DEI&B)
- Employee working conditions
- Employee health and well-being
- Community impact
- Training, upskilling, and career development
- Impact Sourcing

Social Sustainability efforts include implementing enhanced labour practices, providing additional education and training, conducting community engagement activities where the firm operates, or even fostering beneficial or ethical behaviour within their supply chains.

Impact Sourcing and GBS

Viewed as a subset of Social Sustainability, Impact Sourcing is the purposeful use of team building and outsourcing to generate employment opportunities and improve the economic conditions for disadvantaged people and communities. Impact Sourcing allows GBSs to purposefully utilise their supply chains to achieve social benefits, such as alleviating poverty.

When outsourcing, Impact Sourcing can create a virtuous circle:

- **GBS functions benefit** from an outsourced model that delivers value and ethical employment.
- **People benefit** from skills development and economic opportunities.
- **Local communities benefit** from injection of capital that comes with employment and skill sets attract further employment and investment opportunities.

Impact Sourcing and BPO

ADEC Innovations has a long history of Impact Sourcing, bringing employment opportunities to remote communities in Kenya, the Philippines and running onshore programmes. Our Impact Sourcing approach delivers direct and measurable social benefits for ESG reporting.

ADEC Innovations is listed among Impact Sourcing Specialists in Impact Sourcing State of the Market Report 2023, Everest Group, 2023.

Business Process Outsourcing

How does ESG relate to GBS and outsourcing and what are the industry-specific considerations? BPO is a business practice where a company ('Client') outsources activities to a third-party service provider ('Provider'), allowing the buying company to focus on its core activities.

BPO Clients

BPO clients come from virtually any industry, and Shared Service and GBS functions increasingly feature among BPOs' client base. This is frequently due to outsourcers' ability to support a range of Shared Service functions such as Customer Services, Finance & Accounting, HR and other administrative and data-related processes.

GBS drivers for outsourcing

- Reducing costs
- Increasing productivity
- Providing greater flexibility
- Diversifying in supply chains
- Lowering risk
- Building capacity
- Extending hours of cover
- Accessing specialised skills and expertise

BPO Providers

BPO providers support non-core but business-critical processes in their clients' organisations. These same processes across finance and accounting, HR, IT, procurement, customer service and other administrative tasks frequently fall within GBS functions making them perfect for BPO support.

BPO solutions require the latest technology, excellent processes, and a range of expert management practices, but at their core, they are delivered by people. And most providers operate a people-centric business model with skilled employees delivering quality services. Social Sustainability metrics support this imperative and the interests of both Clients and Providers.

Evolving GBS and BPO practices

Providers constantly adopt practices to ensure compliance with applicable legal and regulatory requirements. Evolving alongside GBS and Shared Service functions, leading BPOs refine their solutions to align with shifting priorities in operational metrics, data management and protection, quality control, privacy, and security.

Over the past two decades, outsourcing services have gone global to satisfy GBS requirements for 24/7 support, increased expertise, and cost reduction. Offshoring to countries like India, the Philippines, or Africa fulfills these requirements. However, venturing into new territories presents fresh hurdles for Social Sustainability.

With the outsourced operations increasingly being considered in the same light as any other part of the client's supply or value chain. This creates a need to understand ESG performance, as outsourcing providers are important GBS partners and a key part of supply chain ESG metrics.



The ESG alignment imperative

As integral part of the company-wide ESG strategy, GBS functions play a significant role in contributing to its objectives. Likewise, BPO providers are part of the supply chain. They, too, bear responsibility for meeting sustainability targets on behalf of their clients.

The interlink between GBS and BPO ESG practices

Providers' role in the supply chain, and the critical nature of many BPO services, create an interdependency between clients and providers ESG strategies. While the people-centric nature of GBS processes and outsourcing services leads to a greater focus on Social Sustainability requirements. This is reflected by ESG criteria forming an important part of the supplier selection and retention process.

- BPO companies provide business critical functions on behalf of clients
- BPO services have a key position in the client's supply chain
- BPO providers' ESG performance can underpin or undermine client's ESG commitment
- The people-centric business model of BPO emphasises Social Sustainability
- Near/offshore sourcing presents impact and Social Sustainability opportunities and risks
- BPO providers' access to clients' secure data requires strong governance

BPO service providers need to recognise that their ESG performance goes beyond their own contribution to sustainability, but contributes to their clients' ESG performance. Failure to act upon this is likely to impact client relationships and business performance.

BPO providers and clients need a practical approach to understanding and measuring ESG performance. The range of options for businesses to approach their ESG and Social Sustainability strategy is very broad, requiring further guidance on how to fill the gap.



ESG Landscape Overview

ESG frameworks and the criteria they contain layout disclosure or reporting systems that business leaders and investors use to evaluate the overall sustainability performance of a business or investment and to make informed decisions about that initiative.

ESG disclosure and reporting systems have become increasingly important to stakeholders beyond business leaders and investors. Now consumers, employees, and other parties are demanding transparency and accountability from companies on their environmental and social impact.

The ecosystem of ESG frameworks and metrics for measurement of Social Sustainability is diverse. [KPMG's Sustainable Investing report of 2020](#) estimated that there were upwards of 160 different ESG frameworks, rating systems, and data products worldwide.

ESG Frameworks

Within the frameworks there are many differences, with some being disclosure systems or reporting mechanisms, others voluntary or compulsory, and some just guidance or recommendations. Each, however, has their own lexicon, areas of coverage, and prevailing metrics for measuring Socially Sustainable business behaviour. First however, let us look at the controlling frameworks and the ecosystem for ESG reporting and disclosure systems.

ESG framework, bodies, and directives

<p><u>Sustainable Development Goals (SDG)</u></p>	<p>A set of 17 global objectives established by the United Nations to address pressing social, economic and environmental challenges. They aim to end poverty, protect the planet, and ensure prosperity for all by promoting a sustainable and inclusive future.</p> <p>While not a pure ESG framework, SDGs set out many desired social outcomes and targets that can be translated into corporate action.</p>
<p><u>UN Global Compact</u></p>	<p>A related UN initiative which calls upon companies to align their strategies and operations with universal principles on human rights, labour, environment and anti-corruption, and take actions that advance societal gains.</p>
<p><u>International Labour Organization (ILO)</u></p>	<p>A United nations agency that promotes social justice and decent work worldwide. It sets Labour Standards, provides technical assistance and facilitates dialogue among governments, employers and workers to advance fair and productive employment opportunities.</p>
<p><u>Organization for Economic Cooperation and Development (OECD)</u></p>	<p>An international organisation that promotes economic growth, stability, and improved living standards. It facilitates policy coordination among member countries and has issued recommendations and Policy guidance on ESG practices.</p>
<p><u>Corporate Sustainability Reporting Directive (CSRD)</u></p>	<p>An EU proposed regulation that aims to enhance the quality, consistency, and comparability of sustainability reporting by companies. It seeks to expand the scope of reporting requirements and introduce standardised disclosure formats to improve transparency and enable better decision-making for stakeholders.</p>
<p><u>United Kingdom's ESG Strategy</u></p>	<p>The United Kingdom's ESG Strategy aims to promote transparency and trust in the financial sector with target outcomes and a plan of action to support sustainable environmental action.</p> <p>It is not just environmentally minded, calling for positive social and governance approaches in corporate activity such as the promotion of diversity and inclusion in hiring, paying a living wage, and supporting fair taxation and sustainable supply chains.</p>
<p><u>Carbon Disclosure Project (CDP)</u></p>	<p>A global environmental reporting system that allows companies and cities to measure and disclose their environmental impact, specifically focusing on carbon emissions. It provides a platform for organisations to voluntarily report their climate-related data, enabling investors, policymakers, and the public to assess and compare their environmental performance.</p>

<p><u>Global Reporting Initiative (GRI)</u></p>	<p>An international framework that sets guidelines for sustainability reporting by organisations. It provides a comprehensive and standardised approach for reporting on economic, environmental, and social performance, helping companies measure and disclose their sustainability impacts to stakeholders.</p>
<p><u>Sustainability Accounting Standards Board (SASB)</u></p>	<p>An organisation that develops industry-specific sustainability accounting standards to guide companies in disclosing financially material sustainability information.</p> <p>SASB standards provide a framework for reporting ESG factors relevant to their specific industries, enabling more effective communication and comparison of sustainability performance.</p>
<p><u>International Financial Reporting Standards (IFRS) Foundation</u></p>	<p>An international organisation that provides a globally recognized framework for financial reporting, enhancing transparency, comparability, and reliability of financial statements across different countries and industries.</p>
<p><u>Task Force on Climate-Related Financial Disclosures (TCFD)</u></p>	<p>A global initiative that promotes voluntary disclosure of climate-related risks and opportunities by companies. It provides a framework for companies to assess and disclose climate-related information, helping investors and stakeholders make informed decisions regarding climate-related financial risks.</p>

Mostly, ESG reporting frameworks are voluntary. Each framework can help business leaders to identify the issues that need to be monitored within their firms and how best to track and disclose that information. KPMG reports that as of **2022** the predominant ESG systems globally are the GRI framework, SASB standard(s), and jurisdictional stock exchange requirements in certain African and Asian regions.

The choice between frameworks is often based on a company's specific ESG objectives but can be influenced by such factors as the region in which they operate or the desired audience they hope to reach. Businesses can even use more than one framework. Regardless of chosen framework, GBS will be part of company-wide reporting and its BPO providers need to align with the chosen reporting approach and required metrics.

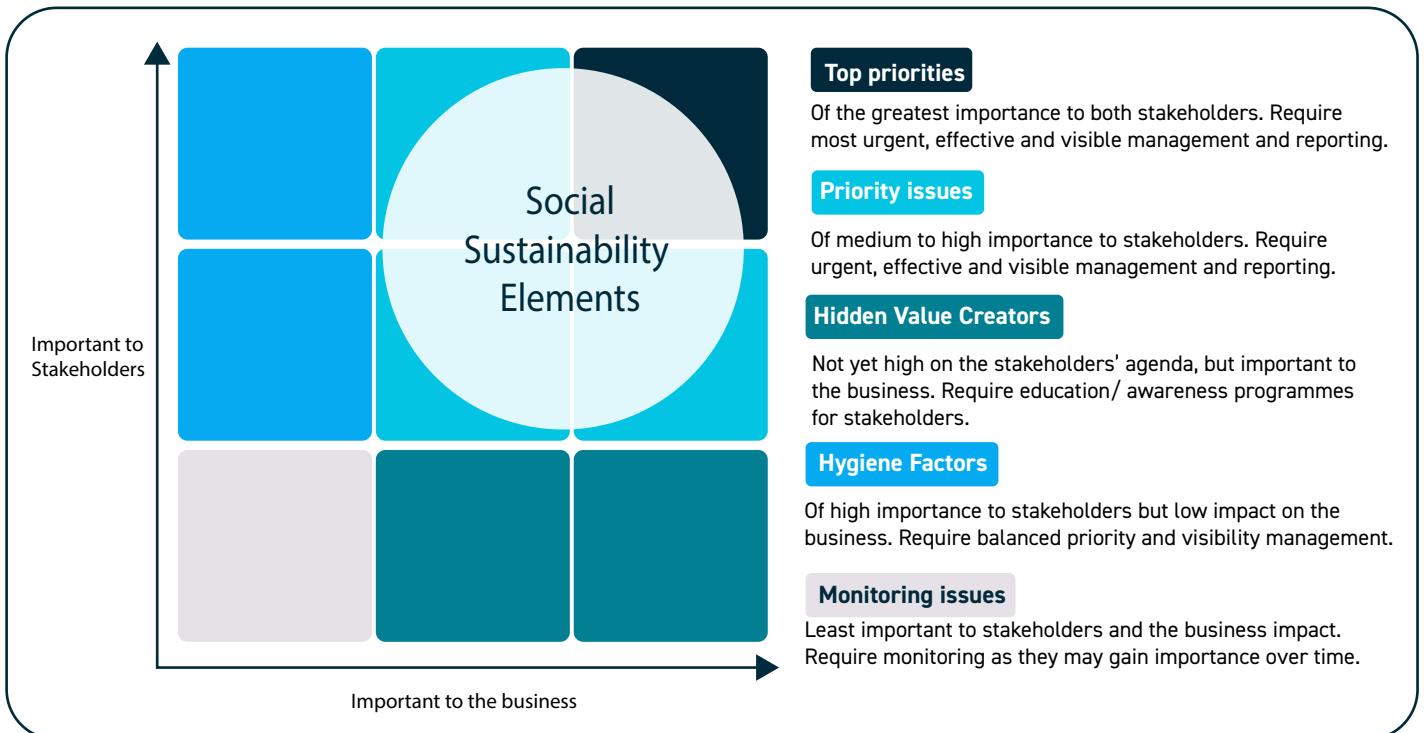


Materiality Assessment

Once the company has chosen a preferred framework, they must assess the materiality of various E, S, and G factors to create an impactful sustainability strategy. The materiality assessment determines the importance of various factors to ALL stakeholders, including employees and clients, and their potential business impact.



Materiality Assessment Matrix



While Social elements would have previously occupied the Hygiene or Hidden Value Creator areas, within GBS functions and BPO practices, they are quickly shifting to the top right corner to become Priority Issues or Top Priorities for stakeholders.

Social Sustainability within the Frameworks

Being people-centric, GBS functions hold great potential for making a positive impact on communities and individual lives. In partnership, BPO providers and clients can create employment situations that serve strategic and operational needs while also supporting the people and the planet.

To do this, clients and providers must first assess whether there are binding Social Sustainability obligations in the jurisdiction where their business operates, for example:

- Are there labour laws that control the wages or working hours of employees?
- Must firms provide certain benefits or time off to staff?
- Are there anti-discrimination laws or other diversity concerns?
- When and how does a firm report or disclose these Social Sustainability details?

In the absence of binding legislative or regulatory requirements, or if the client doesn't have a select framework, BPOs can choose their own reporting approach. Different frameworks, like GRI and SASB, emphasize specific Social Sustainability metrics, while others, like TCFD, prioritize environmental performance. Understanding the common elements across these frameworks is crucial.

Data-driven reporting and impact

Regardless of the chosen reporting framework, data lies at the heart of ESG activities and reporting. To create benchmarks, KPIs and consistent reporting data gathering, cleaning, managing, and reporting is required. It can be hard to get data on social aspects without it becoming a superficial exercise. However, many reporting standards would look at the same data points.

Examples of Social Sustainability criteria organisations need to collect data and report on include:

- Diversity and Inclusion
- Occupational, Health and Safety
- Employee Development
- Employee Engagement and Wellbeing
- Protection of Human Rights
- Talent Recruitment and Retention
- Corporate Social Responsibility Practices

And within each of these criteria, there is a plethora of information to uncover. Usually, social data gathering and management will involve many touch points within the organisation, from HR to operations and marketing. Here is an example of what a data-gathering exercise document can look like.

Sample data-gathering exercise

Material Topic	Key Performance Indicators (KPIs)	Unit	GRI standards	DJSI	BRSR
Employee / skill development	No of employee participated in skill development trainings (excludes mandatory/compliance training)	Number of employees	GRI 404-1,2	Section - Human Capital development	Principle 1, Principle 5
Employee engagement and wellbeing	Percentage of employee participation in employee satisfaction surveys (eNPS)	Percentage of employees	GRI 404-1,2,4	Section - Talent Attraction and retention	Principle 1, Principle 5
Employee engagement and wellbeing	Programs for upgrading employee skills and transition assistance programs	Percentage of employees	GRI 404-1,2,4	Section - Talent Attraction and retention	Principle 1, Principle 5
Community involvement, engagement and satisfaction (CSR)	Amount spent on CSR in the current FY across thematic areas	Total investment in INR/ USD	GRI 413-1	Section - Corporate citizenship & Philanthropy	Section A, Principle 8
Community involvement, engagement and satisfaction (CSR)	Total number of beneficiaries impacted through overall CSR programs	Total number	GRI 413-1	Section - Corporate citizenship & Philanthropy	Section A, Principle 8
Community involvement, engagement and satisfaction (CSR)	Percentage of initiatives/ projects that involved impact assessments	Percentage	GRI 413-1	Section - Corporate citizenship & Philanthropy	Section A, Principle 8
Community involvement, engagement and satisfaction (CSR)	Percentage of initiatives/ projects according to thematic areas (example - healthcare, education)	Percentage	GRI 413-1	Section - Corporate citizenship & Philanthropy	Section A, Principle 8
Community involvement, engagement and satisfaction (CSR)	Total number of employees volunteering hours	Total employees	GRI 413-1	Section - Corporate citizenship & Philanthropy	Section A, Principle 8
Community involvement, engagement and satisfaction (CSR)	Percentage of operations with implemented local community engagement, impact assessments, and/or development programs, including the use of: i. social impact assessments, gender impact assessments, based on participatory processes; ii. environmental impact assessments and ongoing monitoring;	Percentage	GRI 413-1	Section - Corporate citizenship & Philanthropy	Section A, Principle 8
Talent recruitment and retention	Retention rate by: Age group : <30 , 30-50, >50 Gender: Male/ Female / Others	Percentage	GRI 401-1,3	Section - Talent Attraction & retention	Principle 3
Talent recruitment and retention	Return to work rate of the employees from Maternity / Paternity leaves age group : <30 , 30-50, >50 Gender: Male/ Female / Others	Percentage	GRI 401-1,3	Section - Talent Attraction & retention	Principle 3
Talent recruitment and retention	Benefits which are standard for full-time employees of the organization but are not provided to temporary or part-time employees, by significant locations of operation. These include, as a minimum: i. life insurance; ii. health care; iii. disability and invalidity coverage; iv. parental leave; v. retirement provision; vi. stock ownership; vii. others	Number of benefits	GRI 401-1,3	Section - Talent Attraction & retention	Principle 3
Talent recruitment and retention	Total number and rate of new employee hires during the reporting period, by age group, gender and region. age group : <30 , 30-50, >50 Gender: Male/ Female / Others Management levels: Top mgt / senior mgt/ Middle mgt/ Associates / Contract workers	Total number/ percentage	GRI 401-1,3	Section - Talent Attraction & retention	Principle 3
Talent recruitment and retention	Total number and rate of employee turnover during the reporting period, by age group, gender and region	Total number/ percentage	GRI 401-1,3	Section - Talent Attraction & retention	Principle 3
Business ethics and integrity (bribery and anti-corruption, fraud, anti-competitive behaviour)	Number of confirmed bribery/corruption related breaches /cases	Number of breaches/cases	GRI 205-3, 206-1, 102-17	Section - Code of Business conduct	Section C

Discussion and Recommendations



Social Sustainability for BPO providers and clients recognises that business success is closely linked to social success. Social Sustainability for organisations acknowledges the close link between business success and social progress. This extends to GBS functions, recognizing their contribution to the company's social performance.

Aligning social responsibilities

Often, GBS functions and their BPO partners operate across multiple countries with human-centric operations, placing great importance on their social impact. By incorporating ESG principles into their operations, GBS functions and outsourcing partners can effectively manage their social responsibilities, promote ethical labor practices, and contribute to sustainable development, all while aligning with clients' ESG priorities. A shared materiality assessment can help providers and clients to align their social priorities.

Overcoming social impact reporting challenges

With many ESG frameworks to choose from – data collection and reporting are essential. Various reporting frameworks and initiatives, including SASB, GRI, IFRS, or TCFD, will require reporting on similar information.

Collecting relevant data on social indicators allows BPO providers to align with clients' needs, demonstrate progress, and monitor performance. Yet obtaining accurate Social Sustainability data has its own challenges. Expert support can help to tackle these at every stage.

1. **ESG strategy:** Developing a comprehensive ESG strategy that accounts for various functions and company suppliers is crucial for long-term success.

Collaborating with BPO experts and outsourcing strategists can help clients and providers align on relevant Social Sustainability metrics, establish data collection processes, and implement effective reporting frameworks.

2. **Data availability:** Accessing accurate and comprehensive Social Sustainability data from various sources can be difficult.

Close collaboration and coordination with multiple stakeholders within the client's and provider's organisation is recommended to gather necessary information. This can be facilitated by external advisors and consultants who can guide strategy.

3. **Data reliability:** Clients and suppliers may use different reporting frameworks and methodologies, making it harder to compare and aggregate data.

Establishing and documenting clear data collection and verification processes across BPO providers and clients is recommended.

4. **Data integration:** BPO providers may need to collect data from various sources and systems, both internal and external.

Working with ESG data management providers can ensure consistent and timely integration and consolidation.

5. **Data verification:** Validating the accuracy of Social Sustainability often involves subjective measures and self-reporting.

BPO providers can implement robust verification processes, such as audits and third-party assessments, to ensure the integrity of the reported data.

Despite these challenges, clients and their outsourcing partners recognise the importance of obtaining accurate Social Sustainability data.

Investing in robust ESG data management will help providers and clients to establish transparent reporting processes, and collaborate to ensure the reliability and credibility of the reported metrics. By doing so, BPO providers can demonstrate their commitment to Social Sustainability and provide valuable insights and drive changes required by their clients and stakeholders.



Let's talk

To discuss ESG in your organisation and how to bring Social Sustainability into the fold across outsourced operations, get in touch with Alistair Niederer at NeedleRock alistair@needlerock.net

Looking for an outsourcing partner that can deliver services across your GBS while driving Social Impact? Get in touch with ADEC Innovations. ADEC Innovations is a purpose-driven global business services partner, focused on making an impact and changing lives for the better. Contact: Matthew Clarke on matthew.clarke@adec-innovations.com

To expand the positive impact of your organisation by aligning with UN projects, NGOs and multilateral entities contact GCEOA secretariat@globalceoalliance.org

