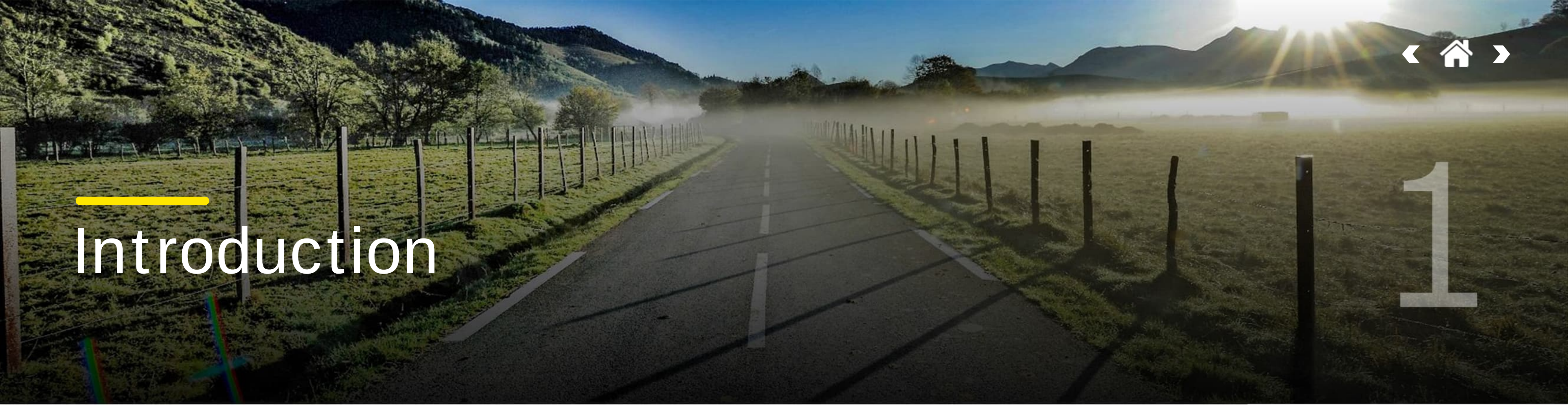
State of play: the role of GCCs in ESG

November 2023

EY

Building a better working world

Contents



Introduction

1

Global Capability Centers (GCCs) are transitioning from being cost drivers to strategic business enablers and value creators for businesses worldwide, enhancing efficient delivery of services and solutions to customers. For many large enterprises, each GCC serves as a Center of Excellence, focusing on innovation, automation, software engineering, analytics, and other essential business functions.

1.1 The GCC Market in India

- 1,500 + GCCs
- 1.6 million jobs
- Account for 45% of GCCs globally
- USD 46 billion market size
- USD 110 billion by 2030[1]

1.2 GCCs support for Environment, Social and Governance (ESG)

Globally, GCCs have expanded into supporting business sustainability, driven by increasing regulatory directives, internal commitments to net zero, investor demands, and consumer push for adherence to ESG requirements. Of Fortune Global 500 companies based in Europe, where many governments require net zero targets, 78% (101 out of 129) have committed to 2030 targets, up 7 points from last year.

Among the factors that drive these efforts, regulatory push plays a powerful role as governments intensify the call for non-financial reporting and compliance with stringent requirements. These include ESG disclosures to the Securities and Exchange Commission (SEC) in the US, Corporate Sustainability Reporting Directive (CSRD) in the EU, the SEBI-mandated Business Responsibility and Sustainability Reporting (BRSR) in India, and other country-specific mandates.

1 How India is gearing up for a US$110b GCC industry by 2030 (ey.com)
2 Companies commit to net-zero–especially when governments tell them to | Fortune

Current ESG regulation landscape:

European Union

CSRD to replace NFRD from Jan 1st, 2024.

Expected: CSRD will be phased in from 2024 to 2028.

EU Taxonomy: Starting Jan 2023, non-financial corporations must report Taxonomy-aligned proportions of primary KPI. Starting Jan 2024, financial firms must report Taxonomy alignment of investments for eligible investee companies. Dominant Theme: Climate, Human Rights, Human Capital

Switzerland

RBI Counter – Proposal Mandates Statutory ESG Reporting & Due Diligence (Conflict Minerals & Child Labour) Framework

Expected: 2024

Dominant Theme: Climate, Human Capital, Human Rights, Governance

Canada

Canadian Securities Administrators (CSA) – Climate Related Disclosure

Expected: 2023

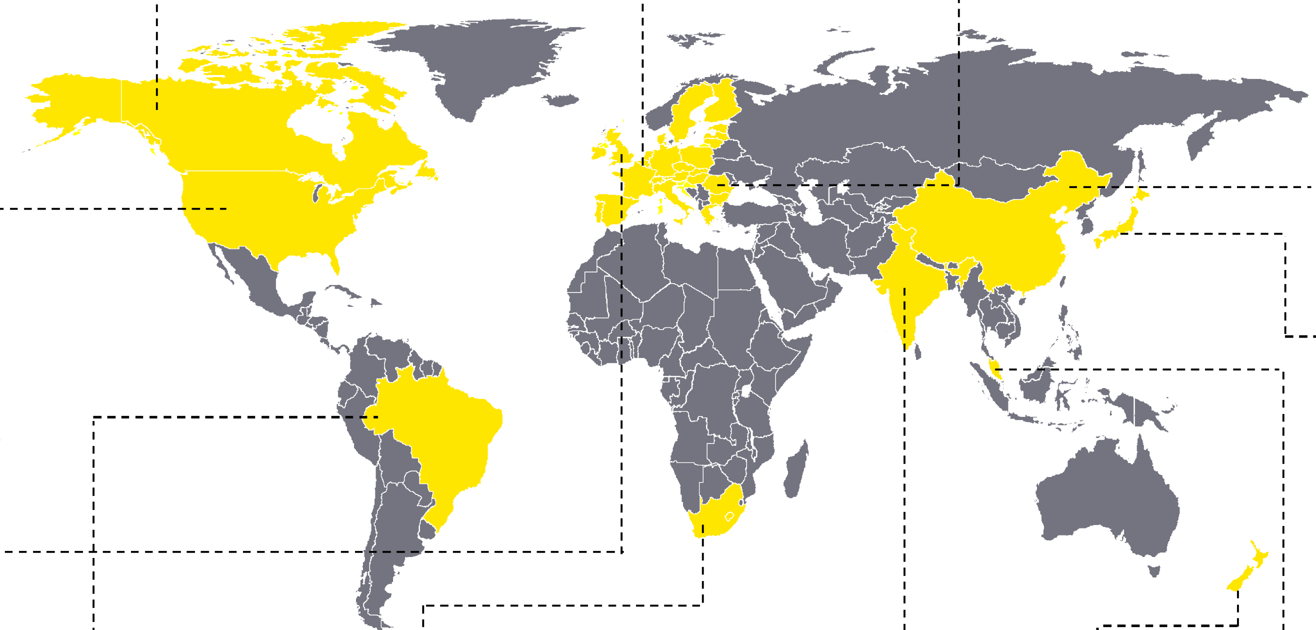
Dominant Theme: Climate

United States

SEC Proposed Climate-Related Financial Disclosures

Expected: 2024

Dominant Theme: Climate, Human Capital



China

CSRC – Mandatory ESG Disclosure Framework for All Listed Companies;

MEE – Disclosure Rules for Domestic Entities to Report on Environmental Management, Pollution, and Emissions

Status: In effect from 2022

Dominant Theme: Climate, Human Capital,

United Kingdom

TCFD – Aligned Sustainability Disclosure Requirement (SDR) – Integrating ISSB Standards and Requiring Publication of Transition Plans

Expected: 2023

Dominant Theme: Climate, Human Capital, Human Rights

Japan

Companies listed on the Tokyo Stock Exchange's new Prime Market are required to make mandatory climate-related disclosures aligned to TCFD or other equivalent frameworks.

Status: In effect from 2022

Dominant Theme: Climate

Brazil

Brazilian Securities Commission – ESG Information Disclosure Criteria (Comply – or – Explain Approach)

Status: The regulation was enacted on August 19th, 2023.

Dominant Theme: Climate, Human Rights, Governance

South Africa

Johannesburg Stock Exchange – Climate Disclosure Guidance (Apply – and – Explain Approach)

Status: Climate Disclosure guidance documents were published in June 2022.

Dominant Theme: Climate

India

Business Responsibility & Sustainability Report (BRSR) for 1,000 Largest Listed Companies, Mandatory Reasonable Assurance for top 150 listed companies (2023), ESG disclosures for the value chain for top 250 listed entities on comply or explain basis (2024)

Status: Enacted in 2023

Dominant Theme: Climate, Human Capital, Human Rights

New Zealand

First Country to Pass a Law that Mandates Climate – Related Disclosures

Status: In effect from FY beginning January 1st, 2023 onwards. In the second phase (for FY ending on or after 27 October 2024) GHG emissions disclosures will be required to have independent assurance.

Dominant Theme: Climate

Singapore

SGX has launched a public consultation based on Sustainability Reporting Advisory Committee's (SRAC) recommendation for Listed Issuers to report ISSB aligned climate-related disclosures starting FY2025.

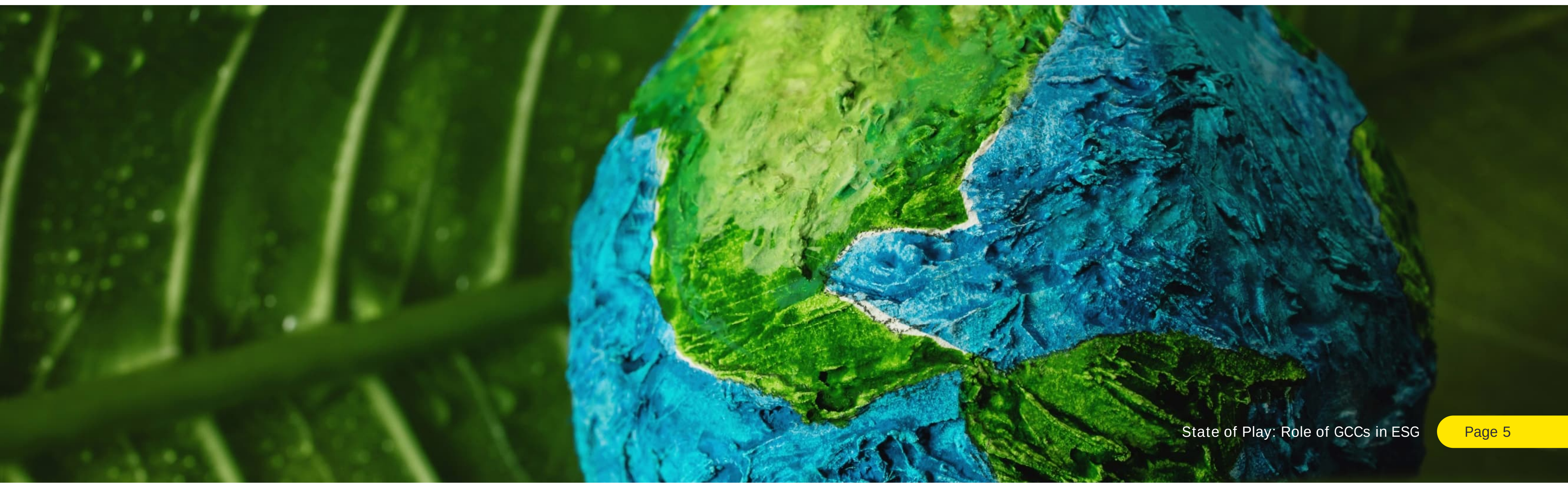
Dominant Theme: Climate

In this evolving landscape, ESG is becoming a strategic business priority and enterprises are amplifying efforts to orient their businesses for enhanced sustainability. Consequently, non-financial reporting is gaining importance with priority accorded to transparency, accuracy, and traceability of data.

Considering the continuous evolution of the ESG landscape, GCCs have a unique opportunity to seize this moment and proactively develop their ESG capabilities, thereby contributing to and strengthening the global ESG agenda.

Benefits of a Central ESG Function

- Centralized regulatory compliance
- Integration of siloed activities
- Data consistency and integrity
- Program governance



How GCCs in India support the Global ESG Agenda

In GCCs' perspective, there is a clear potential for their role as ESG Centers of Excellence in driving corporates' sustainability agenda at a global level. While their involvement in building business resilience is still evolving, they are making a concrete contribution in key areas related to governance, environmental preservation, and social development.

ESG support	Environment	Social	Governance
Data analytics and visualization	√	√	√
ESG reporting	√	√	√
Supplier ESG performance	√	√	
Product stewardship	√	√	
Packaging sustainability	√		
Climate risk	√		
Net zero roadmap	√		
CSR and community engagement		√	
Green GCCs	√		
ESG culture		√	
ESG communication	√	√	√

2.1 Role of GCCs as ESG Centers of Excellence

Looking forward, as potential ESG Centers of Excellence (CoE), GCCs are envisaged to support their organizations' agenda with Foundational ESG reporting or an ESG Reporting Tower, creating ESG data hubs, amending or establishing process workflows to enable data capture, and creating a technology ecosystem for ESG reporting in real time.

Further, GCCs could function as integrated ESG ecosystems, authoring and aligning international sustainability disclosures based on a pre-configured content framework. The scope of such an ecosystem would encompass smart analytics, decision support, steering ESG performance, and developing guidelines across organizations' operating model to minimize ESG risks.

Assessing and reporting suppliers' ESG performance is yet another opportunity area for ESG CoEs, made possible by creating a data analytics hub to capture, compute and visualize supplier ESG performance. This would facilitate real time monitoring, aid in decision making on choice of supplier, and support global reporting mandates.

As stakeholders increasingly reiterate demands for transparent sustainability disclosures and scores, the communication of ESG and its significance is also within the remit of GCCs. While some are already involved in awareness creation activities, internally ESG CoEs can help build long-term value by supporting external stakeholder communication, leading and/or supporting ESG programs that corporates roll out across business units and geographies, and enhancing transparency on ESG ratings.

2.2 Environmental preservation

GCC leaders perceive a role for green GCCs that will focus on operational excellence through resource optimization such as water conservation and waste reduction, by driving increased use of renewable energy, and by creating net zero spaces.

The notion of green GCCs is becoming a reality with some centers already housed in LEED certified premises. Significantly, GCCs are also seen to be driving their parent organizations' efforts to achieve aggressive net zero goals by ensuring lowered emissions and promoting the use of alternate energy.

Further, several are already leading initiatives to fulfill focused environment related goals. Spanning multiple dimensions, their efforts include implementing organization wide practices such as:

- Use of eco-friendly products and materials at the workplace
- Efficient use and preservation of water through rainwater harvesting
- Reuse and recycling of wastewater
- Lowered consumption of resources e.g., paper and electricity
- Effective waste management
- Monitoring and lowering carbon emissions
- Promoting use of renewable energy

2.3 Social sustainability

Some GCCs in the country are leading initiatives in social sustainability, implementing the parent organizations' CSR programs. In the future, their role could expand to emphasize continued community engagements with higher participation of employees through volunteering initiatives.

GCCs are also focusing on the social dimension at the workplace by promoting employee diversity and inclusion, thereby creating a safe and inclusive work culture at the GCC facilities.

Based on a combined digital and ESG agenda, GCCs can deploy a wide activity scope

Agile ESG Center of Excellence

as part of Global Capability Centers Platform

Foundational ESG reporting

ESG Data Hub

- Support the definition of new data requirements in line with external reporting policies
- Feed sustainability data into corporate data layer
- Control third-party data quality & consistency / undertake data triangulation
- Ensure data audit trails and offer data consolidation

Deep Dive

Business Process Design / GBS activity scope

- Amend or establish process workflows to enable data capture / external data feeds; consider internal controls

Example 1

ESG Technology Hub

- Continuously screen the rapidly evolving technology landscape for ESG solutions / applications
- Create a technology ecosystem for sustainability data capture & reporting

Integrated ESG ecosystem

ESG Reporting and disclosure factory

- Create internal sustainability reports, enhancing ESG insights
- Author and align international sustainability disclosures, e.g. based on a pre-configured content framework
- Track international sustainability policies

Smart analytics, decision support and ESG performance steering

- Create ESG data governance across an organization
- Increase operational transparency on ESG performance
- Create strategic data insights such as ESG opportunity costs, true earnings diagrams and related scenario modelling

ESG policies and risk management

- Develop guidelines across the company's operating model to minimize ESG risk and maximize the achievement of sustainability commitments
- Support and monitor compliance based on ESG risk control matrix
- Support ESG Audit

Long Term Value Creation

External ESG communications and stakeholder management

- Conduct stakeholder trust analytics
- Support external stakeholder communication

ESG benchmarks and agency scores

- Create transparency on ESG ratings
- Sound KPIs against rating frameworks

Example 2

Firm-wide ESG initiatives

- Lead and/or support ESG programs that corporate decides to roll out across BUs and geographies, e.g. D&I related initiatives or ESG training programs

Example 3

2.4 Areas of Concern

- Nascent ESG processes: GCCs typically handle processes that have already matured in other geographic locations, making parent organizations confident in transferring them to a GCC. As such, if issues arise, support is readily accessible. However, the ESG domain is fundamentally different; it represents uncharted territory for many organizations, resulting in reluctance to commence GCC operations in a domain in which it lacks established expertise.

  In this context, some GCC leaders perceive a need for a mindset shift among business leaders to accept that ESG can be implemented remotely rather than out of headquarters. While admitting that convergence with key activities like branding can be challenging, GCC leaders believe that implementing ESG from a CoE can deliver significant benefits to the parent organization.

- Insufficient cross functional cooperation: Cross-functional consensus on the implications and presentation of data for reporting ESG performance is often a challenge. This is primarily owing to a lack of awareness about of the importance of sustainability for the business and apprehension that adopting sustainable practices may have an adverse impact on existing performance targets and priorities.

  Nevertheless, a top - down approach to incorporating sustainability throughout the business helps to address this challenge.

- Dynamic regulatory and reporting environment: The ESG reporting environment is dynamic and multiple reporting frameworks pose a challenge to reporting ESG performance. The current lack of convergence of frameworks can be particularly challenging for global organizations that comply with different reporting requirements, in terms of efficiencies and ensuring that the organization’s performance is consistently presented across frameworks.

  Additionally, dynamic regulatory demands pose a challenge to cost efficiency since heightened requirements necessitate a proportional increase in resources for tasks such as data collection, analytics, and reporting.

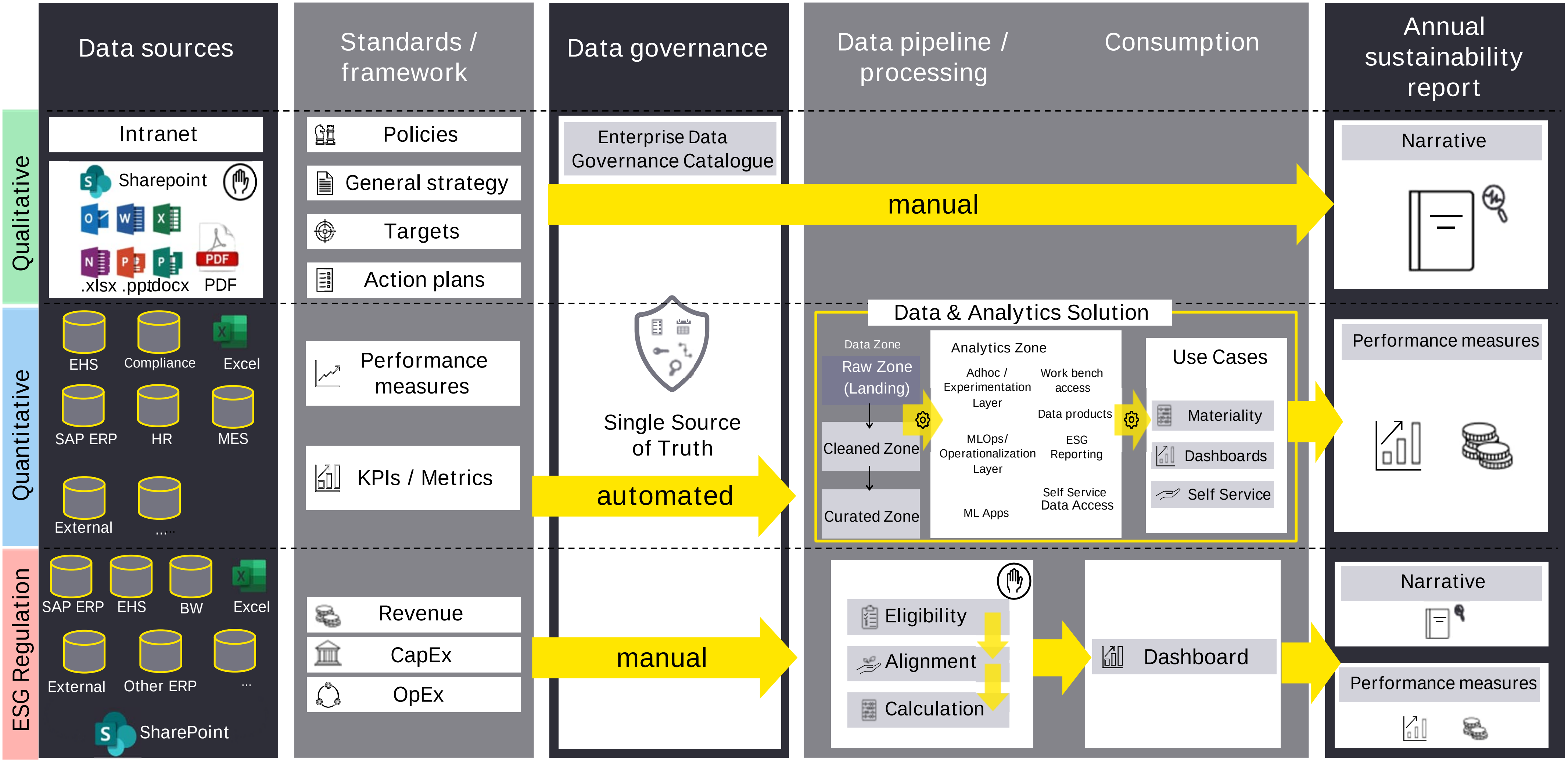
- Weaning off external support: With ESG now in the ambit of GCCs, leaders are challenged to internalize activities that were earlier outsourced and to build the requisite competencies to execute them effectively.

3

Role of Technology for GCCs in supporting ESG

Technology is being variously used by GCCs to help them support corporates' ESG agenda. While data collection, analytics and reporting continue to be a core GCC function, they are also leveraging the latest technologies such as AI (artificial intelligence) and ML (machine learning) to automate core processes and eliminate redundancies. Further, GCCs are leading with innovation for global organizations, employing technology to develop smart tools that address customers' needs to assess carbon emissions and push towards decarbonization goals.

Initiatives such as digitalized measurement of emissions and consumption of resources like water and electricity have democratized data, enabling ready accessibility, transparency, and traceability. Additionally, IoT (Internet of Things) based solutions are being deployed to encourage efficient resource consumption and preservation. Moreover, predictive analysis tools are playing an important role in the HSE (Health, Safety and Environment) domain to enhance workplace safety.



Leveraging technology within GCCs holds tremendous potential for advancing corporates' ESG agendas. It can serve as a powerful tool to enhance decision-making processes by providing real-time feedback on ESG metrics based on various inputs, such as altering product components or materials. Moreover, technology can facilitate the creation of dashboards that are intuitive and coherent, enabling stakeholders to easily grasp the implications of their decisions. For instance, when contemplating a change from one component to another, technology can seamlessly compute and display the resulting impact, thereby illustrating how it contributes to an organization's journey toward achieving its ESG goals.

- While technology tools are well established in data collection, GCC leaders seek to enhance their awareness of solutions that address several other aspects of ESG, such as traceability of products in the supply chain, carbon footprint computation, etc. In this respect, it is felt that the market lacks a viable enterprise level software solution to manage ESG across all dimensions, including CSR. Those that are available are expensive or lack comprehensive functionality, often using basic tools in the back - end to prop them up. There is a need for an integrated tool, simplifying the process of data extraction and dashboard creation, and compatible with various reporting standards, including BRSR, SASB, GRI, CSRD, and amenable to any future regulations that may arise.

  Although technology is integral to organizations' ESG progress, some GCC leaders are of the opinion that external agencies may also have a place in corporates' ESG management in the future. As the regulatory environment continues to evolve and becomes more stringent, the need for frequent and increasing investments in technology updates and upskilling talent may propel organizations to seek external services rather than have it internally managed by GCCs.

  From 2016 to 2021, venture capital funding worth $1 billion was allocated to the country's climate tech firms . As climate tech and start-ups continue to grow in India, the role of technology in the ESG space is set to become even stronger.

- While technology is undoubtedly integral to data acquisition, there remain concerns about the integrity of data and plugging data leaks. In this context, it is envisioned that technology will evolve to play a notable role in the integrity, governance, and sourcing of data via a common platform to input and report ESG performance.

3 Climate Tech 2021 - London & Partners (dealroom.co)

Availability of ESG related skills and ways to bridge gaps

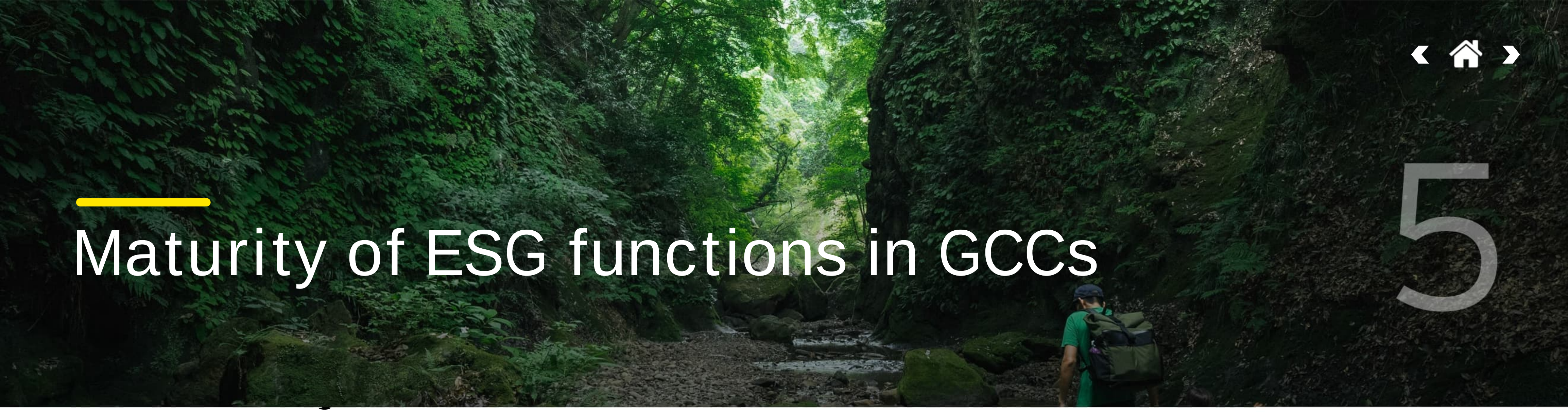
4

Although there is no shortage of skilled technology talent in India, there is a deficit in ESG related skills and expertise, making it difficult to match appropriate talent with the right ESG assignments. Several GCCs invest significantly in building ESG management capacity among existing talent, equipping them to handle a large part of the requirements. However, GCC leaders believe that this is mostly limited to data analytics. For niche or higher end expertise needs such as life cycle assessments, innovative solutions, or ESG disclosures, they seek the support of external service providers.

This shortfall also extends to cross-functional skills, such as those between engineering and data science. Therefore, GCCs have put in place in- house training programs that address this challenge, training engineers sufficiently in data science so that their dependence on advanced analytics teams is minimized.

While the talent deficit is a challenge many GCCs face, it is believed that the issue will resolve in the coming years. This can be attributed to the emphasis that academic institutions, including premier institutions, are placing on offering sustainability courses, and the resultant access to a large talent pool that is sensitized to the significance and requirements of sustainability in businesses.

- In the current scenario, it is challenging for organizations who comply with the requirements of the TCFD (Taskforce on Climate related Financial Disclosures) to assess physical and transitional risks. With respect to the latter, considerable resources are invested in training executives in key aspects of climate risk profiling and transition plans, empowering them sufficiently to educate customers on the subject.
- The challenge of finding talent for ESG roles is compounded by two factors. First, in the absence of a national certification for ESG management, the quality and consistency of skills available is unpredictable. Second, in a highly competitive market, retaining them sufficiently long to contribute to corporates’ ESG goals is equally challenging.
- Significantly, while ESG compliance is now mandated, GCC leaders believe that the understanding of ESG within companies requires to be stronger, so that employees are able to connect their work to ESG metrics and benefit from knowing how they contribute to building a sustainable organization.



5 Maturity of ESG functions in GCCs

ESG GCC Maturity

Now that we understand the role of GCCs in the global ESG agenda, how and where can we get started? Some GCCs that have ESG integrated into their verticals have adopted the pilot testing approach and have started with supporting their global headquarters with smaller ESG KPIs and then scaled up. GCCs can look at the Basic level of maturity and build their capabilities to transition to the Leading level over time, creating long-term value.

Basic
- Basic ESG data gathering & reporting
- Public relations reporting
- Basic regulatory compliance

+

Established
- E2E regulatory disclosures
- ESG Compliance & Audit
- Internal stakeholder reporting

+

Advanced
Dedicated Teams
- ESG performance definitions
- Data governance & management
- External stakeholder management
- ESG branding

+

Leading
Dedicated Teams
- Global ownership of ESG initiatives
- Stakeholder coordination
- ESG analytics and dashboarding
- Sustainable sourcing

EY ESG solutions for GCCs

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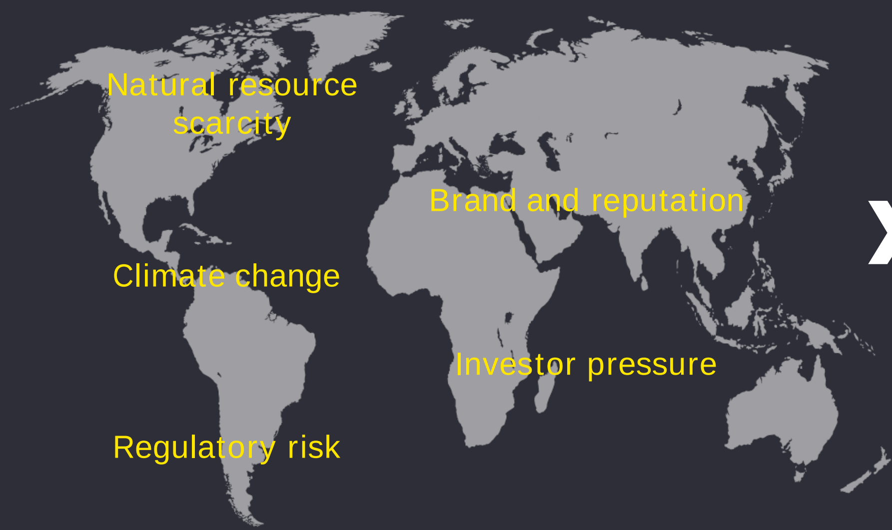
Key sustainability drivers



Implications for GCCs

- Alignment with Global ESG* Goals
- Local program management
- Data-driven sustainability insights
- Data transparency
- Green GCC

Our GCC Solutions

- ESG CoE
- Sustainability Data Management
- Sustainability Disclosure
- Sustainability Assurance
- Implementation Support

GCCs evolving to become multi-functional & globally integrated centers of excellence

Opportunity for GCCs to further contribute to the fulfilment of organizations' sustainability goals at scale

EY ESG GCC solutions leveraging functional & technical expertise at optimal costs

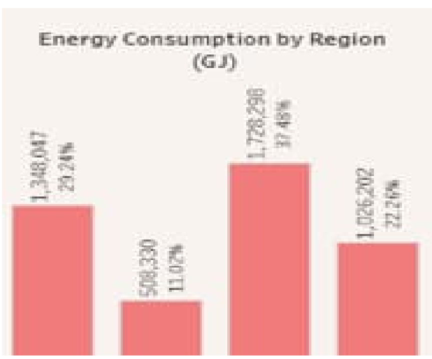
Some of the use cases to integrate ESG into the GCC profiles include:

1. ESG Reporting Tower: a one stop for all ESG related data capture, analysis, and visualization
2. Scope 3 emissions computation and analytics: uses financial data for Scope 3 emissions computation and analysis
3. Supplier ESG performance: supplier data capture and analytics
4. Climate risk profiling: helps align with the TCFD recommendations and real time monitoring of risks
5. Others: provides use cases on product and packaging, financed emissions, assurance readiness among others

ESG Reporting Tower

Objective:

Centralized ESG data analysis to meet global disclosures (CSRD, EU Taxonomy)



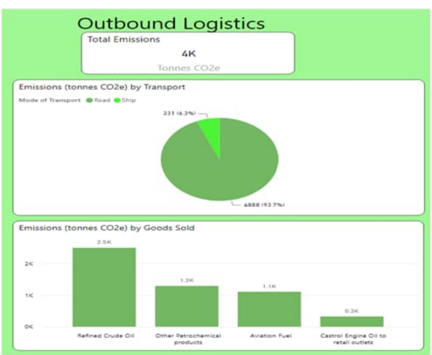
Output:

ESG KPI dashboards across geographies

Scope 3 – Logistics Emissions

Objective:

Logistics carbon footprinting (Scope 3)



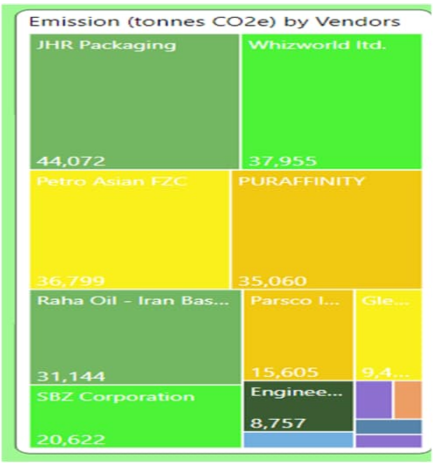
Output:

Emission inventory of Upstream and Downstream transportation

Supplier ESG Performance

Objective:

IT enabled integrated supplier assessment program



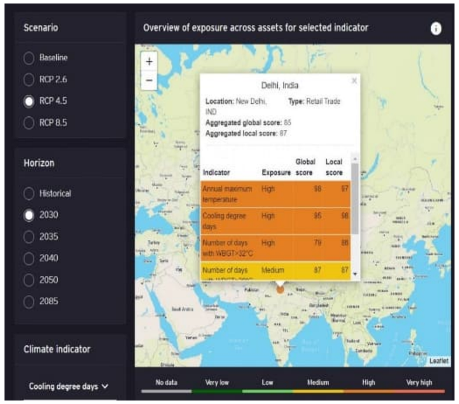
Output:

Automated supplier ESG performance

Climate Risk Profiling

Objective:

Identify, analyse and evaluate the physical climate risks of key operations



Output:

Risk matrix on likelihood and degree of consequence

6.1 Our Digital Enablers

- EY ESG Compass is a comprehensive digital ecosystem that seeks to help organizations evaluate their ESG maturity levels and adapt a sector-specific strategy, using the power of analytics.

  Read more EY ESG Compass - Innovation to transform sustainability journey

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- EY Sustainability Reporting Maturity Assessment tool simplifies complex ESG reporting requirements and provides a clear path for organizations. It allows an organization to thoroughly evaluate its ESG reporting capabilities.

  Read more EY Sustainability Reporting Maturity Assessment

- Corporate Sustainability Reporting Directive (CSRD) is known as the Gold Standard for sustainability reporting frameworks as it considerably enlarges the scope of companies that must disclose sustainability information and brings forward new requirements.

  Read more Corporate Sustainability Reporting Directive (CSRD) maturity assessment | EY India

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- The EY Climate Analytics Platform is an online tool providing on-demand granular climate-related risks. It assists organizations in meeting regulatory and market requirements and optimally futureproofing assets and activities while considering climate-change.

  Read more EY Climate Analytics Platform | EY - Global

- Sustainability Academy: Designed and curated by sustainability experts with practical business insights and application, the EY Sustainability Academy comes with the first-of-its-kind integrated approach to diverse sustainability topical coverage followed by an assessment and EY Certification.

  Read more EY Sustainability Academy | EY India

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