



ESG Adoption Survey

An Assessment of ESG Adoption Across
Select IT & Business Service Providers

Presented at the Festival of Sourcing
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Perspective



What is the *raison d'être* of a Business?

- Throughout the history of trade and commerce, it has been broadly understood that the main (if not sole) purpose of a business is to deliver the best possible return on investment under prevailing market conditions, thereby creating long-term shareholder value
- As a result, profit-oriented corporations have over the years focused almost exclusively on the profitability of their various business lines, oblivious of the impact of their operations on the environment or on the individuals and communities they touch

Friedman Doctrine:

“When I hear businessmen speak eloquently about the “social responsibilities of business in a free-enterprise system,” I am reminded of the wonderful line about the Frenchman who discovered at, the age of 70 that he had been speaking prose all his life. The businessmen believe that they are defending free enterprise when they declaim that business is not concerned “merely” with profit but also with promoting desirable “social” ends; that business has a “social conscience” and takes seriously its responsibilities for providing employment, eliminating discrimination, avoiding pollution and whatever else may be the catchwords of the contemporary crop of reformers. In fact, they are—or would be if they or anyone else took them seriously—preaching pure and unadulterated socialism. Businessmen who talk this way are unwitting puppets of the intellectual forces that have been undermining the basis of a free society these past decades.”

Opening paragraph of an article in the New York Times of Sept. 13, 1970 titled [“A Friedman doctrine-- The Social Responsibility Of Business Is to Increase Its Profits”](#) by Milton Friedman

Sustainable Development

- The sustainable development movement started in a small way in the latter half of the last century
 - Picked up pace at the turn of the millennium and gathered significant momentum in the wake of the global financial crisis of 2008, amidst institutional collapse, environmental disasters, social unrest and political turmoil
 - Is now shaping the way businesses envision the future and their role in it – in terms of strategies that balance **profit** with sensitivity to **people** and responsibility to the **planet**

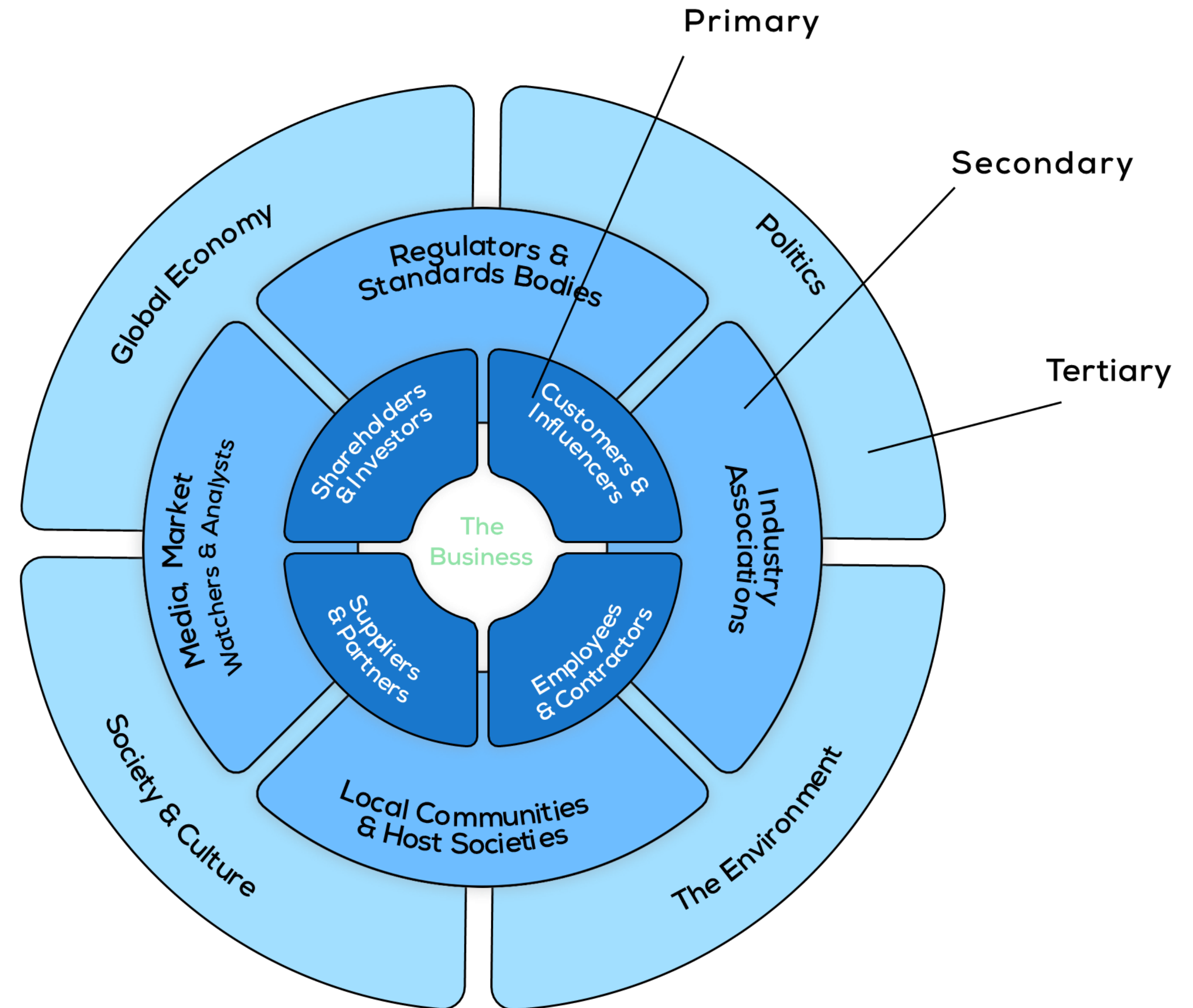
- The pandemic, with its multiple cascading and far-reaching ramifications, has only further heightened the urgency to rethink the business with sustainability as a north star and guiding beacon



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The Business Ecosystem Today

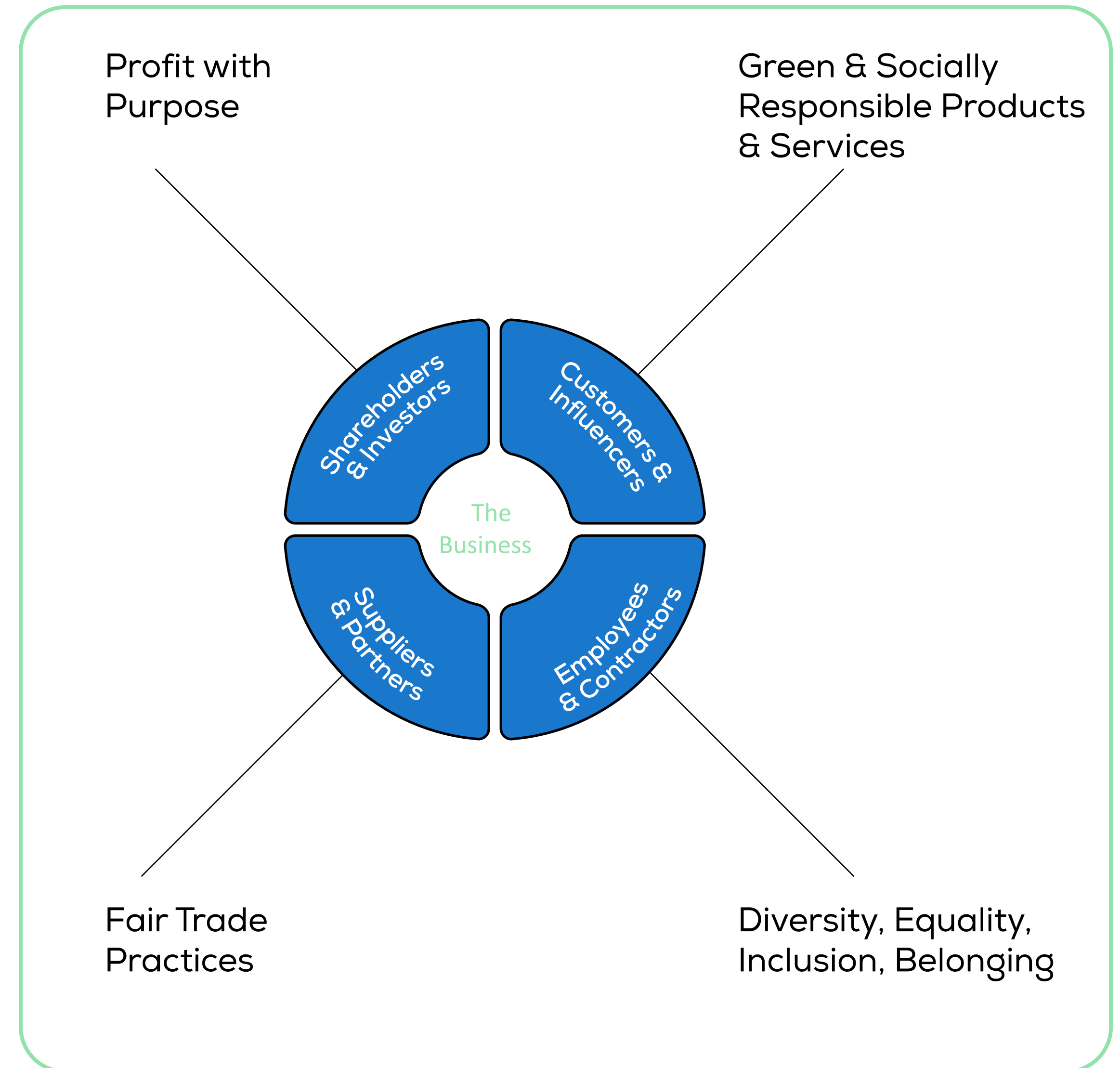
- Businesses today operate in a commercial space comprising numerous entities of different types, with whom they regularly engage in the transactional give-and-take that enables them to succeed and thrive.
- Such entities may be characterized as **stakeholders** in the business.
- The fundamental principles of sustainability require businesses to:
 - recognize such stakeholders as constituencies intrinsic to their ecosystem and be accountable to them as such, and
 - take a positive-sum approach while dealing with such stakeholders and managing their relationships with them
- In Neo's view, there are 3 levels of stakeholder types that businesses need to proactively engage with, and with whom they share mutual interdependencies



Stakeholder Accountability Drives the Sustainability Journey

- Coming under varying degrees of pressure from different stakeholders, the need to address this trifecta of challenges:
 - climate change,
 - social disparities, and
 - erosion of public trust in institutions
 has never been more acutely felt by organizations around the world

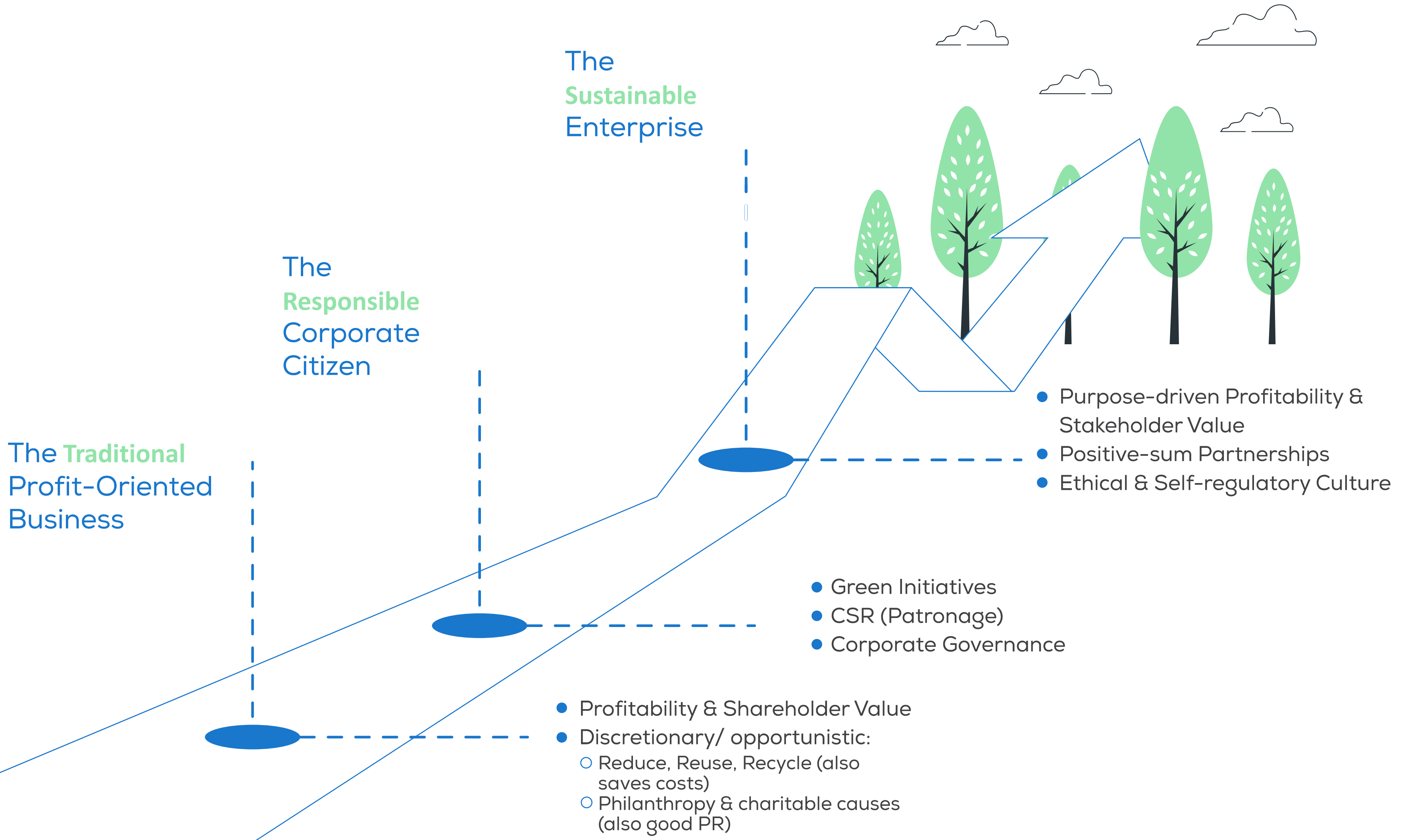
- Industry leaders are now paying keen attention to the key factors that determine sustainability, driven by a combination of
 - customer demands for environmentally-friendly and ethically-produced goods and services
 - shareholder directives to integrate profit with purpose
 - employee concerns about workplace safety, diversity, equality and inclusion, and
 - supplier expectations of fair and decent treatment



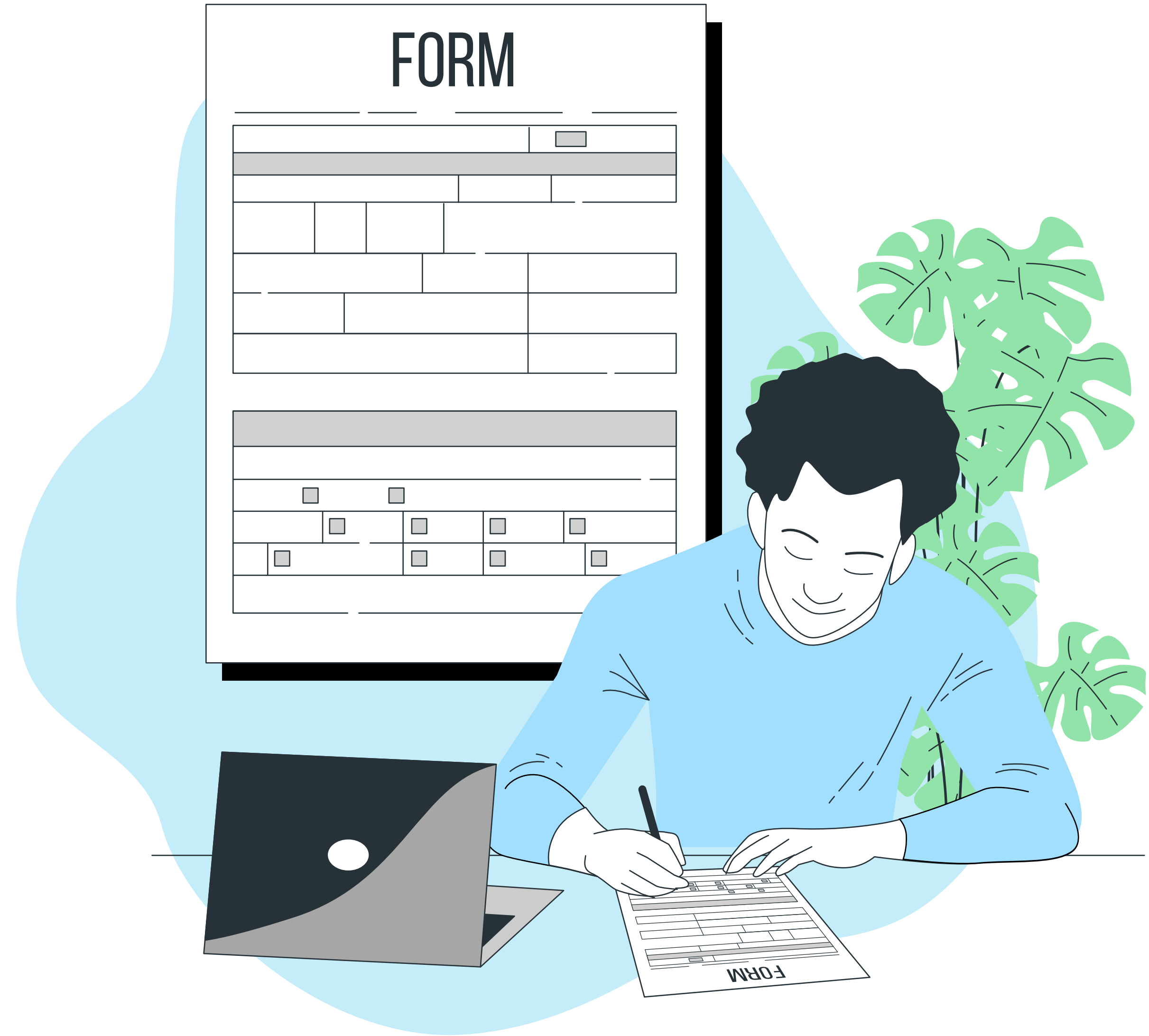
Sustainable Transformation: A Paradigm Shift in the Business Mindset

Legacy Business Mindset	Sustainable Thinking
Profit First	Purpose First, Then Profit
Cornucopian Worldview	Gaian Worldview
Parasitic Exploitation	Symbiotic Exchange
Deontological Ethics	Teleological Ethics
Charity	Equity
Patronage	Partnership
Zero-sum Relationships	Positive-sum Relationships
Enforcement	Self-regulation

The Sustainable Transformation Journey – Roadmap of Evolution



About Neo's Survey



Background & Need

- The last few years have witnessed renewed vigor in organizations' commitment to addressing Environmental, Social and Governance (ESG) challenges, across a broad swathe of industry sectors and geographies
- In recent times many of Neo's clients have sought our point of view on the nature and extent of ESG adoption by global IT & Business Service Providers (ITBSPs)
- Several clients expressed keen interest in knowing whether ITBSPs have embraced the **spirit** of sustainability or whether they are merely going by the letter
- Taking a cue from our clients' queries we decided to conduct an ESG Adoption Survey across some of the key players in the industry (listed on the next page)
- This report presents our observations and findings that came out of that survey

ITBSPs (in Alphabetical Order) Invited to Participate

ITBSP Contacted	Response
Accenture	No response
Atos	Responded
Capgemini	Responded
Cognizant	Responded
HCL	Responded
Hexaware	Responded
Infosys	Responded
Kyndryl	Responded
L&T Infotech	Responded
Mphasis	Responded
TCS	Responded
Tech Mahindra	Responded
Wipro	Responded
Zensar	Responded

Methodology



The “Watermelon Effect”

When it comes to measurement and reporting in the IT & Business Services industry, a common colloquialism often heard in the market is the “Watermelon Effect”, which happens when

- All the SLAs, KPIs and other metrics indicate that all is well (“Green”, to borrow the Traffic Light metaphor)
- And yet somehow the customer is not happy (“Red”) with the ITBSP’s service

(just like a watermelon: green on the surface but red when you dig deeper)

Neo recognized that there could potentially be something similar happening vis-à-vis ESG adoption i.e., differences in:

- The way companies align their **operational processes and business performance** to meet or exceed relevant ESG standards and guidelines prescribed by various internationally-established standards authorities, and
- The way companies align their **organizational culture and approach to doing business** with the core values and foundational principles that undergird the transformation journey toward sustainability

The Two Dimensions of ESG Adoption

Accordingly, we designed a twin-track assessment model

- Operational and performance alignment was measured through a survey template shared with participants, consisting of two worksheets:
 - An open-ended questionnaire that participants could fill-out or copy/paste from their annual report and other public disclosures, and
 - A 5-point scoring sheet for various criteria, for self-assessment by participants on a scale of 0 to 4
- Cultural and attitudinal alignment was assessed by the Neo team based on interviews in which participants walked through their responses to our questionnaire and explained their scoring on the self-assessment worksheet

We then plotted participants' scores on a two-dimensional grid

- On the X axis, we plotted their operational-performative score (i.e., how well they performed, as per their own assessment, with regard to generally accepted ESG standards, guidelines and reporting parameters)
- On the Y axis, we plotted their cultural-attitudinal score (i.e., the extent to which they showed evidence of sustainability values embedded in their business outlook and organizational culture, during their interactions with the Neo team conducting this survey)

Validation or verification of participants' self-assessed operational-performative scores was outside the scope of this survey

- However, in a few cases we were able to cross-check their self-assessed scores against their own responses to the questionnaire, and also against their own disclosures in the public domain (such as annual reports etc.), where such information was accessible

Operational-Performative Alignment – The Survey Template



Two parts to the survey template: Questionnaire & Self-assessment

- Structure of Questionnaire:
 - General questions dealing with the overall high-level approach to sustainability within the business and how the business has organized itself to make and honor ESG commitments
 - 4 sets of focused questions exploring how each of the 4 primary stakeholder types drives or influences the ESG strategy
- Structure of Self-assessment template
 - 3 sections (to be self-scored on a 5-point scale from 0 to 4):
 - Environmental criteria
 - Social criteria
 - Governance criteria



Request for interview

- Neo requested an interview with the participating ITBSP's ESG team that filled-out the survey template
 - Purpose of the interview was to walk-through the responses
 - Understand thinking behind answers to questions in the questionnaire
 - Clarify any doubts that the Neo team might have had on the scoring done by self-assessment



In the few cases where it was found that the self-assessed score was inconsistent with information provided by the respondent or information available in the public domain, those scores were normalized (i.e., adjusted downward)

Operational-Performative Alignment – Criteria

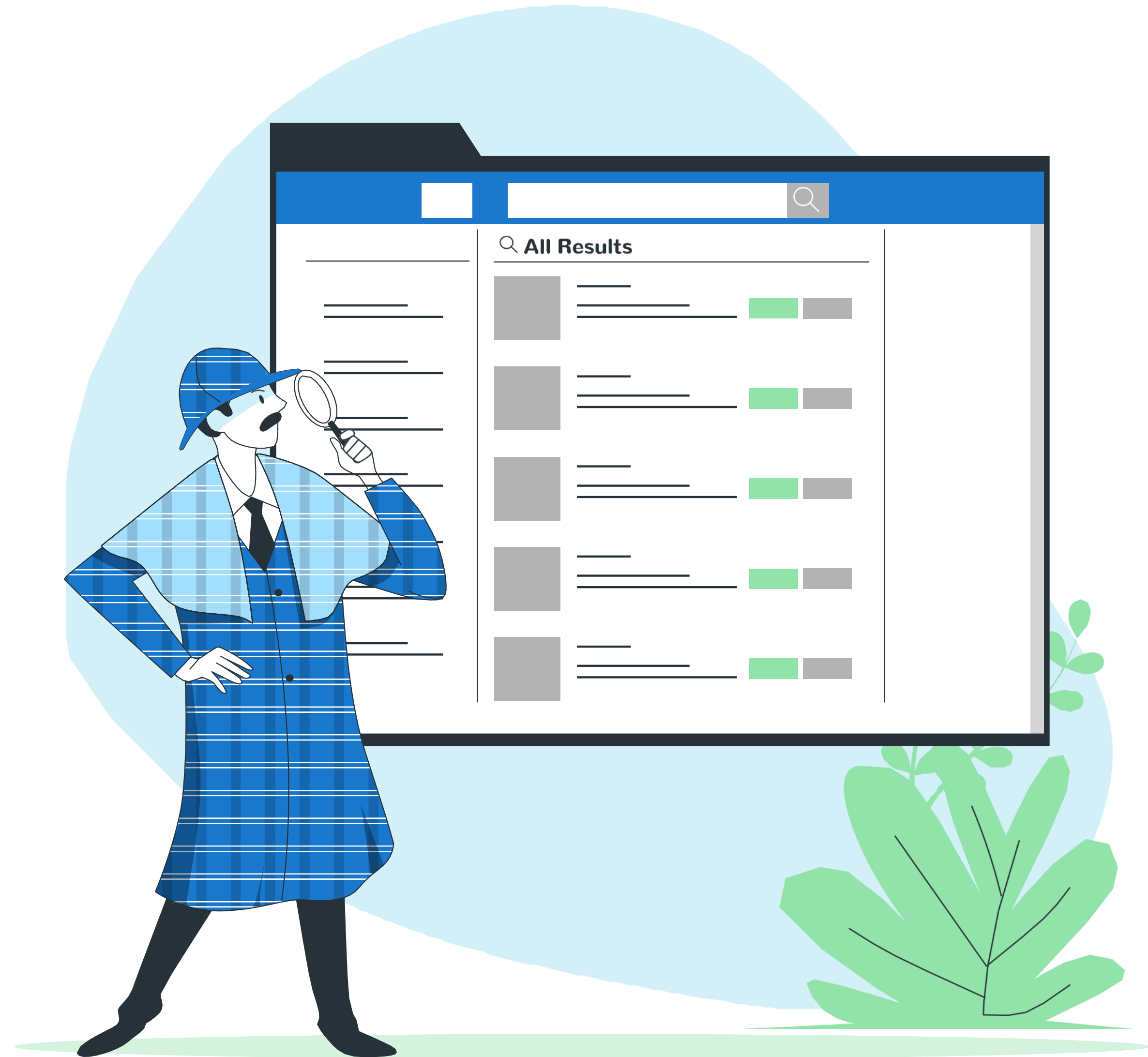
Environmental Criteria	Social Criteria	Governance Criteria
Greenhouse gas (GHG) emissions	Diversity and Inclusion	Product Safety & Quality
Task Force on Climate-related Financial Disclosures (TCFD) implementation	Pay Equality	Chemical Safety
Operating from water-stressed location	Incidence of child, forced or compulsory labor	Financial Product Safety
Biodiversity	Health & Safety	Responsible Investment
Certification of the Environmental Management System	Economic Contribution – Community Re-investment	Insider Ownership
Carbon Footprint	Corporate Social Responsibility	Shareholder Rights
Hazardous Materials Use	Human Rights Policy	Risk Oversight
Energy Efficiency		Anti-Competitive Practices
Green Building Certifications		Anti-Bribery Policy
Opportunities in Clean Technology		Protected Ethics Advice & Reporting Mechanisms
Opportunities in Renewable Energy		

Cultural-Attitudinal Alignment – Criteria

Given Neo’s role as an influencer and trusted advisor to customers of global ITBSPs (and therefore a primary stakeholder in the ITBSP’s business ecosystem) and also given Neo’s role as an industry analyst (and therefore a secondary stakeholder), the Neo team decided to use their experience of interacting with ITBSPs in the course of conducting this survey itself, as a sampling mechanism to assess participants’ cultural and attitudinal alignment as seen through the eyes of a stakeholder.

Criteria	Basis of Scoring by Neo Team
Readiness to discuss ESG adoption	Time taken to: (a) return filled-out survey (b) schedule interview and complete all aspects/ iterations of survey
Level of engagement on ESG adoption	Who (function/ role) and at what level from the company engaged with Neo in the interviews
Transparency regarding ESG adoption	Level of detail regarding disclosures in the questionnaire part of survey (and attachments, if any)
Diligence in responding to Neo Survey	Extent to which responses to each question in the questionnaire were aligned with what was being asked
Visibility of passion regarding ESG	As evident in the interviews and public domain disclosures/ announcements, as relevant

Observations & Findings



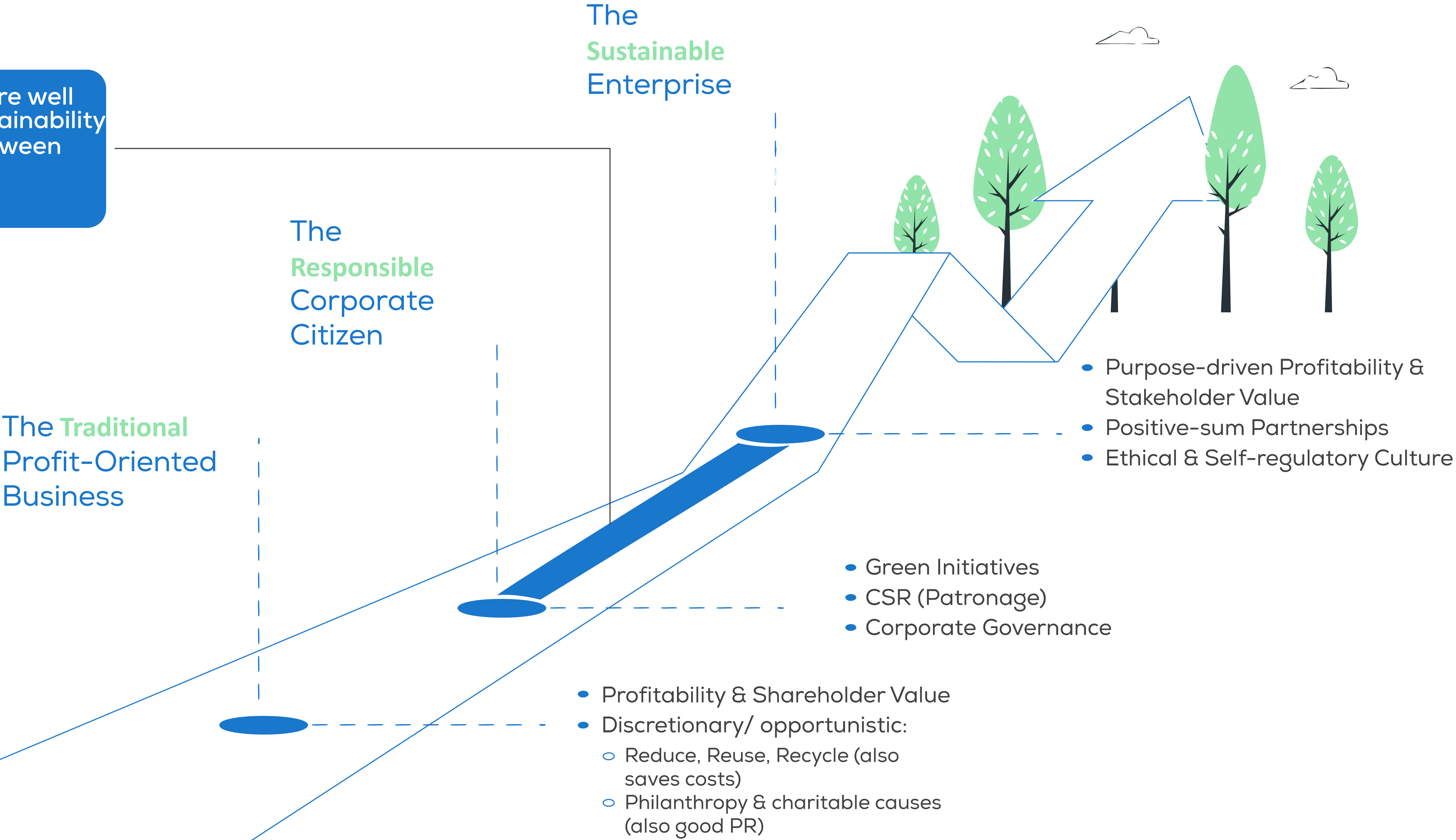
Overview & General Observations

- Mature ITBSPs have integrated sustainability thinking into their vision for the future and see it as the next step in the evolution of business
- Some ITBSPs are performing exceedingly well on quantifiable ESG metrics but have yet to fully embrace the sustainability philosophy and mindset foundational to ESG performance
- In contrast, some other ITBSPs have done a better job of aligning their organizational culture with the core values of sustainability but are working hard to meet operational performance and/ or ESG reporting standards
- All the ITBSPs we surveyed see ESG as yet another area of competitive differentiation and are determined to excel at how their organization performs on ESG criteria and parameters
- Most participants leverage their ESG achievements for improving their brand perception among investors, customers, employees and other stakeholders
- Many of the ITBSPs surveyed have created innovative offerings (products and services) that their customers could actually leverage in their own ESG programs



Sustainable Transformation Journey – Roadmap of Evolution

ITBSPs surveyed are well on the road to sustainability – most of them between “Responsible” and “Sustainable”



ESG In The Organization



Executive Sponsorship for ESG

- Strong Board-level support for ESG across almost all participants – the “tone at the top” was highly pro-ESG, generally speaking
- Some ITBSPs belong to large, well-established conglomerates with a historical legacy of social responsibility as part of their ethos



Organizing around ESG

- Mostly federated and integrated into business functions and operational groups, coordinated centrally by a small dedicated ESG team reporting to a C-level executive responsible for ESG
- Many ITBSPs surveyed had a C-level position titled “Chief Sustainability Officer” or “Global Head – Sustainability” or equivalent (in some cases these were dedicated roles, but in other cases the same executive also held other roles, such as CHRO or CRO)
- In some ITBSPs we found no centralized C-level convergence across all three ESG domains – different senior executives were responsible for different aspects of E, S, and G respectively



Spend on ESG

- Though our questionnaire asked about spend as a percentage (and not absolute spend numbers), we were unable to get a clear response in several cases
 - Some respondents said they did not separately track ESG spend
 - Some respondents said they could not disclose it as a matter of policy (unclear why, since our ask was for a percentage)
- The few who did share this information indicated that their total ESG spend was between 2% and 3% of profit, of which the largest share was on the Social front – in all cases except one, where the spend on Governance was higher

ESG: A Delicate Balance – Needs A Holistic/ Intersectional Approach



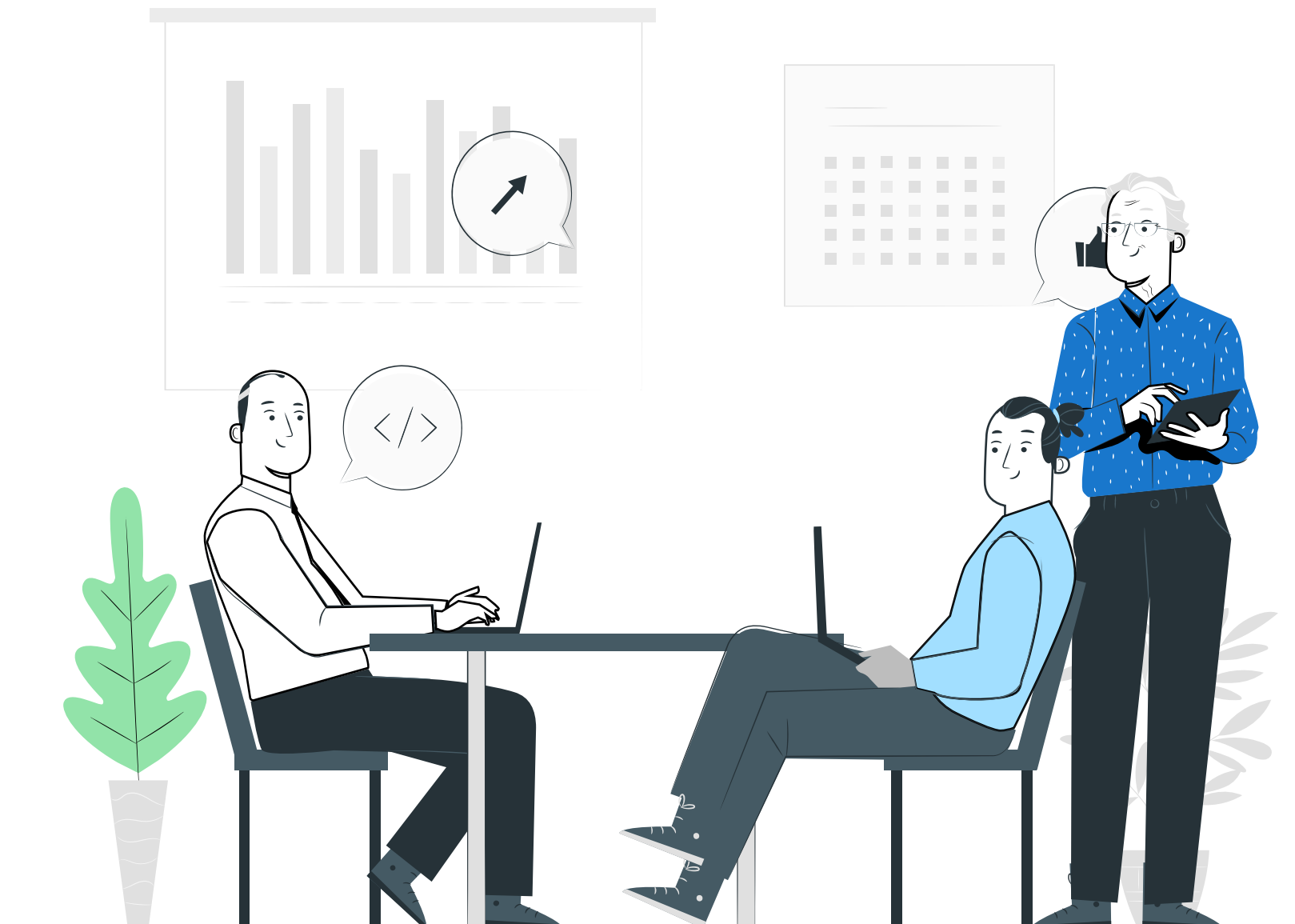
Operational-Performative Alignment (Self-assessed): Highlights

- Participants scored themselves highly on many ESG criteria: average scores were 3+ (on a scale of 0 to 4)
- Participants are performing exceptionally well on the following operational criteria:
 - Score of 4 (excluding "N/A")
 - Product safety and quality (including chemical safety and hazardous materials use, where applicable)
 - Zero-tolerance of child labor or forced/ compulsory labor
 - Community reinvestment
 - Ethical business (shareholder rights, stakeholder grievance redress, anti-bribery)
 - Mix of 3's and 4's
 - Compliance with ISO 14000 standards related to environmental management
 - Energy efficiency/ conservation
 - Diversity, equality and inclusion
 - Protection of Human Rights
- Areas for improvement/ continued push
 - Implementation of Taskforce on Climate-related Financial Disclosures (TCFD) recommendations
 - Investment in biodiversity
 - Green building certification (this is a WIP; some have achieved this for their owned premises but not leased facilities)



Cultural-Attitudinal Alignment (Assessed by Neo): Highlights

- In sharp contrast to the operational-performative alignment scores, many participants did not score well on the cultural-attitudinal alignment criteria
- Some participants did not respond to our persistent requests to schedule interviews with their ESG teams to help us gain insight into their cultural and attitudinal alignment with ESG core values and principles
- The participants that did score well demonstrated the following common characteristics:
 - They were ready to engage with us on our survey (Neo team didn't lose much time or effort in scheduling interviews)
 - They brought the right people (ESG leadership team) into the discussion
 - They were open and transparent in their disclosures (including, most notably, spend on ESG as a percentage of profit)
 - Their responses were to-the-point (not deflecting) and specific (not generic copy/paste)
 - They were visibly passionate about their commitment to sustainability (without trying to 'sell' their adoption of ESG)

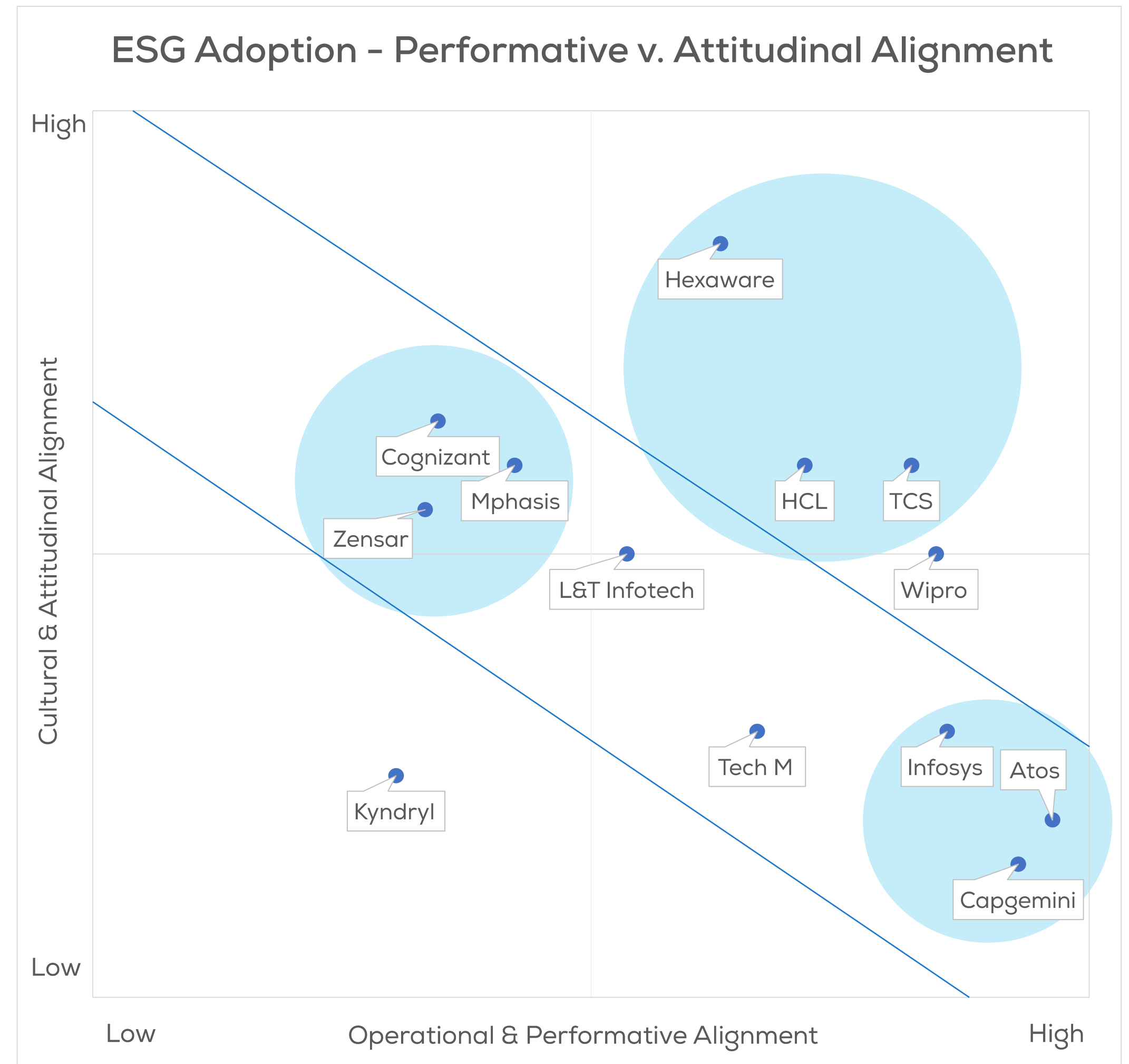


Performative v. Attitudinal Alignment: Highlights

Hexaware, TCS and HCL are well inside the top right quadrant, with relatively high scores on both dimensions. In Neo's view, these are the more mature adopters of ESG, though there's adequate room for improvement. Wipro just about makes it into this quadrant, but could do better by way of cultural transformation across the enterprise.

Atos, Capgemini and Infosys have aligned well with operational ESG targets, but have yet to fully embrace the spirit and philosophy of ESG, and infuse sustainability into the culture across the length and breadth of their respective organizations. Given their size and spread this may be a bit of challenge in the short term but achievable with the right push.

Cognizant, Mphasis and Zensar seem to have done a good job of internalizing the essence of sustainability into their organizational culture as compared to some other ITBSPs, but are still working on some operational aspects, in terms of meeting ESG targets and standards relevant to them. Given their determination and commitment, this seems distinctly possible in the short-to-medium term.



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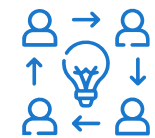


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