



ESG in Services: What Sourcing Teams Must Know to Do More

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Live Tweeting #EGAnalyst

Introductions



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Discussion points for today

Understanding ESG

ESG in services
sourcing

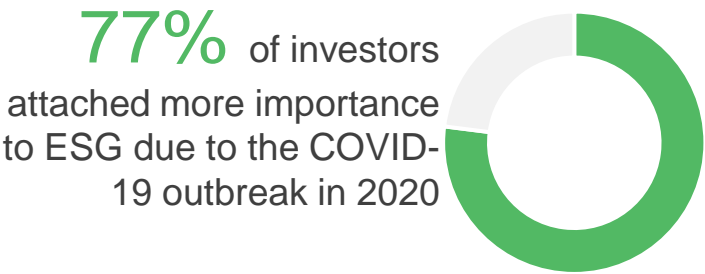
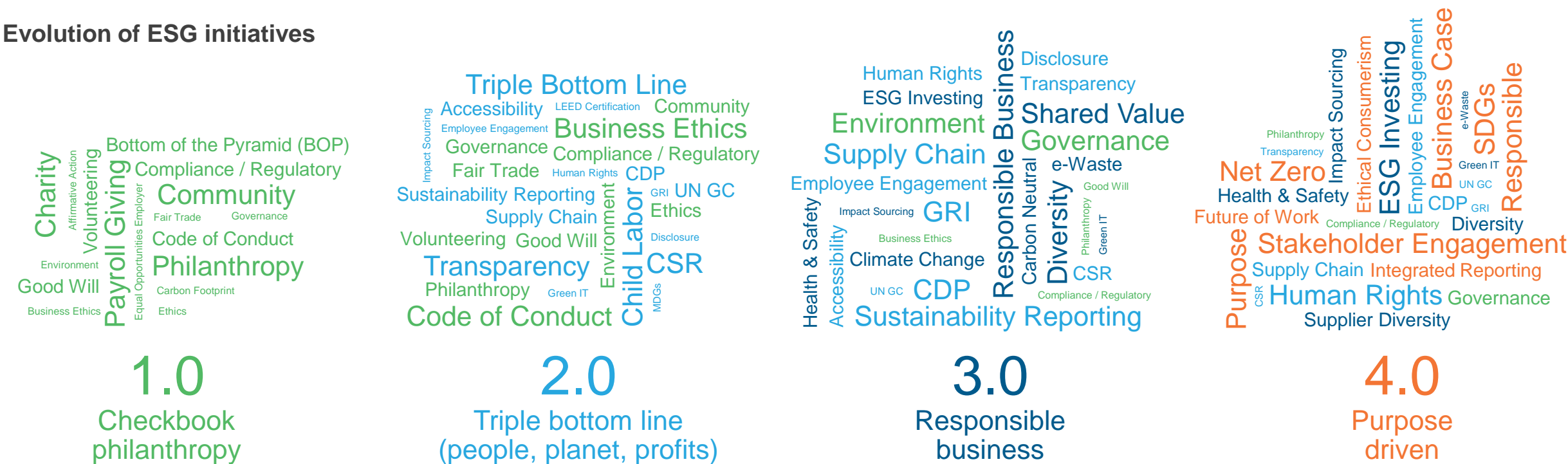
What sourcing
teams can do



Q&A

Environmental Social Governance (ESG) principles have been evolving consistently over time, but the global pandemic acted a catalyst to accelerate adoption

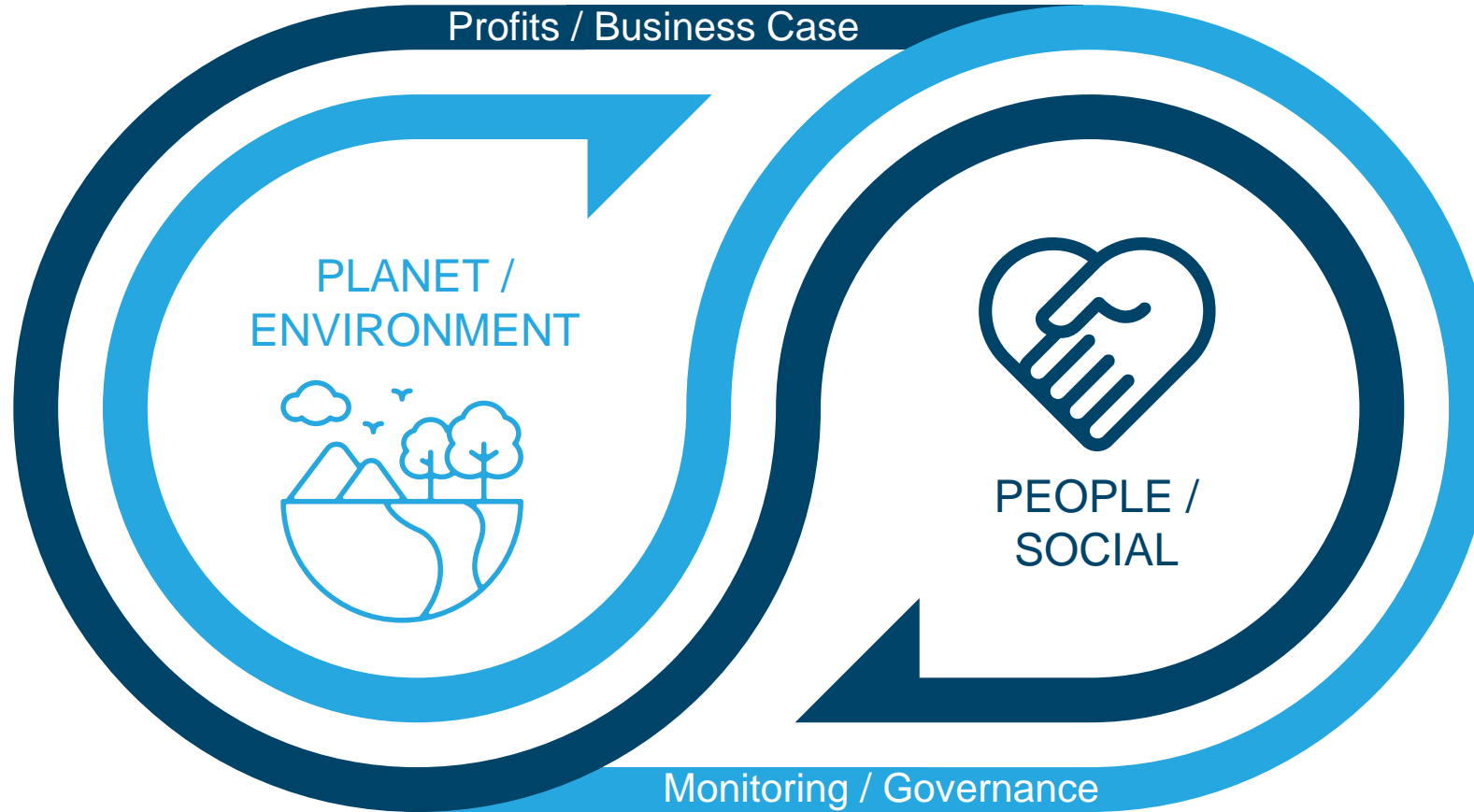
Evolution of ESG initiatives



Among the top 30 IT service providers Everest Group has tracked since 2010, 51% of all sustainability investments have been announced after April 2020

The purpose framework guides enterprise decisions and actions towards sustainability

Key ESG pillars



Source: Everest Group (2021)

What are the key drivers of introducing ESG initiatives in your organization? Please select all options that apply.

- Investor preferences towards ESG initiatives – **49%**
- Emerging regulations and global guidance around ESG – **58%**
- Demographic changes and increased employee sentiment – **37%**
- Changing customer sentiments leading to increased need for brand building through ESG – **51%**
- Increased need for cost optimization and value creation – **27%**
- Our organization has not introduced any ESG initiatives – **11%**



Organizations are shifting focus on ESG to build sustainable businesses



Key drivers of increased ESG focus



Investor preference and lower cost of funds



Emerging regulations and global guidance



Demographic changes and employee sentiment



Changing customer sentiments



Increased need for cost optimization and value creation

Key impact areas

Board-level objective of cascading ESG across the firm

Increased ESG reporting and compliance tracking

ESG as a talent attraction and retention tool

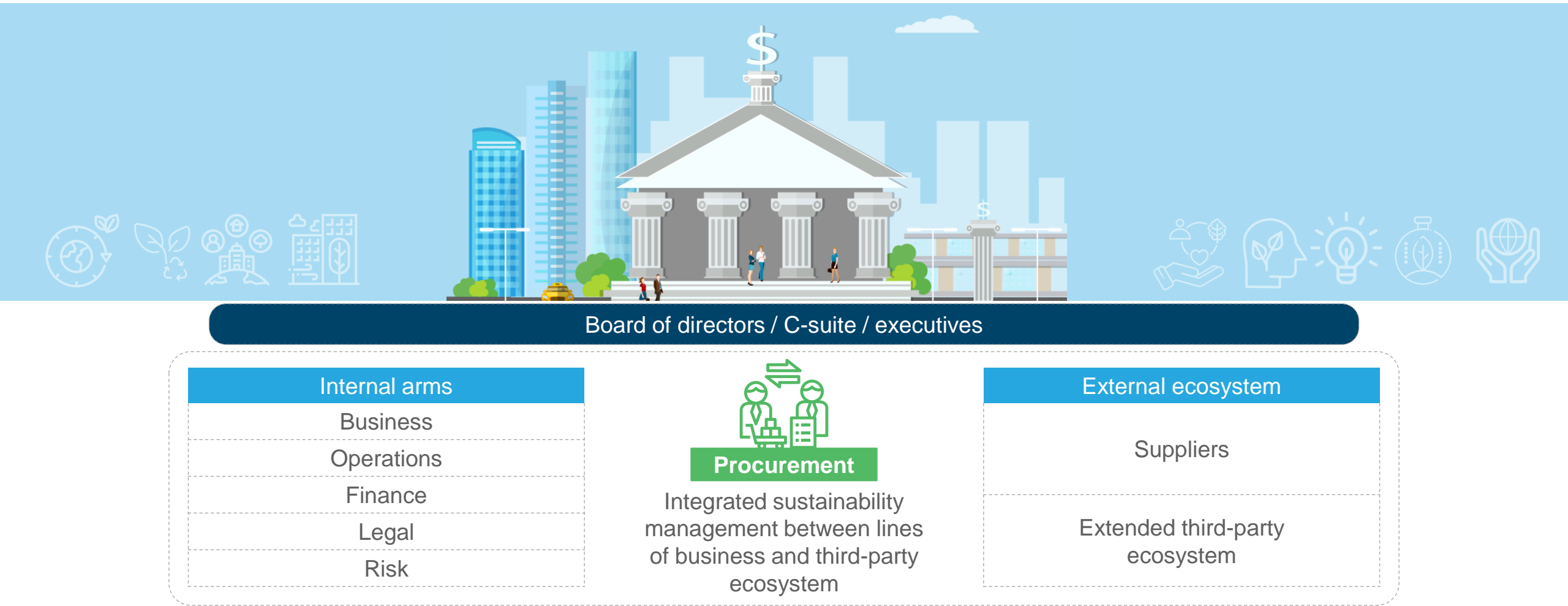
Utilization of ESG as a brand builder

Leverage of ESG to drive sustained value creation and efficiencies

ESG impacts financial metrics, talent, and the partner value proposition

Procurement is uniquely positioned to respond to the shift toward sustainability, as it sits at the intersection of all business units and suppliers

Governance model for sustainability



Discussion points for today

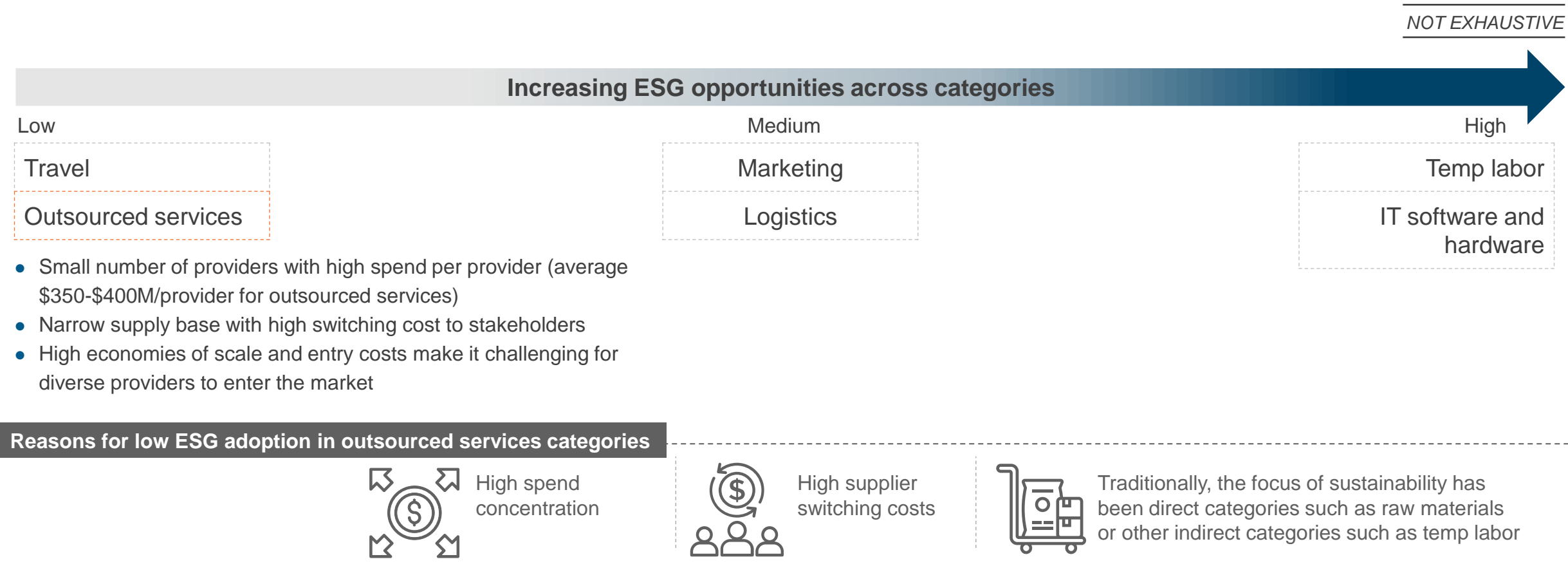


For which of the following categories is your organization applying ESG objectives? Please select all options that apply.

- IT services – **64%**
- Business process outsourcing (e.g., HR, procurement, finance & accounting, marketing) – **59%**
- Engineering and industry-specific services – **26%**
- Contingent workforce – **32%**
- IT software and hardware – **47%**
- Travel – **46%**
- Facilities – **53%**
- Professional services (e.g., consulting, audit, legal) – **41%**
- Maintenance, Repair, and Operations (MRO) – **35%**
- Capital equipment – **16%**



ESG objectives have been important to sourcing teams for years, but their adoption remains low across services categories



While ESG is a broad program that spans the firm, sourcing is typically focused on the supply base

Emerging ESG use cases in S2P



Category management

- Integrating ESG principles in category strategies and revisiting the supply base
- Integrating ESG information to make more informed supplier selection decisions
- Increasingly emphasizing measuring ESG impact when making sourcing decisions



Supplier relationship management

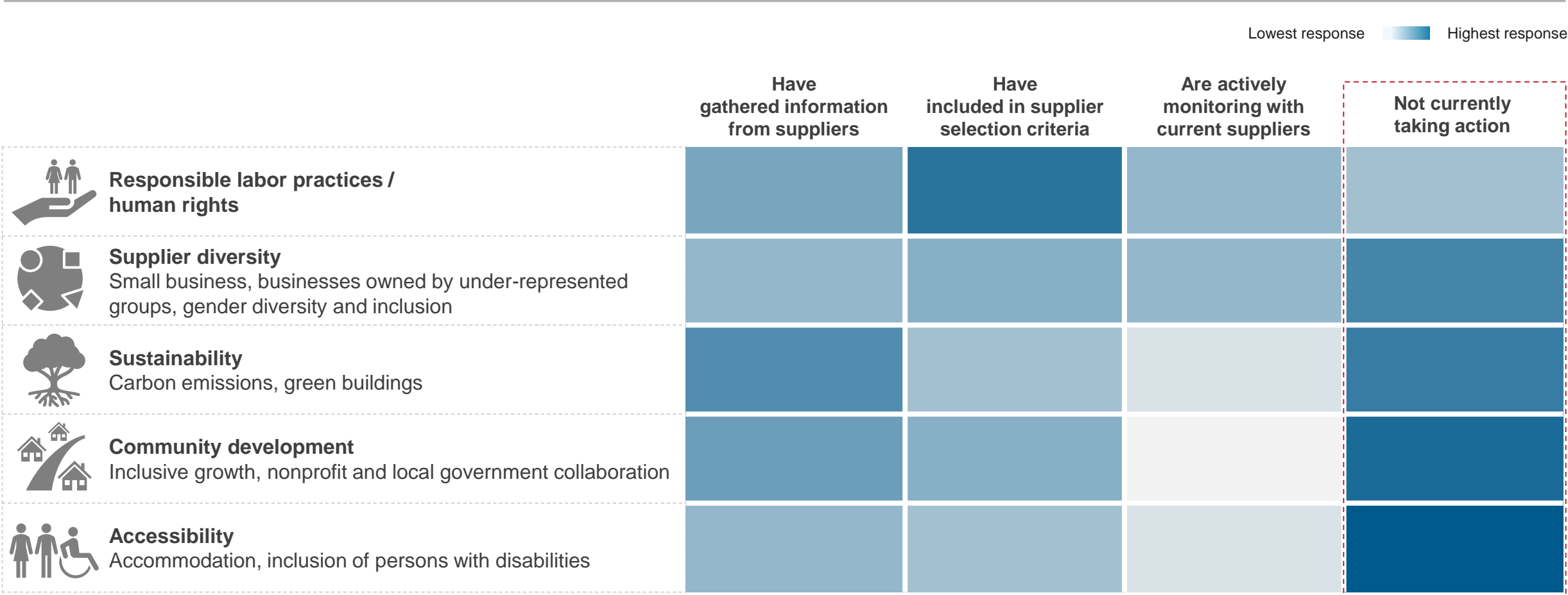
- Increasingly collaborating with suppliers and other partners to share ESG-related guidelines, best practices, and innovations
- Redefining procurement performance monitoring to include ESG-adjusted TCO and environmental profit and loss
- Implementing KPIs on progress and performance against ESG goals
- Upskilling teams to better engage suppliers in ESG initiatives



Digital and data management

- Embedding ESG principles in procurement data and digital asset strategy
- Ensuring multi-tier and subcontractor visibility to assess the full supply chain
- Upgrading procurement platforms and supplier management systems to integrate ESG information/principles in addition to traditional procurement operations

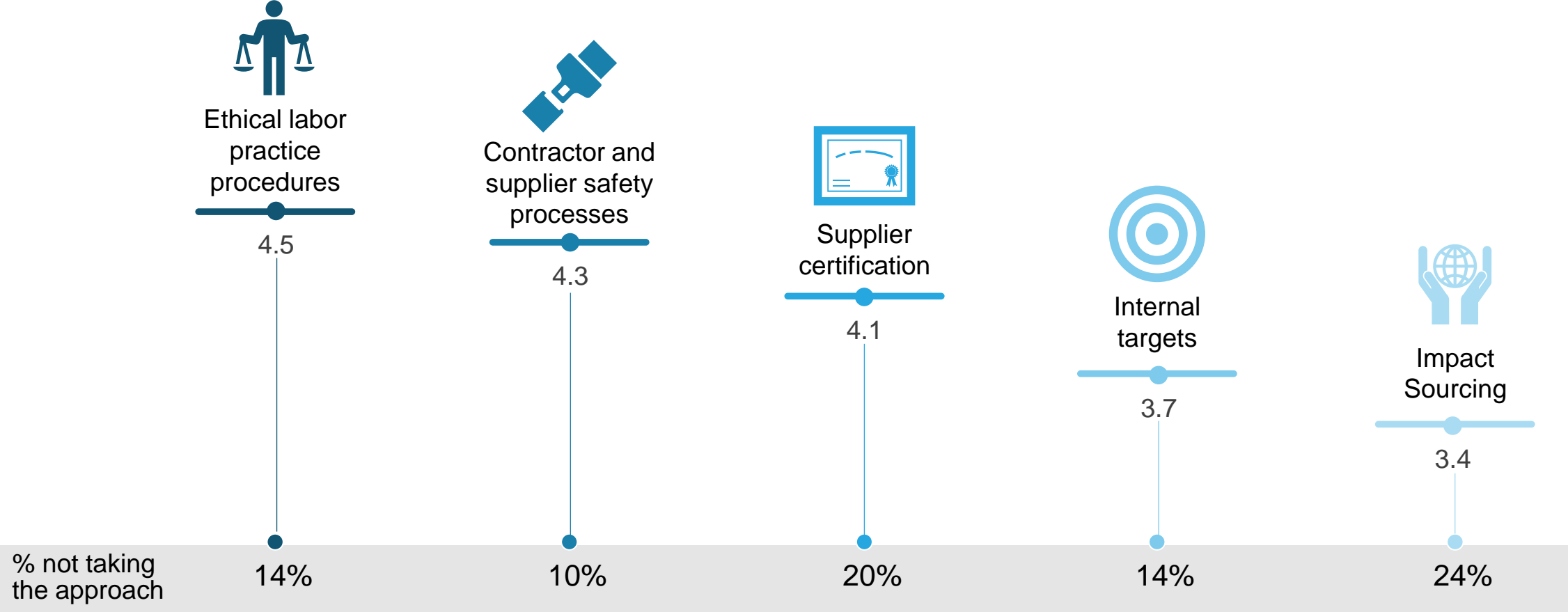
A majority of companies still do not consider ESG strategies in their service provider selection and management process



Source: Everest Group (2021)

While traditional approaches such as ethical and safety practices are in place with services suppliers, newer tactics are not yet broadly used

Current adoption of key approaches to address CSR requirements with suppliers, such as ethical labor and safety procedures
Extent to which the organization takes the approach on a scale of 1 to 6, with 6 being high



Source: Everest Group (2021)

Multiple ESG pillars are relevant for the services sourcing landscape – firms can evaluate the supply base across ESG parameters such as carbon footprint and Impact Sourcing

| | | | |
|---|--|---|---|
|  |  |  |  |
| Environment | Social | Governance | Key enablers |
| Suppliers' carbon footprint | Impact Sourcing | Supplier governance | Reporting metrics |
| Energy profile (renewable vs. non-renewable) | Diversity, Equity, Inclusivity, and Belonging (DEI&B) | Risk management | Risk reporting |
| Energy efficiency | Social/digital upskilling | Ethical labor practices | Responsible investment |
| Waste management | CSR | Supplier certification | KPI integration |
| Water conservation | Consumer rights | Audit/compliance | Business integration |
| | Community impact | Data privacy | |

Mission 2021 for ENTERPRISES | update your supplier intelligence on key sustainability priorities

Get a head start on your journey with **Everest Group's** analysis



Select any one of the following priorities



Sustainability priorities for operating model

- Data offerings for sustainability
- Technology solutions and services to enable sustainability
- Design roadmap for sustainability

You will get



Insights on key suppliers

- Overall sustainability offerings
- Service delivery capabilities
- Tools and IP
- Client satisfaction

HOW

To request your complimentary sustainability insights (**enterprises only**), indicate your interest or contact Michel, Rita, Amy, or Bhanushee (email addresses will be shared on the Q&A slide)

Discussion points for today

Understanding ESG

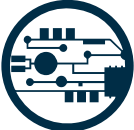


ESG in services
sourcing

What sourcing
teams can do



Q&A

Sourcing teams can integrate ESG needs into services categories by taking a targeted approach toward supply base management

| Key enabler | | | | |
|--|--|---|---|--|
| <div>  </div> <div> <p>Leverage digital to embed ESG through the downstream procurement value chain</p> <p>Leverage technologies such as cloud, AI/ML, IoT, blockchain, and data management to systematically deploy ESG evaluations</p> </div> | | | | |
| Key steps | <div>  <div> <p>Create an ESG-oriented approach across-the-category planning and strategic sourcing process</p> </div> <div>1</div> </div> | | <div>  <div> <p>Embed ESG in the supplier relationship management process</p> </div> <div>2</div> </div> | |
| Examples of ESG-related goals | <ul style="list-style-type: none"> Select suppliers that have invested in ESG initiatives Increase spend with diverse suppliers and pay these suppliers faster Track major service providers' carbon footprints | | <ul style="list-style-type: none"> Embed sustainability in the service level agreement (e.g., service provider to partner in local engagements such as training programs as a shared cost of engagement) Benchmark suppliers' ESG performance in key metrics against peers Hold suppliers accountable for ethical goods and practices Benchmark providers' ESG performance in key metrics against peers | |
| Examples of ESG targets | X% spend with local and/or diverse suppliers | Minimal carbon footprint and emissions of top-tier strategic partners | Best-in-class ESG contractual clauses | Periodic ESG audits for top tier strategic suppliers |

Assess organizational objectives to nail down the right ESG strategy for your supply base



Identify suppliers that engage in Impact Sourcing: outsourcing services providers that specifically hire workers from underrepresented communities

1

Impact Sourcing is an opportunity for suppliers to use tech4good, address talent challenges, and reap other benefits such as access to an untapped talent pool

Benefits of Impact Sourcing

- 

STABLE AND ENGAGED EMPLOYEES

Impact workers are more engaged, productive, and eager to grow/learn
- 

ACCESS TO UNTAPPED TALENT

Opportunity to invest in skilling and talent development programs to manufacture talent in a supply-constrained market
- 


SOCIAL IMPACT

Companies can contribute to the goal of building a more diverse and inclusive workforce while contributing to social and economic development
- 


LONG-TERM COST SAVINGS

Low turnover and high engagement generates long-term savings as companies spend less time in recruitment and training activities


Examples of Impact Sourcing



Intuit has partnered with Sykes and others to create prosperity hubs in rural North America



Microsoft established the African Development Center in Kenya and Nigeria for digital services



Infosys and specialist DesiCrew have partnered in rural India to deliver to large buyers like P&G



Teleperformance extended job offers to over 2,000 Venezuelan refugees in Colombia

Source: Everest Group (2021)

Moving beyond the traditional US measure of supplier diversity of business ownership to prioritize supplier workforce diversity can have impact

1

Supplier diversity

A diverse supplier is owned and managed by a traditionally underrepresented individual or group. An organization needs to ensure that its suppliers are certified through third-party certification agencies to record and report diverse supplier spend.

Supplier diversity certifications to look for



Workforce diversity

Workforce diversity and inclusion appreciates similarities and differences among employees in terms of age, gender, disabilities, cultural background, race, religion, gender, and sexual orientation. An organization can create the culture of inclusion by creating a workforce that prides itself on reflecting a variety of backgrounds and experiences.

Workforce diversity partnerships to look for



Examples of service provider claims

45%

of our leadership are women in the US

32%

are People of Color in the US - exceeding standards set by Diversity Inc.

7%

of our global employee population is mature age

1.5%

of our global employee population are people with disabilities

4.6/5

rating on the employee review site, Glassdoor

Identify suppliers that have committed to or met environmental targets

1

Examples of major providers that have achieved / anticipate achieving Net Zero between 2020 and 2050

2020



2030



2040



2050



Examples



TCS launched an IoT-powered Clever Energy™ solution to help companies shift toward Net Zero emissions. The platform is an energy and emission management system that helps commercial and industrial organizations be more sustainable, ensure energy and cost efficiency, decrease carbon emissions, and reach their carbon neutral goals.



Infosys worked with BP to develop and pilot an energy-as-a-service solution to help firms meet their decarbonization goals. The platform collects data from multiple energy assets and uses artificial intelligence to optimize the energy supply and demand for power, heat, cooling, and EV charging.

Source: Company websites / company's public announcements, Everest Group (2021)

Look for additional examples of service providers' best-in-class ESG initiatives when sourcing

1

Neurodiversity



IBM launched the IBM Ignite Autism Spectrum Disorder program in 2017 to help transform spectrum talent by employing them locally and delivering their unparalleled talent directly to IBM clients. The provider integrates its neurodivergent workforce with colleagues through regular meetings and social activities to help combat social anxieties and foster collaboration and team building. This initiative has increased business value – clients where Ignite employees have been placed appreciate the program and the differences that the talent pool brings to the table.

Fair trade practices



Accenture partnered with a global confectioner to advance the company's commitment to fair trade practices. It implemented a blockchain solution that established the origin of every cocoa bean and serves as a single-source-of-truth throughout the supply chain. The pilot was a success with 50 shipments of slave and child-labor-free beans logged; it also helped the client demonstrate the viability of its vision that all chocolate being produced responsibly becomes an industry standard.

While many outsourced services suppliers are bullish in their ESG strategies, it remains to be seen how implementation and promised initiatives will work out in the coming years

Source: Company websites / company's public announcements, Everest Group (2021)

While evaluating suppliers, ensure you ask the right questions in the RFP

1

Key ESG-focused questions to ask your suppliers in the RFP

NOT EXHAUSTIVE



Environment

- What are the various local environmental regulations that you need to comply with?
- Do you target becoming a Net Zero company? If yes, by when?
- Have you been recognized or received awards in the environment and sustainability area?



Social

- Does your firm have a stated diversity and inclusion goal/mandate and/or targets? If yes, do you have targets for the next 5-10 years?
- Is your leadership compensation tied to the fulfillment of the firm's diversity and inclusion goals?
- Do you have initiatives that target hiring from marginalized communities (Impact Sourcing)?






Governance

- Has your firm or product(s) undergone any type of ESG audit?
- What ESG data, research, third-party consultants, resources, tools, and practices does your firm/team use? How are these incorporated into the risk management process?
- Are there any sustainability (ESG) risks and impacts in the potential outsourcing model? If yes, what are your risk mitigation strategies?

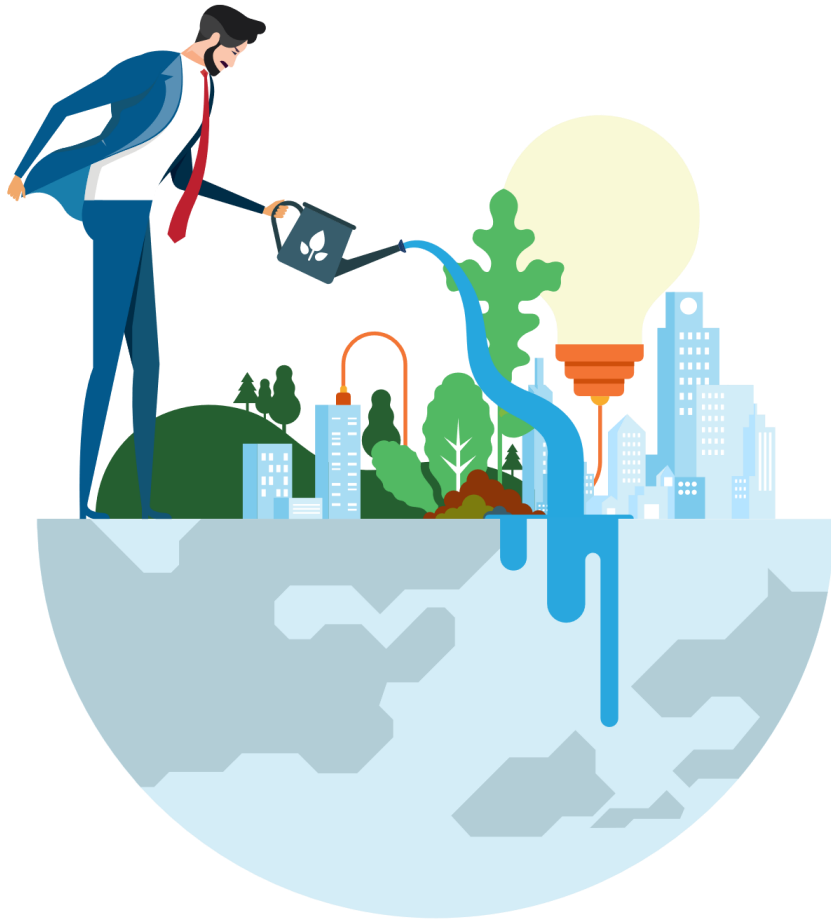
Measure and monitor ESG targets regularly through the supplier management lifecycle

NOT EXHAUSTIVE

ESG-focused supplier performance metrics

| ESG-focused supplier performance metrics | | Description | Frequency of measurement |
|--|----------------------|--|--------------------------|
|  | Diversity | Measured for suppliers and specific to outsourcing providers (US standards of diversity consider demographics such as gender, race/ethnicity, age, sexual orientation, and veteran status; local standards should apply) | Quarterly/annually |
|  | Sustainability | Measurement of sustainability metrics such as carbon emissions in service provider supply chains | Semi-annually/annually |
|  | Fair labor practices | Measurement of compliance with fair labor principles including workplace standards compliance monitoring, workforce grievance mechanisms, and commitment to engage with relevant labor non-governmental organizations, trade or other civil society institutions | Semi-annually/annually |

Key ESG opportunity areas for sourcing teams to explore with their supply base in 2022



- **Target workforce diversity along with supplier diversity:** Measure and emphasize suppliers' workforce diversity initiatives such as women in leadership and veteran hiring through internal initiatives or partnerships with organizations (e.g., DiversityJobs), apart from traditional ownership-based diversity
- **Explore impact sourcing opportunities:** Track whether suppliers utilize workers from vulnerable communities such as refugees or underdeveloped areas and thereby gain access to untapped talent
- **Validate that suppliers match organizational environmental targets:** Ensure suppliers match organizational sustainability goals such as Net Zero targets or energy emission targets
- **Track ESG-related capabilities throughout supplier selection and ongoing management process:** Track suppliers' ESG capabilities through a comprehensive and ongoing RFP assessment process. Ensure compliance with reporting norms with respect to standards related to tracking sustainability metrics and meeting global baseline of sustainability-related disclosure standards
- **Showcase ESG evidence points, beyond the "E":** While multiple suppliers are undertaking environmental initiatives, explore evidence of suppliers conducting social and governance-related activities such as fair labor treatment, upskilling, and community building

Discussion points for today

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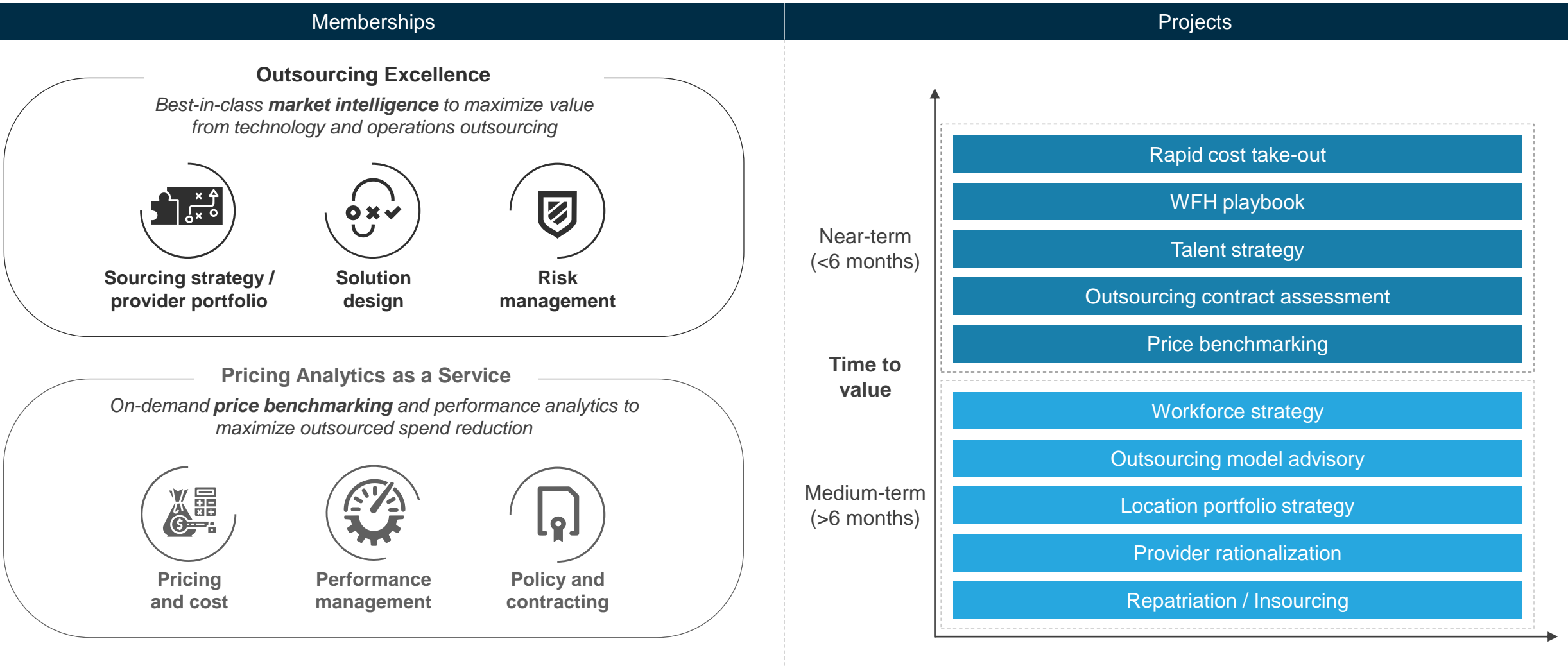
ESG in services
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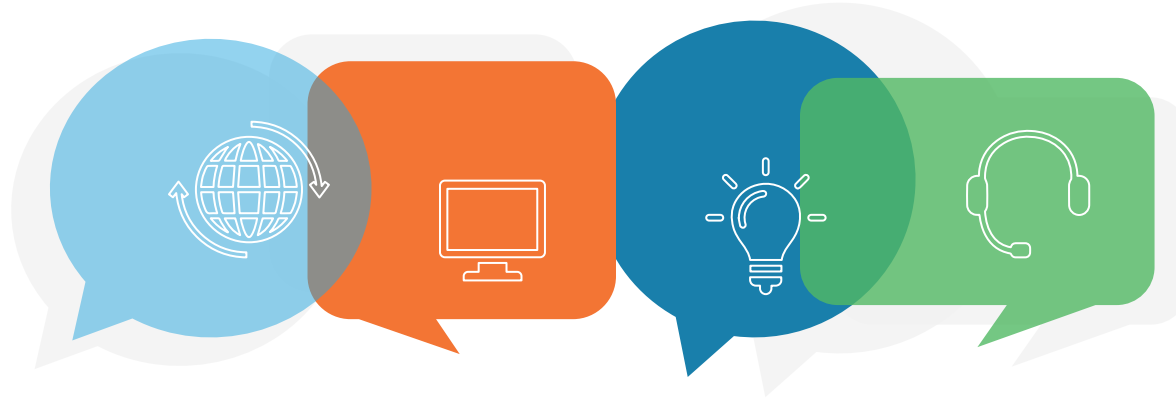
What sourcing
teams can do



Q&A

Everest Group assists procurement teams in capturing value from their services spend through memberships and focused projects





To ask a question during the Q&A session

- Access the **Questions** panel within the Zoom console, which is typically located on the bottom of your Zoom window
- Type your question in the dialogue box, then select **Send** to submit the question to our session Organizers/Panelists
- Attendees will receive an email with instructions for accessing today's presentation
- To ask a specific follow-up question, or for a complimentary assessment of your organization's digital effectiveness, please contact:
 - Michel Janssen, michel.janssen@everestgrp.com
 - Rita N. Soni, rita.soni@everestgrp.com
 - Amy Fong, amy.fong@everestgrp.com
 - Bhanushee Malhotra, bhanushee.malhotra@everestgrp.com

Check out our blog for the latest perspectives on ESG and services sourcing



Rita N. Soni
Principal Analyst, Impact Sourcing & Sustainability Research



Where Business Meets Purpose: Launching Our Inaugural Impact Sourcing Specialist State of

SEPTEMBER 16, 2021 | SHARE

We are very excited to share the launch of Everest Group's inaugural Impact Sourcing Specialist State of the Industry Report. This report is for services companies where the primary talent strategy is [impact sourcing](#). I had the honor of being the lead author for this report, which was published by the NASSCOM Foundation, funded by the Rockefeller Foundation. But what a difference it makes to have this report published by such a prominent organization.

[Learn how to participate and receive the RFI](#)

The increased adoption of this business practice has been driven by social movements and a focus on inclusion within society, impacting the business community. The United Nations' launch of the Sustainable Development Goals has brought public attention and an increased focus on global partnerships. The momentum was further fueled by the pandemic, which has redefined the purpose of a corporation to promote an "economy that serves all Americans."

In recent years, many grassroots social movements are calling for social justice globally. The COVID-19 pandemic have made the world feel a lot smaller and further highlighted the plight of many communities where credit is due – members of Gen Z are actively looking for purpose and are launching their own communities.



Bhanushee Malhotra
Practice Director



If IT Is from Mars, Procurement Is from Venus: 5 Steps to Break the Chasm between IT and Procurement for IT Sourcing

OCTOBER 14, 2021 | SHARE

It may seem at times that the IT and procurement departments can be on different planets when it comes to communication styles and priorities. Read on to learn how to counteract differences in communication styles and priorities.

For a complimentary analysis of your IT sourcing practices, take our IT Sourcing Pinnacle Maturity Assessment. We are sourcing Pinnacle Enterprises™ across leading global organizations.

[Take our Survey](#)

How their stars align

Anyone who has set up a new procurement department at a firm with large volumes of untraced spend will tell you that it is a challenging task. The reasons are simple – IT has large volumes of spend, and it is the earliest, and can become the greatest support system in the long-term. The CIO's office consists of some of the most experienced and process-sensitive of all business units. Often, IT category managers and certain organizations centralize procurement departments in IT. Further, as early adopters, IT is willing to serve as highly visible references to other adopter groups in the population (i.e., other business units). If procurement if they want to establish their foothold in the organization and increase spend under their purview, the procurement team is not involved in nearly half of their company's services spend, as can be seen in the chart below.



Aakash Jaiswal
Senior Analyst



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Making It Count: Why the Latest IPCC Report Should Compel Enterprises to Rethink the 'E' in Their ESG Strategies | Blog

SEPTEMBER 20, 2021 | SHARE

The repercussions of climate change and global warming have been exposed in more ways than one over the past 12 months. The heart-breaking pictures of forest fires and increased natural disasters would cause even the fiercest of climate-change skeptics to look up and take notice. The latest reckoning has come from one of the top authorities on climate change – the Intergovernmental Panel on Climate Change (IPCC).

Its recent warning of a 'code red for humanity' signals the urgent need for enterprises to strengthen their commitment to the "E" in Environmental, Social, and Governance (ESG) strategies. Read on for more on our continued analysis of this important issue and what steps your organization can take toward achieving a more sustainable future.

IPCC and its latest findings

As the United Nations body responsible for conducting scientific assessments on one of the gravest issues facing our world – climate change, IPCC conducts studies to determine its repercussions, the future risks that it presents, and avenues to mitigate the ravages of this phenomenon.

In its latest Climate Change 2021 report, the IPCC presents a realistic picture of the impact of climate change and details measures the world can take while there is still time to act.

Among the report findings are the following:

- Human influence is unequivocally responsible for the warming of the atmosphere, ocean, and land, which has resulted in widespread and rapid changes in the atmosphere, ocean, cryosphere, and biosphere
- The scale of recent changes across the climate system as a whole and the present state of many aspects of the climate system are unprecedented. Case in point – in 2019, the levels of carbon dioxide (CO2) in the atmosphere were higher than at any time in at least the last 2 million years; also, global mean sea levels have risen faster since 1900 than over any preceding century in at least the last 3000 years
- Global surface temperature will continue to increase until at least the mid-century under all emissions scenarios considered. Global warming of 1.5 degrees Celsius and 2 degrees Celsius will be exceeded during the 21st century unless deep reductions in CO2 and other greenhouse gas emissions occur in the coming decades

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