



A Beginner's Guide to ESG in Shared Services and GBS



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Introduction

ESG has become a requisite for businesses in 2023. Both government regulations and societal pressures have made it imperative that businesses embrace ESG and have a system in place to help the organization adapt to shifting expectations from shareholders and communities.

SSON is well aware of the relevance of this topic, and in fact, has been trying to bring ESG into the forefront of many shared services conversations. In November 2022, [Naomi Secor](#), Global Managing Director for SSON, predicted ESG would be one of the top topics for GBS in the near future, adding that ESG will play an increasingly important role in business and leadership decision-making.

[Abhinav Garg](#), the Senior Vice President of Strategy & Change (shared services) for India and Poland at AXA, shares a similar sentiment, adding that ESG is now imperative for businesses. **“ESG is almost an existential or survival topic. It’s a topic I honestly think we are 30 years late in giving the right impetus and thoughtfulness to,”** Abhinav said.

The goal of this report is to outline all that ESG entails, look at the emerging relationship between ESG compliance and Global Business Services (GBS), and analyze effective ESG governance strategies.



What is ESG?

- ESG is broken down into three key categories: **environmental**, **social** and **governance**, and in order to understand the relevance of ESG we must break down each category individually.



Environmental

Businesses have as large a role to play in mitigating the climate crisis as any entity. Viola Lutz, deputy head of ISS ESG Climate Solutions, an arm of Institutional Shareholder Services, told the New York Times in 2021 that businesses need to be more ambitious with their targets for emission reduction. Lutz would go on to add “otherwise, we project emissions for S&P 500 companies will end up being triple of what they should be in 2050.”

With the direness of the climate crisis becoming so apparent, the environmental branch of ESG can draw the most attention from outside sources in the form of government regulations and external pressures.



Social

The second portion of ESG is a business's standing in a community. This is based on developing relationships with employees, customers, suppliers, and anyone else interacting with the business.

Another important social aspect is driving diversity, equity and inclusion (DE&I) initiatives. This increasingly meaningful topic ensures businesses are equal-opportunity employers. The social in ESG is also responsible for complying with laws, making fair and effective decisions for employees, and remaining engaged with stakeholders.

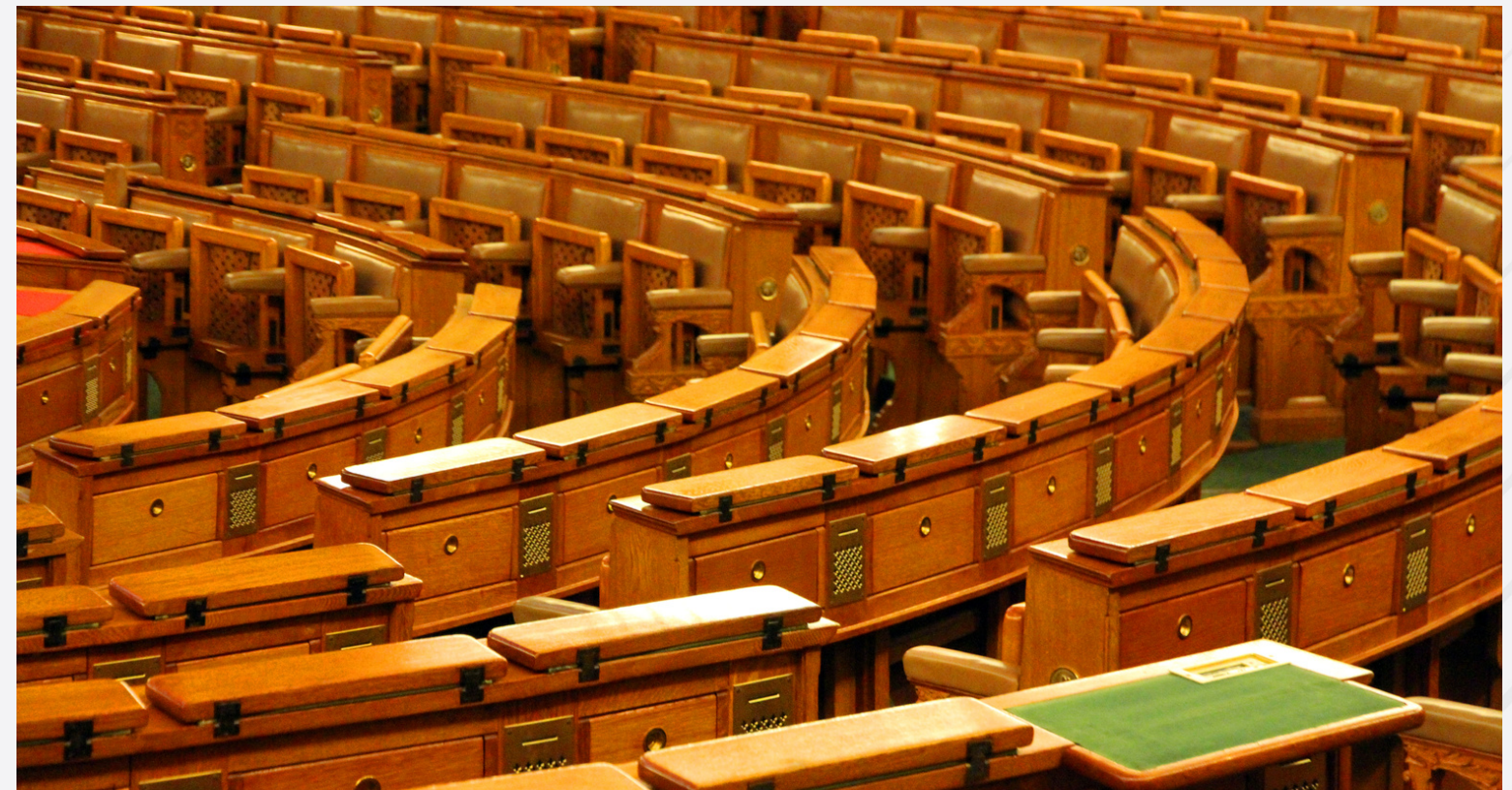


Governance

The third portion of ESG can typically be the most challenging to understand and master. Governance is focused on how a company's leadership behaves rather than looking at different management styles. It's culminated by factors such as executive pay, audits, procedures, and any other method of internal control. Governance is also responsible for ensuring the business is respecting shareholder rights.

“Basically, governance is responsible for any rules and regulations that exist in an organization, regardless of if they are enforced internally or externally, and then the execution and control thereof.” said **Tom Bangemann**, Head of Research and Development for SSON Research & Analytics.

As of August 2022, more than 90 percent of S&P 500 companies now publish ESG reports in some form, as do approximately 70 percent of Russell 1000 companies. Given the prevalence of ESG in businesses today, there is more value in describing the role GBS can have in ESG, and what a successful ESG adoption into GBS should look like.





What's at risk by not paying attention to ESG?

The short answer is a lot. The long answer is also a lot but can be separated by two types of risk. The first is the potential legal ramifications of not adhering to different regulations that vary from country to country. By not following certain regulations, whether environmental or fair practice related, businesses can be forced to pay hefty penalties that impact shareholders' investment in the business.

The next area for potential risk comes from not complying with societal expectations. By failing to win in the court of public opinion, an organization can lose customers and shareholders who value ethics.

“We are also seeing the failure to be socially conscious affect employment. People today, especially the younger generations, have high standards for the businesses they work for, and if a business is not being responsible, they will have a tough time attracting and retaining talent,” Bangemann said.



What's at risk by not paying attention to ESG? (cont.)

Similarly, when a business appears focused on working with ESG compliance it becomes easier to sell to the younger generation that this is a meaningful place to work.

A concerning trend in ESG is businesses' willingness to "greenwash" environmental initiatives and view social initiatives as "marketing gimmicks". However, failure to truly embrace ESG can potentially lead to internal unrest. People want to work for a business that genuinely cares about making the world a better place, and if they feel their company is looking at ESG as a publicity scheme they will lose faith in the organization.

What's the relationship between ESG and shared services?

Looking back at Naomi Secor's prediction, she saw the blossoming relationship between ESG and GBS.

“GBS organizations are seeing a growing, critical link between ESG and financial performance or value creation,” Secor said. “We will see GBS playing a larger role in managing ESG compliance, creating better governance of assets and liabilities through policies and process controls, and aligning E2E customer/supplier/employee journeys and ESG risk management.”

The importance of being ESG compliant is already pertinent to several business functions, such as accounting and legal, that ensure the business abides by the laws in a given country. Meaning, every part of a business must be cognizant of ESG in some manner. However, with the GBS principle, there is the opportunity to bring these different solutions together and monitor them under one scope.





What's the relationship between ESG and shared services? (cont.)

According to Tom Bangemann, there are several ways shared services can have a role in ESG. The first is the most straightforward. As companies are tasked with following more rules and regulations, they must remain agile enough to embrace and follow these new rules. In order to ensure everyone is performing their duties, corporate accountability must exist. GBS is well-versed in managing several different functions and is the ideal choice to hold them accountable for ESG.



Shared services can also look towards ESG as an opportunity to define their business rather than another charge put on its plate. Every business has a purpose, a good or service they sell, and the way they operate when selling that good or service ties into how they are perceived by outsiders. However, shared services professionals know they can leverage ESG to set their business apart from others.

How GBS can oversee ESG

When looking at how to integrate ESG into GBS leaders are faced with another decision. There are two methods which GBS can observe and oversee ESG in the organization as a whole.

The first is to provide ESG as a service to business functions in the same way GBS provides other services such as training and IT assistance. At the base level, this can mean tweaking processes to include ESG compliance or reassessing certification requirements that relate to ESG. GBS can also take the next step and begin developing new initiatives that are centered around ESG. These include diversity and inclusion KPIs, shareholder rights management and executive pay audits, and market comparisons.

The second is more focused internally, meaning determining the best ways to make GBS compliant with ESG standards. GBS is not immune to the dangers of not working on ESG, and by creating a framework for compliance at the GBS level, the business now has a standardized model for how to become more ESG compliant. Other entities in the business can take this model and apply it to themselves in a way that best fits their needs.



Adopting ESG initiatives - where to start

GBS should not have to reinvent the wheel in order to begin addressing ESG, just ask Tom Bangemann.

“The practical thing is to approach ESG the same way GBS has addressed any other new challenge in the past,” Bangemann said.

The following steps are where GBS should begin in adopting ESG into its framework.

- **Recognize what areas of ESG the business is falling short in**
- **Define a person or team that is responsible for addressing the issues**
- **Collect pertinent information and categorize it**

- **Discuss what needs to be done and how you are going to accomplish your goal**
- **Determine if your existing structure can handle the challenges or if a new framework is needed**
- **Set up the new framework by assigning people their new roles**
- **Explain to internal customers and stakeholders how they can utilize the new framework**

It's important to note not everyone is excited about the environment and ESG, some people only care about power, money and consumption. We should not be naïve to think this topic sells easily to all leaders. This is why it is so important to explain that ESG is relevant to business success even if you don't personally buy into the targets.



Conclusion: Letting people drive ESG

At the end of the day, businesses are going to do whatever it takes to meet ESG requirements. Whether that's creating the right ecosystem, forums or business units. However, what will ultimately make the world a better place is if individuals are willing to take steps to make their own work more environmentally and socially conscious. No one knows their work better than the individual, and they are most equipped to determine ways to make their jobs more sustainable and socially conscious.

“I think the general belief today is, ‘what can I do as an individual?’ and ‘what impact can I create?’” Abhinav said. “Organizations are going to do what they are required to do, but it is the individuals on the ground who will execute and deliver the change.”

This guide is just a brief introduction to a topic that will become more relevant and expanded upon in the coming years. If you are interested in learning more about ESG, register for the [SSOW North America Virtual Summit](#) on April 25-26.