VIEW POINT

SUSTAINABILITY AND SHARED SERVICES

Key facets to consider for ESG-friendly SSCs

Abstract

Profit-making is not the only goal driving businesses in today's changed world. It has now become vitally important for forward-looking enterprises to also consider their impact on the environment, ensure that they are able to address social issues, as well as improve their governance standards. This point-of view explores how shared service centers (SSCs) have a critical role in enabling their parent organizations to successfully pursue these environmental, social, and governance (ESG) goals, by becoming more ESG-friendly themselves.

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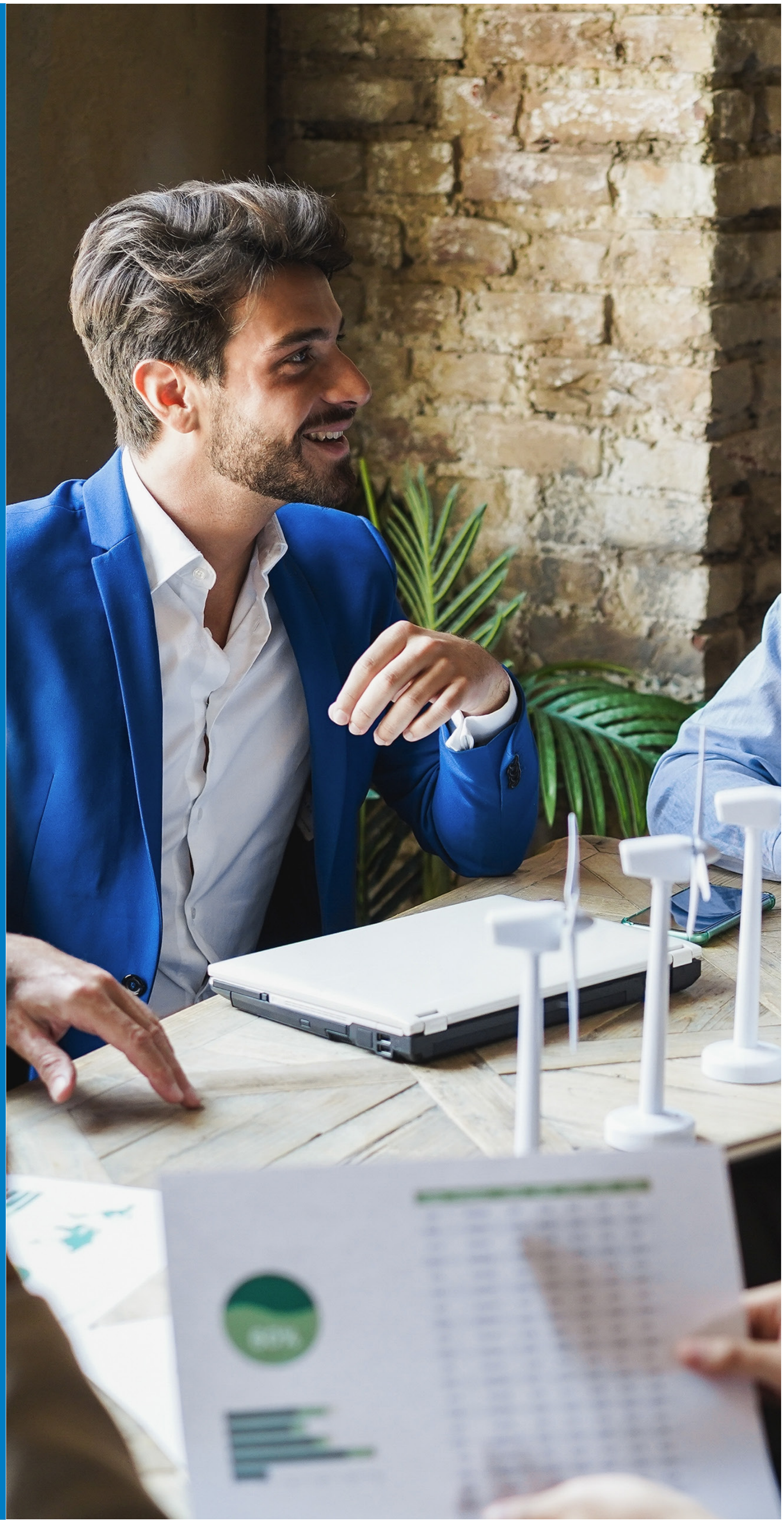
The growing importance of ESG

Gone are the days when making huge profits was the only goal for businesses. Today, business leaders are becoming increasingly aware of the impact that stakeholder expectations are able to create. In addition to profitability and growth, companies are also expected to have a positive impact on the environment, address social issues, as well as operate using a robust governance model. Cumulatively, these three goals are classified under the umbrella of ESG (Environmental, Social, and Governance) issues.

Thus, in recent times, ESG goals have become an important metric to assess the overall performance of a business. Consequently, various stakeholders — including regulators, governments, analysts, non-governmental organizations (NGOs), as well as the media — are constantly keeping an eye out for these aspects of an organization. Governments are particularly interested in these issues since they expect businesses to work in tandem with them to resolve the burning issues of society. Similarly, investors are also keen to put their money in companies that are delivering on ESG metrics. According to Bloomberg research , by 2025, nearly a third of global assets under management, totaling over $53 Trillion are expected to be focused on ESG-rated investments. Thus, it is critical that business leaders understand the importance of ESG and figure out ways to inculcate relevant goals in their shared services operations as well.



SSCs matter when it comes to ESG

Undoubtedly ESG issues are generating high levels of interest across almost all major industries, their sheer breadth ensuring that they just cannot be ignored. These issues include the carbon footprints generated by businesses, their labor practices, as well as their diversity initiatives. Additionally, businesses are expected to source their raw materials in a sustainable manner while reducing material waste to a bare minimum. All these issues form an important fabric of the modern world, and businesses are now being viewed as responsible entities that can address them.

In effect, the broader concept that needs to be addressed in businesses is corporate accountability. It is important to understand that merely meeting ESG targets by manipulating numbers will not suffice. Organizations must genuinely work towards creating an impact on social and environmental issues, with ESG goals placed at the heart of the enterprise in order to create true value. Modern enterprises are scrutinized more than ever before in this regard – and they must live up to the expectations of their stakeholders. And one of their fundamental expectations is that organizations work towards making their SSC's ESG-friendly, because of an SSC's strong visibility across the enterprise's functions, operations, and capabilities, leaving it uniquely placed to drive a sustainability focus.

Tweaking SSCs for a sustainability focus

Over recent years, SSCs have already become key components of modern-day businesses. Therefore, they can no longer be segregated from ESG initiatives, and it is the need of the hour for business leaders to rebuild their SSC operations in such a manner that ESG goals are not neglected. For this, they need to work together with SSC leaders to redefine processes and make sure that ESG goals are a part of the broader vision of the SSC. Both sets of leaders would be well-advised to follow a four-step approach in this regard, which equal emphasis being placed on each step.

The first step is that SSCs must refocus their operations to make them more environmentally friendly. This can be achieved through a relentless focus on waste management, utilization of greener fuel sources, as well by making processes as efficient as possible. Secondly, SSCs can work towards ensuring fair working conditions for their employees and contractors. This can be achieved by reviewing hiring processes, making the performance monitoring activities more aligned, and introducing more empathetic employee policies. However, all these changes must be introduced in such a manner so as to not disturb the overall output of the business.

Thirdly, all team leaders within SSCs must take on the additional role of becoming ESG champions. They must realign their goals and integrate the broader ESG goals of the parent organization within their teams' operations. This relentless focus is essential for SSCs that want to create a genuine impact on society, and dedicated reporting teams could also be set up in order to ensure full ESG compliance within the SSC. Lastly, SSCs need to create a common governance framework that helps the center in aligning with the ESG goals of the parent and creates a culture where everyone works towards achieving these common goals. Towards this end, SSC leaders must also build robust ESG reporting mechanisms, with custom dashboards that generate comprehensive progress reports pertaining to the SSC's ESG goals.

Towards greater sustainability

In summary, today's trends make it self-evident that ESG issues need to be placed at the center of organization-wide strategy, as is being done by many modern-day businesses. It is an equally self-evident corollary that SSCs that cater to these businesses also need to come under the purview of ESG.

For this, they must integrate ESG goals of their parents within the fabric of their overall vision and create specialized teams that bring these goals into fruition.

They must also build stronger reporting mechanisms to help them with tracking their progress with regard to ESG. By doing this, SSCs will play a critical role in driving a sustainability focus across the larger organization.