An Outsourcing Industry Professional's Guide to Social Sustainability in ESG

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Introduction

This white paper is a guide for business process outsourcing (BPO) 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 for BPO providers and their clients. In this piece we will consider prevalent metrics and the use of data, making recommendations on steps for all BPO players to implement in their outsourcing activities.

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 ADEC Innovations

ADEC Innovations has over 40 years of group experience in business process outsourcing, ESG consultancy, ESG data management, enterprise technology and impact programmes.
ADEC WorkForce delivers efficient and cost-effective outsourcing solutions underpinned by impact sourcing practices at its delivery centres across six continents. ADEC Innovations enables organisations to become more productive and resilient and helps reshape risk into positive impact and value.

ADEC INNOVATIONS

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.

GCEOA

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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.

Environmental

The "E" in ESG refers to a company's environmental sustainability, including its efforts to reduce it 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

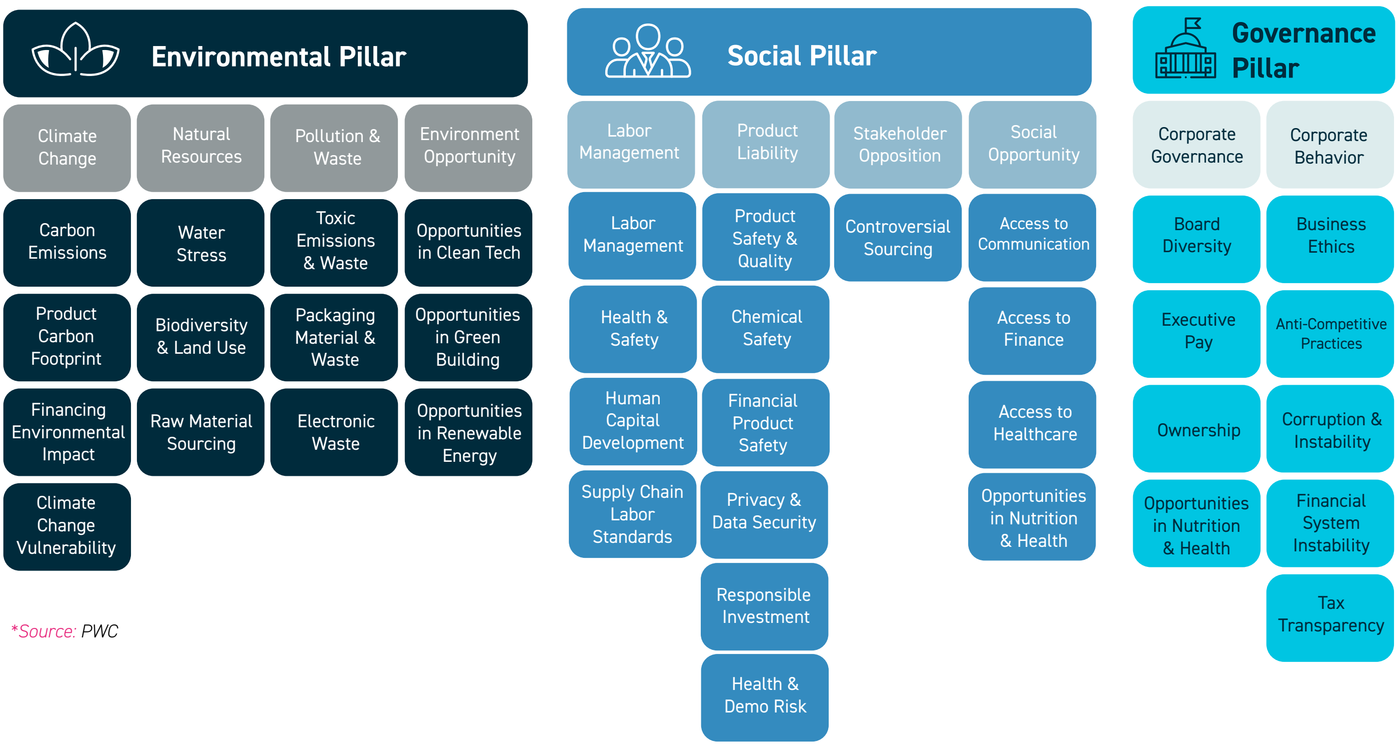
The "G" refers to a company's governance practices, including its management structure, board diversity, executive compensation, and compliance with regulations and other business ethics standards.

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) was set up in 2018 as an EU regulation requiring certain companies to disclose non-financial information in their annual reports to enhance transparency and accountability by mandating the reporting of ESG factors. Initially, the directive applied to 12,000 companies.

As of January 2023, NFRD was replaced by the Corporate Sustainability Reporting Directive (CSRD) which modernised and strengthened the rules concerning the social and environmental information. A broader set of large companies, as well as listed SMEs, will now be required to report on sustainability – approximately 50,000 companies in total.

Evaluation and reporting areas for ESG



*Source: PWC

Indicative timing and criteria for CSRD

	NFRD Non-Financial Reporting Directive 2018	CSRD Corporate Sustainable Reporting Directive 2024-2026			
		2024	**2025**		**2026**
Scope	• EU: Listed companies > 500 employees, banks, insurers • National laws: extension to large companies in the jurisdictions·	All companies already submitted to NFRD	Listed companies >250 et <500 employees Non listed companies with Employees>250, Revenue > 40 M€, Total balance sheet > 20 M€ (2 out of the 3 criteria)	Non-EU companies with revenues > 150 M€ generated in the EU	All listed SMEs
Requirements	Disclosure of their non-financial Corporate Social Responsibility (CSR) performance in a comprehensive public report starting in 2018	• Disclosure of more standardized and robust CSR performance in a comprehensive public report, including: • More stringent requirements on the relevance of the ESG criteria followed (**double materiality thresholds** introduced) and on the quality of the information provided, with a greater alignment between finance and ESG • Obligation to publish the company **carbon footprint** and the strategy to reduce GHG emission • Detailed social aspects			
# Companies	**12,000 companies**	**>50,000 companies**			

Social Sustainability

Previously overshadowed by Environmental factors, Social Sustainability is now gaining momentum. This is particularly important to companies operating within the global business services. 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

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

When outsourcing, impact sourcing can create a virtuous circle:

- **BPO clients 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-standing history of impact sourcing. The organisation brings employment opportunities to remote communities in Kenya and the Philippines and runs onshore impact sourcing programmes. This approach delivers direct social benefits that are measured and reported per ESG standards.

Business Process Outsourcing

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

BPO Clients

BPO clients come from virtually any industry and outsource functions such as customer services, human resources, accounting, administrative work or data processing and more.

Business 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 functions in their clients' organisations. BPO refers to any outsourced service, including, finance and accounting, benefits and HR administration, IT services, technical support, and customer experience services.

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 BPO Practices

Providers constantly adopt practices to ensure compliance with applicable legal and regulatory requirements. These span management, quality control, data protection, privacy and security, alongside other operational best practices and standards.

Over the past two decades, outsourcing services have gone global to satisfy the need 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 partners and a key part of supply chain ESG metrics.

The ESG alignment imperative

BPO companies are subject to the same environmental goals and regulations as other industries, and they will have sustainability targets to achieve on behalf of their stakeholders.

The interlink between clients' and providers' 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 BPO and the use of offshore operations in potentially vulnerable communities 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 provider's 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.

EGS framework, bodies, and directives

Sustainable Development Goals (SDG)	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. While not a pure ESG framework, SDGs set out many desired social outcomes and targets that can be translated into corporate action.
UN Global Compact	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.
International Labour Organization (ILO)	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.
Organization for Economic Cooperation and Development (OECD)	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.
Corporate Sustainability Reporting Directive (CSRD)	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.
United Kingdom's ESG Strategy	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. 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.
Carbon Disclosure Project (CDP)	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.

Global Reporting Initiative (GRI)	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.
Sustainability Accounting Standards Board (SASB)	An organisation that develops industry-specific sustainability accounting standards to guide companies in disclosing financially material sustainability information. SASB standards provide a framework for reporting ESG factors relevant to their specific industries, enabling more effective communication and comparison of sustainability performance.
International Financial Reporting Standards (IFRS) Foundation	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.
Task Force on Climate-Related Financial Disclosures (TCFD)	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.

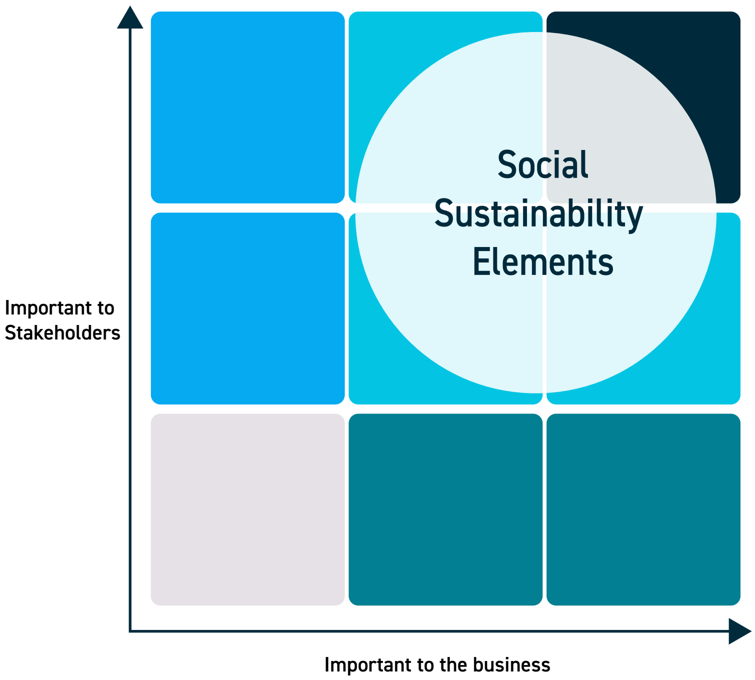
Mostly, ESG reporting frameworks are voluntary. Each framework can help business leaders to identify the issues that need to be monitored within their firms and how best to track and disclose that information. KPMG reports that as of **2022** the predominant ESG systems globally are the GRI framework, 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. BPO clients and providers can select their preferred framework and organise themselves around the stated metrics for reporting or disclosing performance.

Materiality Assessment

Once clients and providers have chosen a preferred framework, they must assess the materiality of various E, S, and G factors to create a 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



Top priorities

Of the greatest importance to both stakeholders. Require most urgent, effective and visible management and reporting.

Priority issues

Of medium to high importance to stakeholders. Require urgent, effective and visible management and reporting.

Hidden Value Creators

Not yet high on the stakeholders' agenda, but important to the business. Require education/ awareness programmes for stakeholders.

Hygiene Factors

Of high importance to stakeholders but low impact on the business. Require balanced priority and visibility management.

Monitoring issues

Least important to stakeholders and the business impact. Require monitoring as they may gain importance over time.

While Social elements would have previously occupied the Hygiene or Hidden Value Creator areas, within BPO, 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, BPO services hold great potential for making a positive impact on the lives of employees and the communities in which they occur. 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?

Without binding legislative or regulatory requirements, BPO players can select their preferred reporting or disclosing framework. The above frameworks take a slightly different approach to Social Sustainability with some systems like GRI and SASB having specific metrics for Social Sustainability, while others, such as the TCFD, focusing primarily on environmental performance of firms. It is important to know which elements overlap all the frameworks.

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 & Philantropy	Section A, Principle 8
Community involvement, engagement and satisfaction (CSR)	Total number of beneficieries impacted through overall CSR programs	Total number	GRI 413-1	Section - Corporate citizenship & Philantropy	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 & Philantropy	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 & Philantropy	Section A, Principle 8
Community involvement, engagement and satisfaction (CSR)	Total number of employees volunteering hours	Total employees	GRI 413-1	Section - Corporate citizenship & Philantropy	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 & Philantropy	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. Sustainable development and business activity require a prioritisation of both social and environmental considerations, and companies can create positive impacts and foster sustainable communities, all while promoting business value creation.

Aligning social responsibilities

Often, BPO providers operate across multiple countries with human-centric operations, placing great importance on their social impact.
By incorporating ESG principles into their operations, these firms 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 is crucial for long-term success for BPO clients and providers.

   Collaborating with BPO experts and ESG consultants 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:** Different clients 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, BPO clients and providers 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 to work with a BPO that delivers positive social impact or do you require assistance in gathering, analysing and reporting your ESG data? Contact Douglas Anderson at ADEC Innovations **douglas.anderson@adec-innovations.com**

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

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