

Eight ways GCCs are supporting global ESG initiatives

Outcomes from the EY ESG GCC Survey 2024

April 2024



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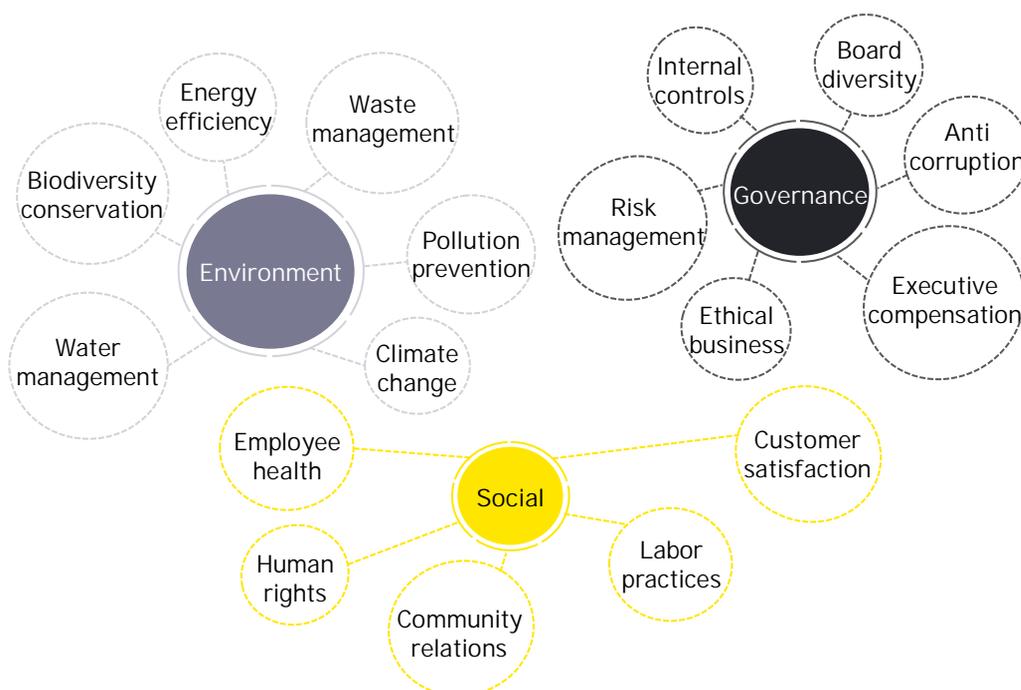
Introduction

The historic COP 21 saw 196 countries pledge to combat climate change by embracing the Paris Agreement. As a result, there has been increased pressure from global regulators and investors for corporations to prioritize sustainable growth.

The Environment, Social and Governance (ESG) compliance landscape is rapidly evolving : European Union has enforced reporting obligations through the Corporate Social Responsibility Directive, and the US Securities and Exchange Commission (SEC) has introduced Climate Regulations. Similarly, India has instituted reporting mandates under the Business Responsibility and Social Directive. Globally, countries are embracing diverse internationally recognized frameworks, compelling companies to report on a consistent set of non-financial data points.



The scope of ESG is broad and covers a range of topics, including decarbonization, diversity and inclusion, human rights, among others.



The ESG reporting process begins by identifying the key ESG metrics for a company's focus on and then developing strategies to enhance these metrics, monitoring performance, implementing data collection processes and controls, establishing governance mechanisms for reporting, and culminating in the issuance of non-sustainability reports.

With enhanced reporting requirements and stakeholder oversight, Companies are facing significant challenges in the identification, collation and reporting of sustainability data points. Some of the questions that Companies are asking are as below:

- 1 • Which set of ESG metrics to report on?
- 2 • What is the data required for reporting?
- 3 • What is the source of the data?
- 4 • How to get data from suppliers?
- 5 • Is the data collated accurate?
- 6 • How to measure and monitor performance?
- 7 • What data governance framework to adopt?



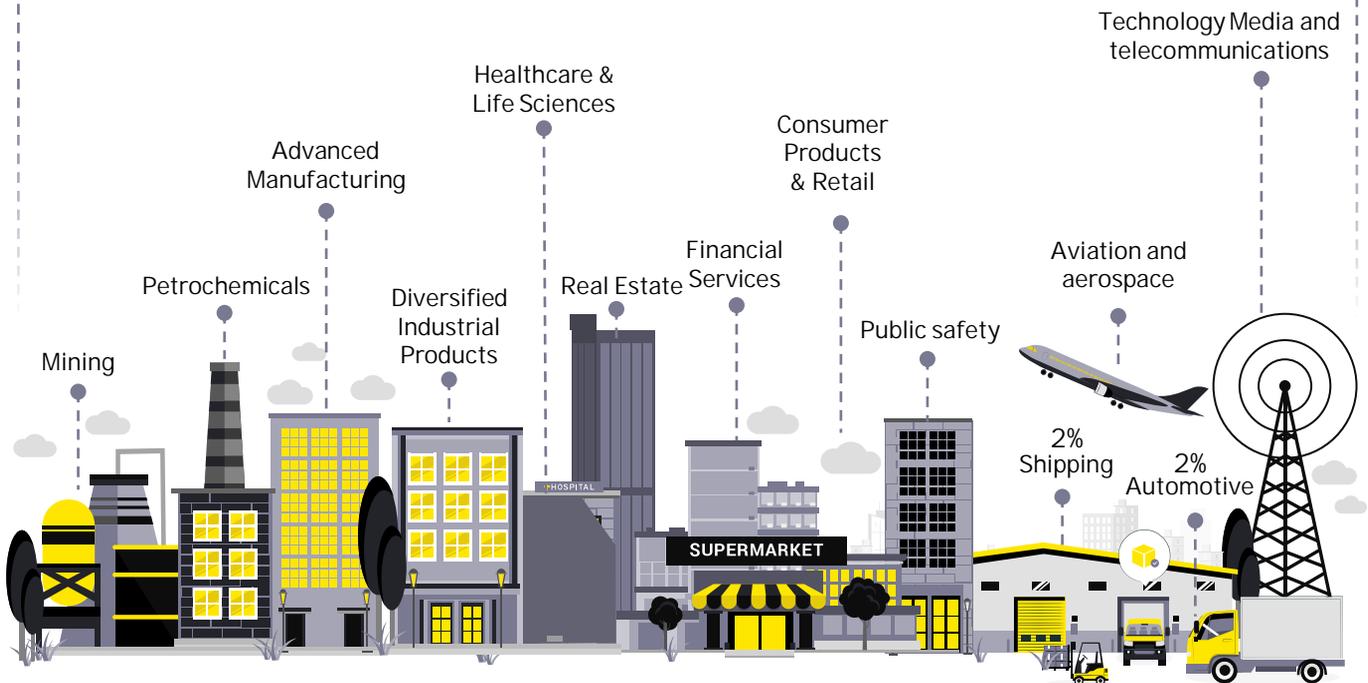
Answering these questions will require companies to build newer capabilities. Sustainability, which used to be an agenda of a small three-to-four-member team, will need to be embedded in the very DNA of the Company's operations requiring dedicated roles and responsibilities, reporting processes and technology-driven solutions.

Our EY GCC ESG Survey 2024 showcases the expanding role of GCCs in advancing the Environment, Social and Governance (ESG) agenda for global entities.

The ability of GCCs to act as a reporting and transformation engine is not new. Our EY ESG GCC Survey 2024 reveals that GCCs are beginning to climb yet another step in the value chain ladder by housing the global ESG agenda through leveraging their existing capabilities: reporting, risk management, project management, technology development and implementation, vendor management, business process excellence and automation.

Scope and coverage

GCC survey participants from the primary sector

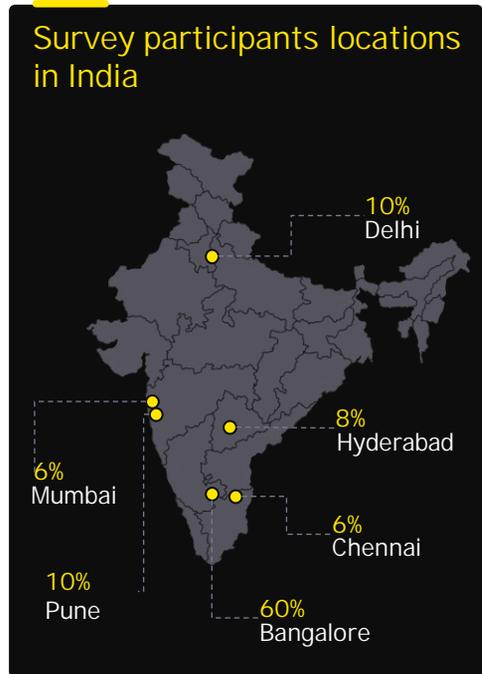


The inaugural edition of the EY ESG GCC Survey 2024 drew participation from over 45 GCC entities. The survey was designed to assess key trends that are shaping how GCCs are anchoring the ESG capability. Key insights from the survey included are as below:-

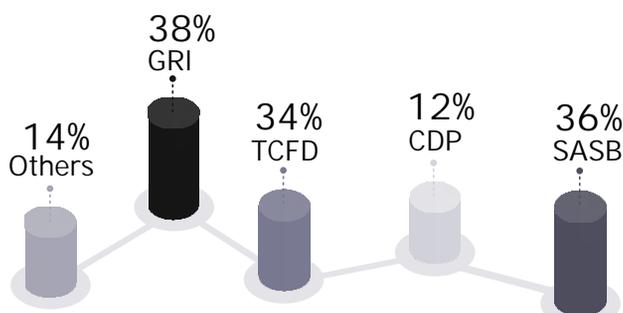
1. Activities being performed by the GCC
2. Digital initiatives being supported by the GCC
3. Current challenges in building ESG capabilities



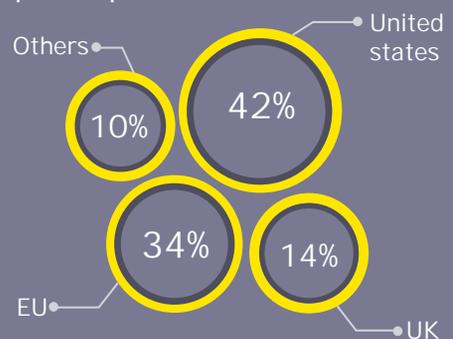
We conducted the study in two parts. The first part focused on gathering inputs from GCCs through a digital survey and one-on-one interviews. This was followed by extensive data analysis coupled with insights from EY practitioners. The survey was conducted between the period December 2023 and February 2024.



Reporting frameworks



Headquarters of survey participants



8 ways GCCs are supporting the ESG reporting agenda



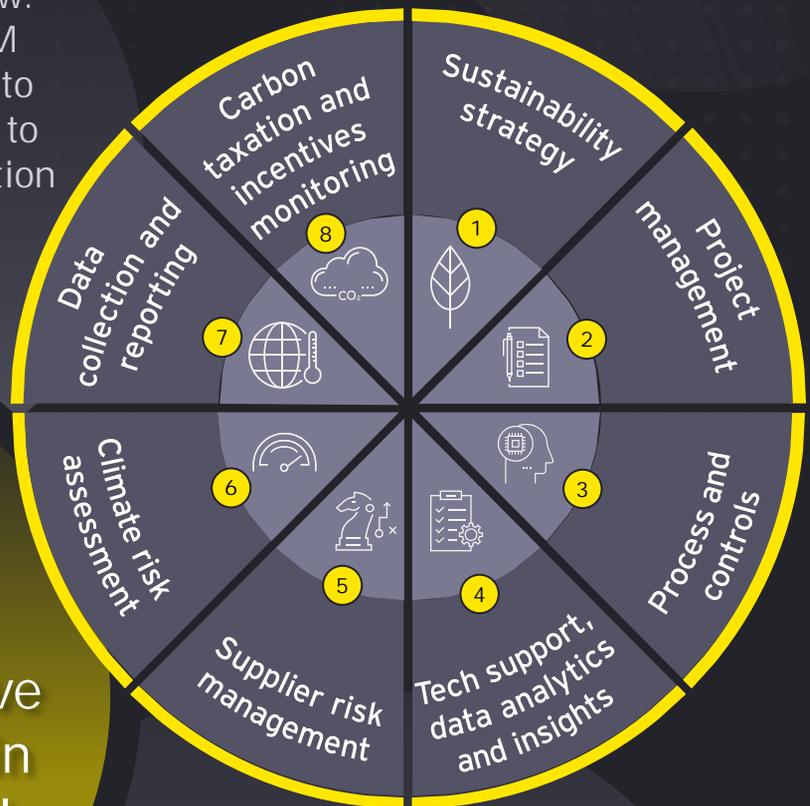
EY ESG GCC Survey 2024 results

The time for ESG is now. With CSRD and CBAM regulations coming up to speed, companies need to accelerate their preparation for ESG compliance.

- Chaitanya Kalia

52%

of surveyed GCCs have begun their journey in anchoring the global ESG agenda



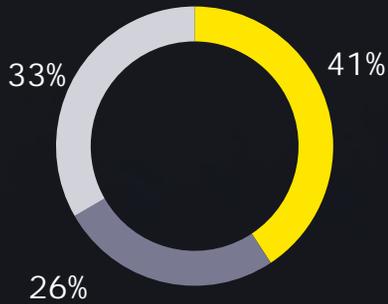
The ability of GCCs to act as a reporting and transformation engine is not new.

Our EY ESG GCC Survey 2024 reveals that GCCs are accelerating the adoption of the ESG agenda through leveraging their existing capabilities, including record to report, project management, technology development and implementation, vendor management, risk management, continuous improvement.

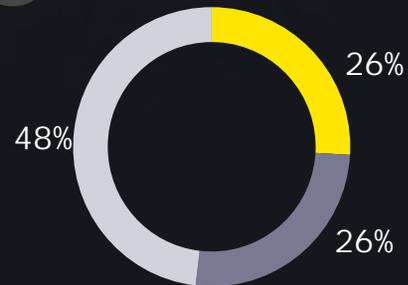
- Arindam Sen

ESG capabilities at GCCs

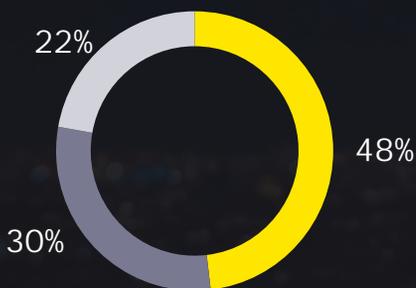
01 SUSTAINABILITY STRATEGY



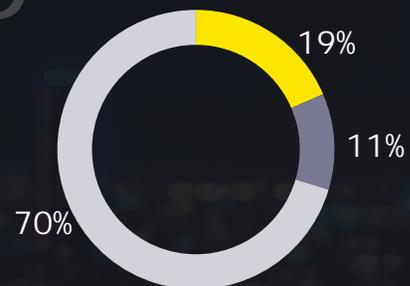
05 SUPPLIER MANAGEMENT



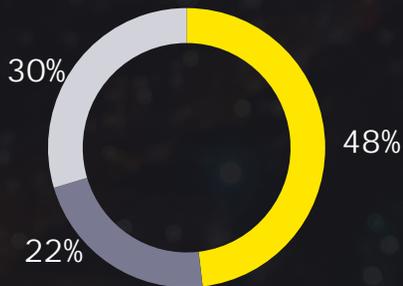
02 PROJECT MANAGEMENT



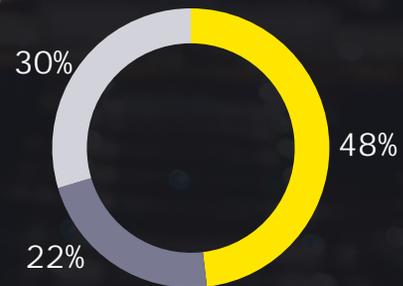
06 CLIMATE RISK ASSESSMENT



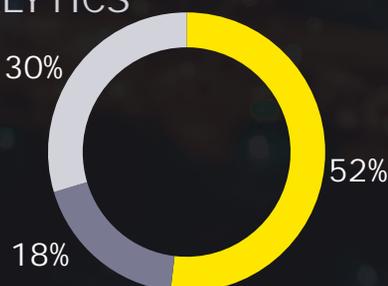
03 PROCESSES AND CONTROLS



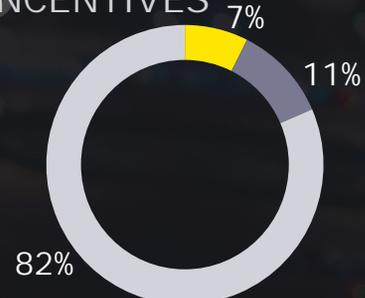
07 SUSTAINABILITY REPORTING



04 TECH SUPPORT AND DATA ANALYTICS



08 CARBON TAXATION AND INCENTIVES

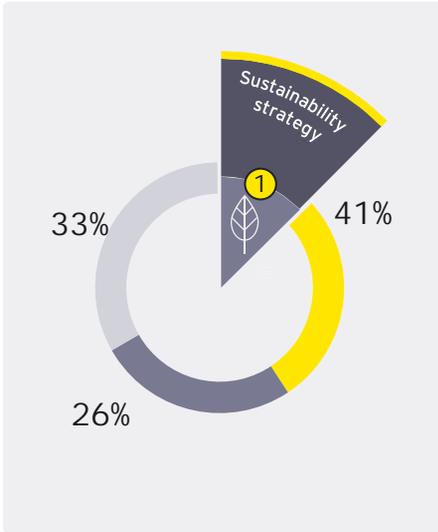


■ Current ■ Planned ■ Not an agenda



ESG GCC Survey 2024 results

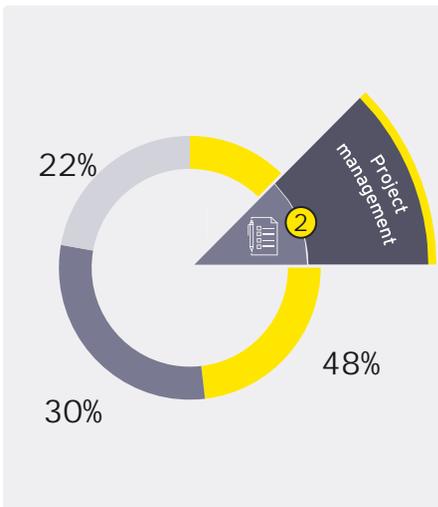
ESG capabilities anchored by GCCs



01 Sustainability strategy *Team size: 2-5 FTE*

Developing an ESG strategy entails a comprehensive process that includes engaging with both internal and external stakeholders, conducting benchmark exercises, identifying areas for improvement, setting targets and objectives, managing partnerships and fostering communications.

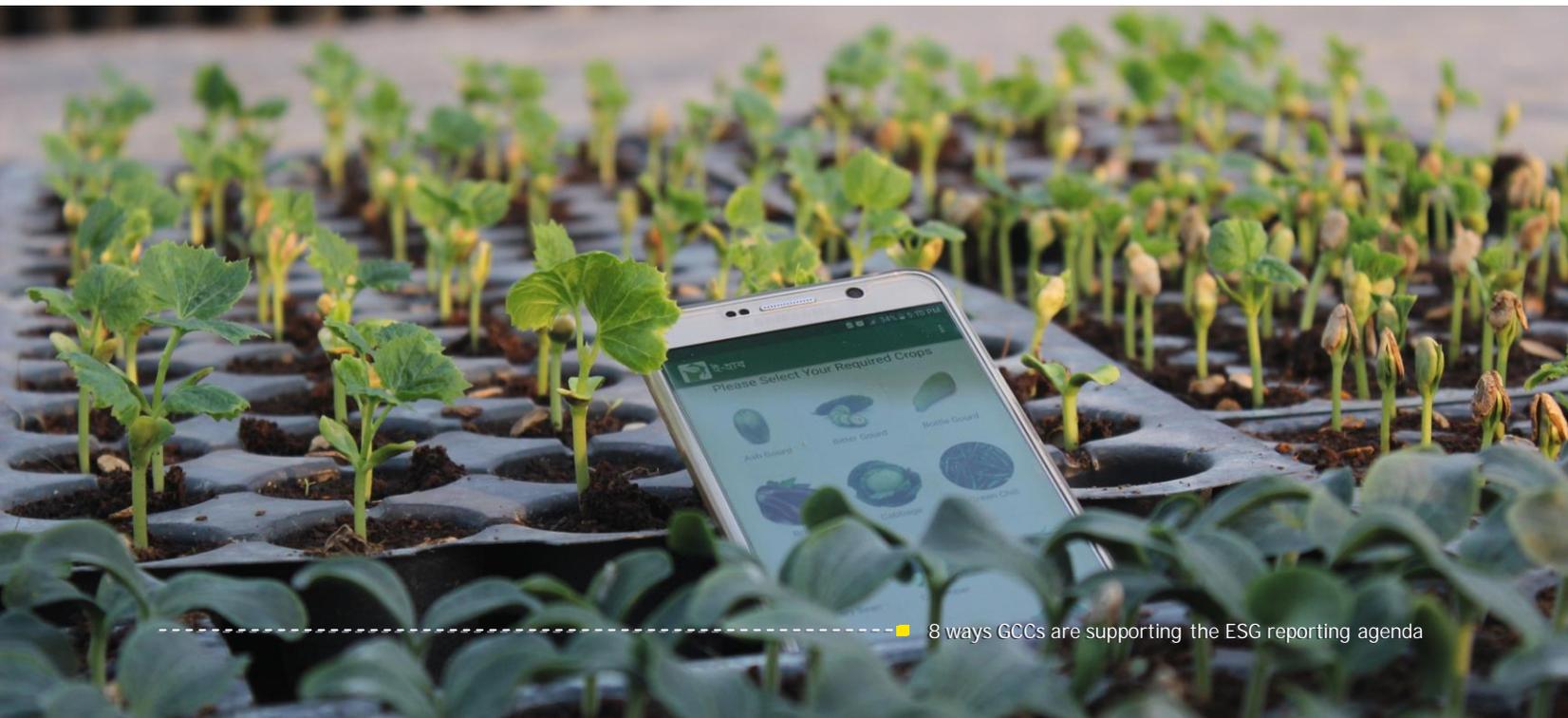
~66% GCCs are in the process of formulating internal strategies geared towards enhancing their ESG performance. Moreover, these GCCs have dedicated teams that work closely with global sustainability counterparts to actively engage stakeholders, identify areas for enhancement, and devise improvement and develop enhancement strategies across various metrics, such as climate change resilience, circular economy, and decarbonization.



02 Project management *Team size: 1-7 FTE*

The ESG agenda has transformed to a comprehensive organizational priority, engaging both internal and external stakeholders. Successful implementation of ESG initiatives demands collaboration with diverse stakeholders and IT applications.

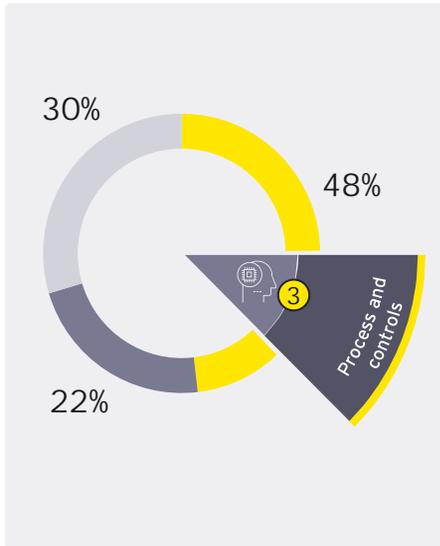
GCCs are leveraging their project management and continuous improvement teams to spearhead a spectrum of these initiatives. This includes overseeing program governance, managing data collection and governance, educating stakeholders, harmonizing processes, and overseeing the selection, implementation, and deployment of reporting tools.





ESG GCC Survey 2024 results

ESG capabilities anchored by GCCs

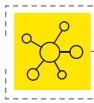


03 Processes and controls *Team size: 4-8 FTE*

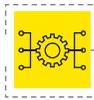
Emerging regulations, frameworks and assurance requirements are increasingly emphasizing the need for enhanced transparency and disclosure of ESG-related data.

To meet these reporting expectations effectively, organizations must establish robust processes and data governance protocols for the collection, aggregation, and reporting of ESG data. It is essential that mandates for data collection are seamlessly woven into existing processes, including vendor assessment, enterprise risk management, annual reporting, etc.

Progressing towards this objective entails modifications to the IT infrastructure, data integration methodology, and reporting landscape. Notable instances illustrating how GCCs are advancing the reporting agenda include:



An agro-commodity GCC played a pivotal role in incorporating ESG metrics into the organization's IT systems. Additionally, they contributed to embedding ESG frameworks, logics and rules into the organization's data lake.



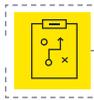
An oil and gas GCC built digital SOPs for ESG related metrics using Business process management (BPM) tools. They have effectively integrated new workflows into existing business processes.



A Europe based GCC has established processes to engage, collect and harmonize data from over 2000 suppliers



The GCC of a leading global alco-bev company established data governance frameworks to ensure the accuracy, integrity, and security of ESG-related data captured throughout its data lifecycle for over 25 Key performance indicators (KPIs)



The GCC of a large FMCG company mapped end to end metric reporting data flows, identified gaps in reporting processes and helped streamline processes through change management initiatives.



Aman Dutta
Partner, GCC Consulting



Controllers have a pivotal role to play in assisting sustainability leaders to establish data governance frameworks, train cross-functional teams, develop processes and enable technology to support the ESG agenda.



The time is now.

The following steps outline the process for controllers to establish internal controls for ESG reporting.

1. Define scope of ESG reporting

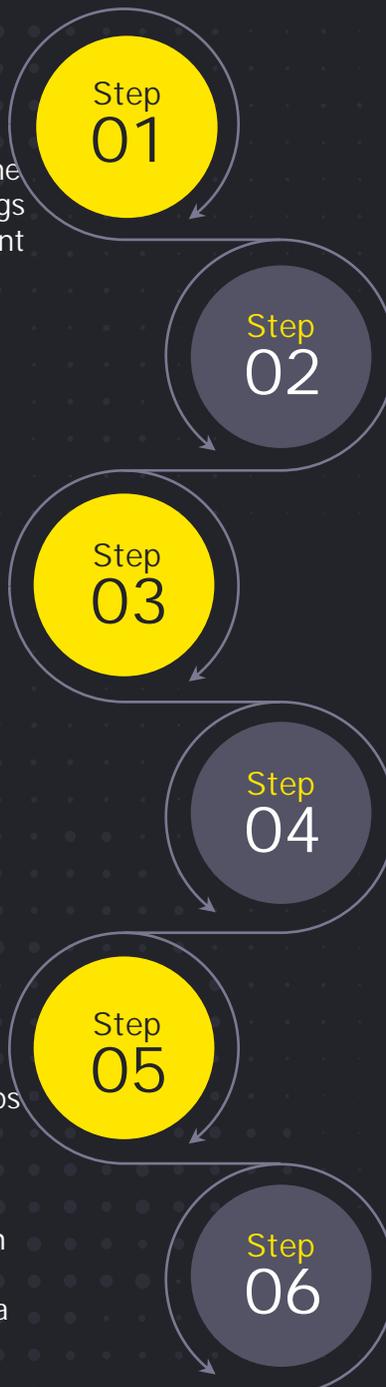
The company will need to assess relevant regulations applicable to the organization, understand the findings of the current materiality assessment conducted by sustainability teams, and subsequently construct a comprehensive repository encompassing both qualitative and quantitative disclosures that are required.

3. Define reporting risks and controls

Conduct a comprehensive assessment of current reporting risks and controls, with specific focus on parameters related to reporting boundaries, data accuracy, completeness, valuation methodology and presentation/disclosure.

5. Build remediation strategies

Prioritize the implementation of gaps based on risk assessment. Additionally, seek opportunities to standardize processes and controls across various data points. For each identified gap, assign ownership, establish a timeline, and formulate a road map for remediation.



2. Understand current people, processes and technology

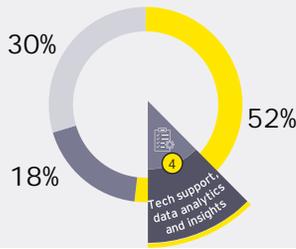
Understand the interface of the existing people, process and technology landscape to capture and report the required data points. Ensure a single source of truth through leveraging BPM and GRC tools.

4. Identify gaps in current processes and controls

Upon comprehending the existing processes and controls framework, identify any deficiencies in processes or internal controls. Consider utilizing the Committee of Sponsoring Organizations' (COSO) integrated framework to identify necessary entity-level controls. Integrate ESG risk management seamlessly with the enterprise's overall risk management framework

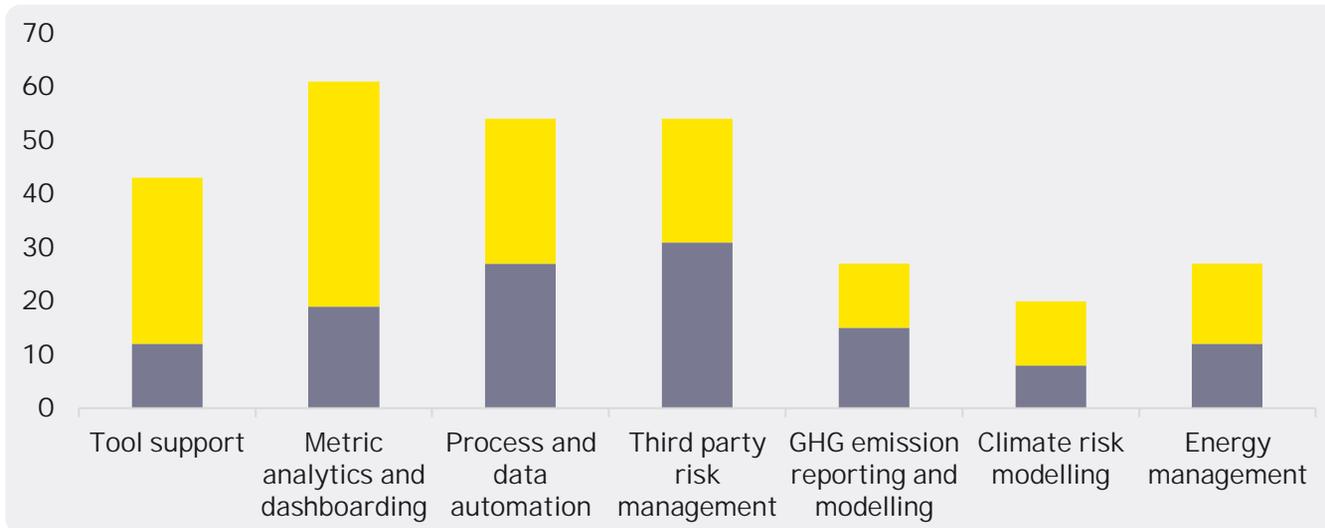
6. Continuously monitor performance

Build periodic risk-based controls testing strategy to continuously monitor the performance of these controls. Integrate this strategy with the regular cycle of internal financial controls and Sarbanes-Oxley (SOX) testing cycles.



Data and technology

70% GCCs are partnering/intend to partner with technology related support and data analytics



How GCCs are driving insights across the ESG value chain



Greenhouse gas (GHG) emissions forecasting

Mapped key sources of GHG emission across business units and developed dashboards for analyzing current status, forecasting future trends, building scenarios, tracking KPIs and monitoring emissions



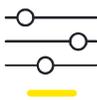
Agricultural productivity

Streamlined the process for gathering and analyzing the impact of diverse agro-experiments across multiple sites involving over 5,000 farmers, thereby facilitating increased seed yield production



Smart agriculture

Conducted pre-season analytics to forecast yields by grower, crop, and region. Additionally, performed in-season analytics to assess the influence of weather conditions on crop growth, enabling informed decision-making and adjustments



Supplier risk assessment

Created a supplier engagement platform integrated with interactive Power BI reports to collect and monitor category and supplier level submissions. The platform features self-assessment functionalities for suppliers and publishes analytics at the supplier level, along with a data quality dashboard



ESG metrics and analytics

Implemented an ESG reporting tool and established frameworks for aggregating, tracking, and monitoring the attainment of ESG Key Performance Indicator (KPI) targets against regional plans



Green tax insights

Created analytics to review tax spend ledgers against global tax incentives issued by regulators, aiming to identify missed tax incentive opportunities



Circular economy

Established processes, data collation workflows, and monitoring mechanisms to track metrics related to the circular economy, specifically for recycling materials such as beer bottles and insulin pins



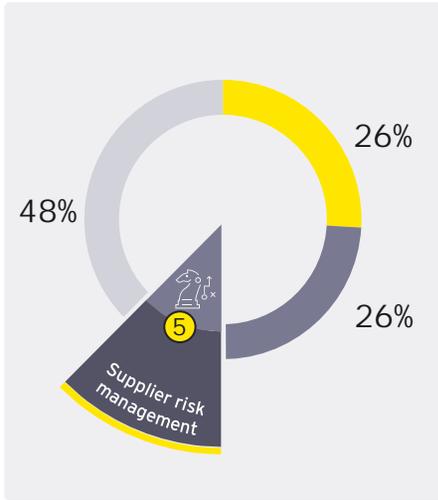
Climate risk and biodiversity modelling

Developed a physical and climate risk assessment model to systematically evaluate the impact of extreme weather events on the commercial real estate portfolio.



ESG GCC Survey 2024 results

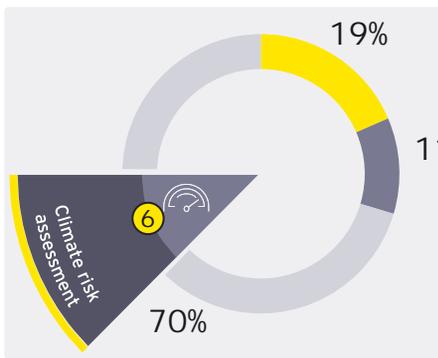
ESG capabilities anchored by GCCs



05 Supplier risk management Team size: 3-4 FTE

Reporting obligations across different frameworks require the evaluation, oversight, and disclosure of various vendor ESG metrics. Amidst the emergence of cross-border carbon regulations, multinational corporations are re-evaluating their value chains to bolster their sustainability ratings.

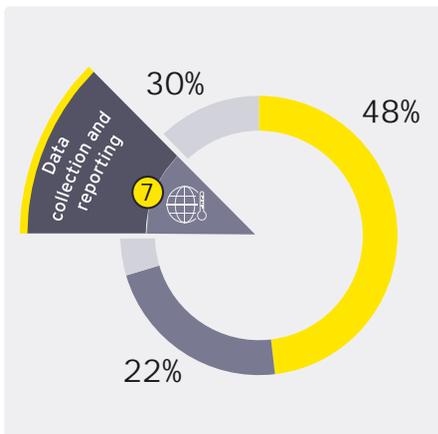
GCCs are pivotal in establishing frameworks for evaluating suppliers, facilitating engagement, and empowering suppliers through initiatives like self-assessment scores and data collection portals. For instance, one GCC developed a platform to gather greenhouse gas emission data from over 2000 suppliers, while another GCC created a scoreboard to assess the data quality of various suppliers.



06 Climate risk management Team size: 2-4 FTE

Companies are increasingly scrutinizing the influence of climate risk on their business operations. Financial institutions, in particular, are obligated to evaluate the resilience of their loan portfolios in light of the risks posed by climate change.

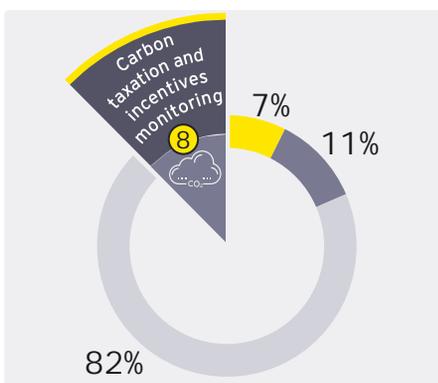
GCCs are proactively supporting this exercise by creating platforms and predictive scenario models to assess the impact of climate change on their crop yields, loan portfolio, physical assets and bio-diversity.



07 Data collection, governance and reporting Team size: 5-15 FTE

For ESG reporting, data needs to be gathered from myriad cross-functional teams and applications. One of the most significant challenges is around the accuracy of data being reported. GCCs today are leveraging their capabilities in reporting and technology transformation to build complimenting ESG reporting CoEs.

For instance, a global mining company utilizes the GCC to gather and validate data for over 20 metrics. Similarly, an alcoholic beverage company is in the process of establishing a dedicated team to design and implement data collection processes, standardize processes across business units, and collect and report the necessary data points.



08 Carbon taxation and incentives Team size: 1-2 FTE

Global regulations are urging companies to embrace proactive climate change measures. For instance, the European Union's Carbon Border Adjustment Mechanism mandates reporting on embedded greenhouse gas (GHG) emissions of imports, while other governments are incentivizing the adoption of electric vehicles and renewable energy.

GCCs are assisting in the analysis of these carbon regulations. For example, a global agro-commodity GCC is helping identify opportunities for cost savings by scanning various regulations.



Summary



It is evident that Global capability centres (GCCs) play a crucial role in advancing the ESG agenda. While some have embarked on this journey, there remains substantial untapped potential. Our survey highlights four critical challenges that GCCs must overcome to realize these initiatives: ambiguity in ownership, lack of buy-in from global stakeholders, scarcity of in-house skill sets, and insufficient expertise.

We have observed an increasing involvement of GCC Center Heads, transformation teams, and continuous improvement teams collaborating with global sustainability leaders to define objectives, co-create strategies, and leverage various GBS capabilities to drive ESG initiatives.

Given the rapidly evolving regulatory landscape, the big win theme for GCCs is to be able to implement and transform at scale and speed. ESG is a multifaceted agenda, and global stakeholders are leveraging the advantages of centralization, digitalization, and offshoring offered by GCCs to spearhead these efforts.

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