ESG: What, Why and How SAP Can Help
What Do You Need to Do?

Dr. Heiko Hecht
IBIS America Inc.

SAPinsider 2023

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In This Session

- Understand what ESG means for your organization.

- Learn how you can get your SAP system ready for the upcoming ESG reporting requirements.

- Discover what ESG functionality is available in your SAP system.

- Identify what ESG relevant data is already available in your SAP systems and what's missing.

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Dr. Heiko Hecht

SAP Functional Consultant since 1994 (FI-AA, FI, BW, SolMan, S/4)

SolMan Dev-Team (2001)

SAP STAR, TRAC, MOVE, RISE, Customer Evolution
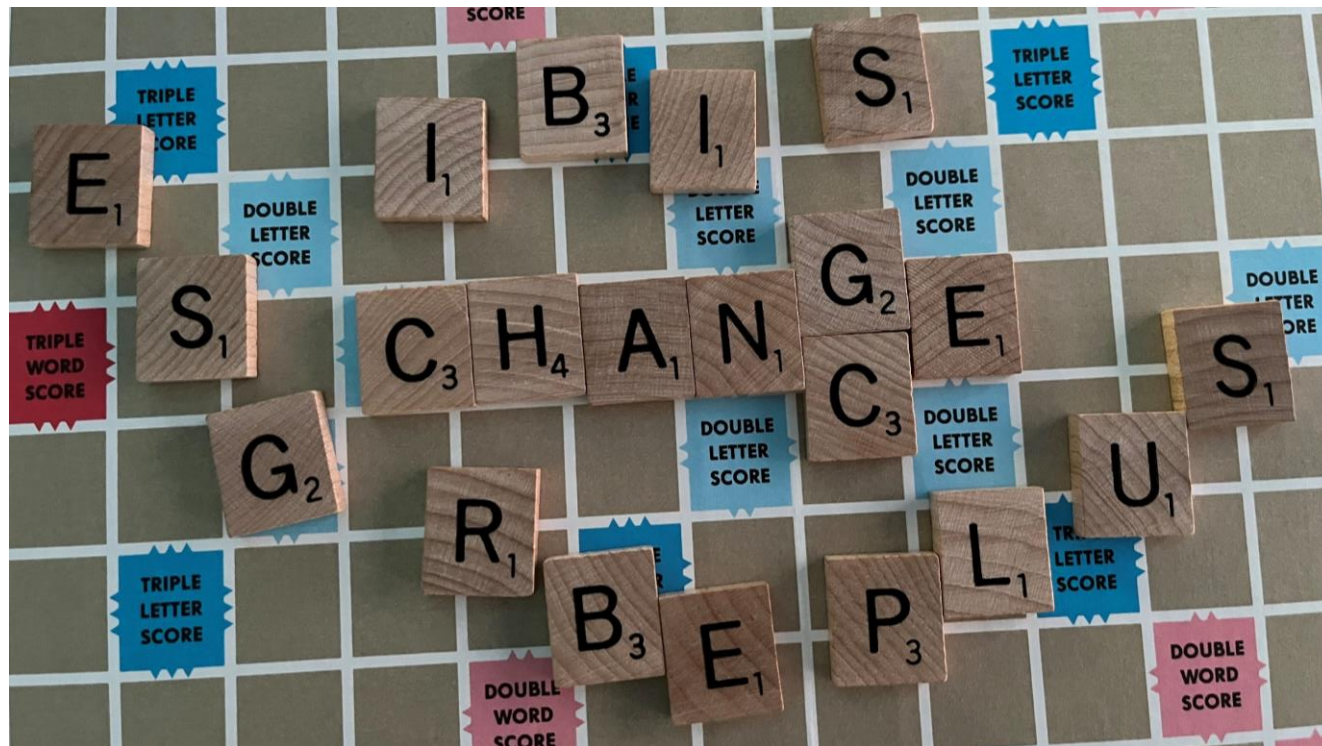
What We'll Cover

- Why, when and how is ESG relevant for my organization?

- How does SAP support ESG?

- How can make sure that reliable and legally binding information is available for my ESG reporting?

- Wrap Up

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What is ESG?

What's Next? ESG, Change or Chance?

ESG

Environmental, social and governance (ESG) refers to a collection of corporate performance evaluation criteria that assess the robustness of a company's governance mechanisms and its ability to effectively manage its environmental and social impacts. Examples of ESG data include the quantification of a company's carbon emissions, water consumption or customer privacy breaches. Institutional investors, stock exchanges and boards increasingly use sustainability and social responsibility disclosure information to explore the relationship between a company's management of ESG risk factors and its business performance.

ESG / Topics

Environment

Energy

Emissions

Waste

Water

Circular economy / materials

Biodiversity

Social

Equal opportunities

Human rights

Employees

Working conditions

Occupational safety

Education and training

Governance

Corporate culture

Organizational structure

Anti-corruption

Child labor / Forced labor

Compliance

Relationship with business partners

Procurement practices / supply chain

The expectations are changing...

customers

partners

shareholder

vendors

employees

applicants

legislator

press

unions

banks

the public

ESG Standards, Frameworks, Regulations
Selected Global Sustainability Regulatory Initiatives expected by 2025

			Reporting Entity			Objective			Materiality	Stringency	Uniformity in Reporting
			Issuer / Product / Financial Entity			Transparency[1] / Labeling[2] / Capital Allocation[3]			Financial footprint (inward-out) / or also corporate (outward-in) / Financial risk only		

EMEA

E.U.
- EC: Sustainable Finance Disclosure Regulation (SFDR)
- EC: EU Taxonomy Article 8 Disclosures Delegated Act
- EC: Corporate Sustainability Reporting Directive (CSRD)*

U.K.
- FCA: Sustainability Disclosure Requirements (SDR) & Investment Labels*
- FCA: Diversity & Inclusion on Company Boards & Executive Committees*
- FCA: Climate-related Disclosure Requirements*

Americas

U.S.
- SEC: Climate Disclosure for Public Companies**
- FIO: Climate-Related Financial Risks & Insurers**

Canada
- CSA: ESG-related Investment Disclosure for Funds**
- CSA: Climate-related Disclosure for Listed Issuers*

Chile
- CMF: Sustainability and Corporate Governance Requirements in Annual Reports

Brazil
- BCB: Management and Disclosure of Social, Environmental and Climate risks

APAC

Australia
- APRA: Prudential Practice Guidance on Climate Change Financial Risks

China
- CSRC: ESG-related Amendments to the Disclosure Rules Applicable to Listed Companies

Japan
- FSA: Revisions of Corporate Governance Code

Hong Kong
- SFC/HKMA: Green & Sustainable Finance Strategy (Climate-related Disclosures)*

New Zealand
- XRB: Mandatory TCFD Reporting*

Singapore
- MAS: Environmental Risk Management for Asset Managers, Banks, Insurers

South Korea
- FSC: Mandatory ESG Report Disclosure*

* Proposed or in Consultation   ** Planned

Yes   No   Unclear /evolving

APRA - Australian Prudential Regulation Authority
BCB - Central Bank of Brazil
CMF - Financial Market Commission of Chile
CSA - Canadian Securities Administrator
CSRC - China Securities Regulatory Commission
EC - European Commission
FCA - UK Financial Conduct Authority
FIO - U.S. Federal Insurance Office

FSA - Japan Financial Services Agency
FSC - Financial Services Commission South Korea
HKMA - Hong Kong Monetary Authority
MAS - Monetary Authority of Singapore
SEC - U.S. Securities Exchange Commission
SFC - Hong Kong Securities and Future Commission
TCFD - Taskforce for Climate-related Financial Disclosure
XRB - External Reporting Board New Zealand

1 Enable more disclosure of non-financial information
2 Prevent green-washing or mis-selling
3 Direct capital towards sustainable investments (explicit intent by the regulator)

Financial materiality
Double materiality
Mandatory

Guidance
Comply or Explain

Only Qualitative
Includes Quantitative
Highly prescriptive template)

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Requirements in the EU / CSRD

Relevance of non-financial reporting increases massively

New EU-wide binding sustainability standard: European Sustainability Reporting Standards (ESRS)
→ MANY Quantitative Sustainability KPIs / Qualitative explanations

New criteria for mandatory publication from fiscal year 2024:
- \> 250 employees
- OR balance sheet total > €20 million
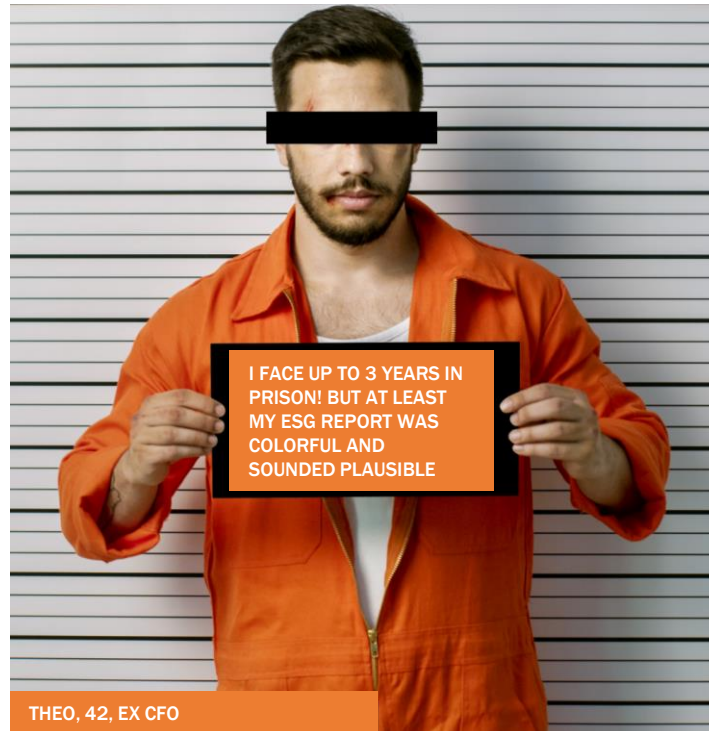- OR sales > €40 million
- OR capital market orientation

Affected companies in Europe / Germany:
Now: 11.000 / 500
Fiscal Year 2024: **50.000 / 15.000**

External Audit within the scope of the annual financial statements!

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Liability of the Executive Board for the misstatement of non-financial reports

I FACE UP TO 3 YEARS IN PRISON! BUT AT LEAST MY ESG REPORT WAS COLORFUL AND SOUNDED PLAUSIBLE
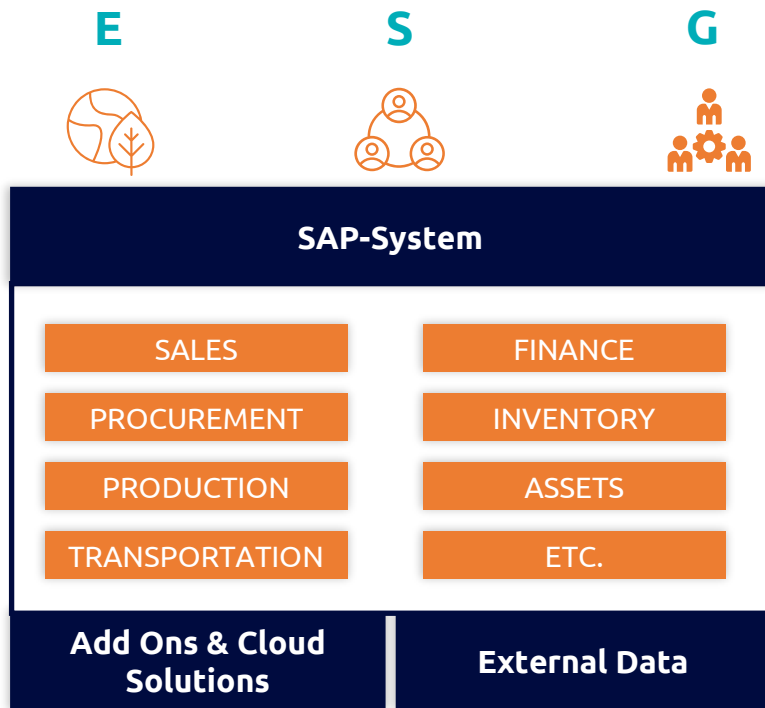
THEO, 42, EX CFO

Example Questions / KPIs from the standards

- What is the gross volume of emissions from outbound transportation in tons of CO_2 equivalents?

- What is the ratio of standard entry-level wages by gender compared to the local minimum wage?

- Does your organization work with suppliers where there is a significant risk of child labor?

- How many tons of waste does your organization generate?

How Does SAP Support ESG?

Which Tool Can Support?

E **S** **G**

SAP-System

SALES	FINANCE
PROCUREMENT	INVENTORY
PRODUCTION	ASSETS
TRANSPORTATION	ETC.

Add Ons & Cloud Solutions **External Data**

Our assumption:

YOUR SAP-SYSTEM SHOULD CONTAIN ESG-RELEVANT DATA

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Relevant ESG Data

What is the gross volume of emissions from outbound transportation in tons of CO_2 equivalents?

1. What goods are being transported (in tons)? ┄┄┄►	**Weight data:** Tons transported
2. Who transports the goods? ┄┄┄►	**Own transport:** Scope 1 emission
	Transport via freight forwarder: Scope 3 emission
3. Where are the goods transported to? ┄┄┄►	**Distance information:** Start, End, Intermediate Steps
4. How are the goods transported? ┄┄┄►	**Means of transport:** road, rail, air, ship
	Emission factors: External

How Can SAP Support?

SAP Sustainability Management   Overview   ESG Reporting   Climate Action ⌄   Request a demo   Subscribe to our weekly newsletter
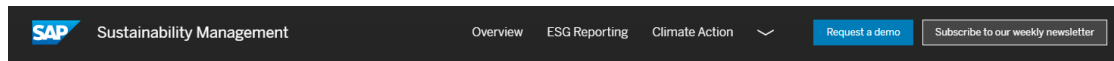
SAP Cloud for Sustainable Enterprises

Explore our comprehensive cloud-based sustainability solutions to manage your carbon footprint, reduce material waste, and become a socially responsible business.

Sustainability and ESG reporting solutions

Connect your environmental, social, and financial data holistically to steer your business toward better decisions.

SAP Sustainability Control Tower ⟩

Explore all ESG reporting solutions ⟩
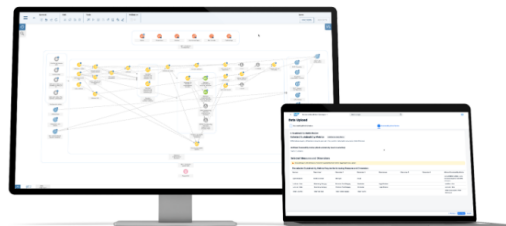
Climate action solutions

Reduce the carbon footprint of your entire value chain (scope 1 to 3) based on actual business transactions.

SAP Product Footprint Management ⟩

SAP Environment, Health, and Safety Management ⟩

Explore all climate action solutions ⟩

Circular economy solutions

Incorporate circularity into your supply chain and create corporate sustainability models.

SAP Responsible Design and Production ⟩

Explore all circular economy solutions ⟩

Social responsibility solutions

Understand the impact of your business on people and society.

SAP Environment, Health, and Safety Management ⟩

SAP S/4HANA for product compliance ⟩

SAP Ariba Supplier Risk Management ⟩

Explore all social responsibility solutions ⟩

Which Tools Can Really Help?

The **SAP Product Footprint Management solution** enables companies to calculate product footprints on a regular basis and to scale, taking into account the entire product lifecycle.

The **SAP Responsible Design and Production solution** helps producers manage their extended producer responsibility (EPR) obligations and plastic taxes.
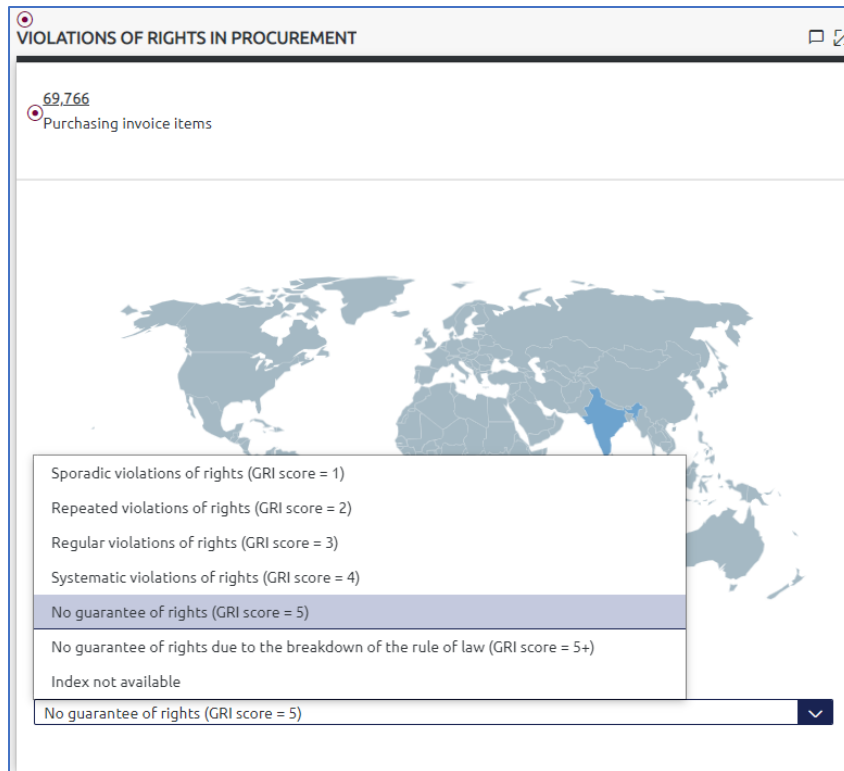
The usefulness of any tool depends on data quality.

The **SAP Sustainability Control Tower solution** takes sustainability impact measurement and valuation to the next level by integrating top-, bottom-, and green line performance insights.

ESG Preparation

Tool-based Compliance Analysis

Where Is the Relevant Data in Your SAP System?

Total/Consumed/Remaining Capacity (Mass): 300 | 134 | 166 | KG

Total/Consumed/Remaining Capacity (Volume): M3

Data element 1 — *What goods are being transported (in tons)?*

Cargo Weight:	134	KG
Cargo Volume:		M3
Quantity:	2	ST
Total Weight:	134	KG

General Information

Document Type: 1000 | Freight Order with Subcontracting

Data element 4 — *How are the goods transported?*

Transportation Mode: 01 | Road

Total/Consumed/Remaining Capacity (Mass):

Total/Consumed/Remaining Capacity (Volume):

Maximum Utilization: 0%

Capacity

Total/Consumed/Remaining Capacity (Mass): 300 | 134

Total/Consumed/Remaining Capacity (Volume):

Data element 2 — *Who transports the goods?*

Trans

Carrier: DHL_001 | Dan

Executing Carrier:

Data element 3 — *Where are the goods transported to?*

Total Distance: 285,567 | KM
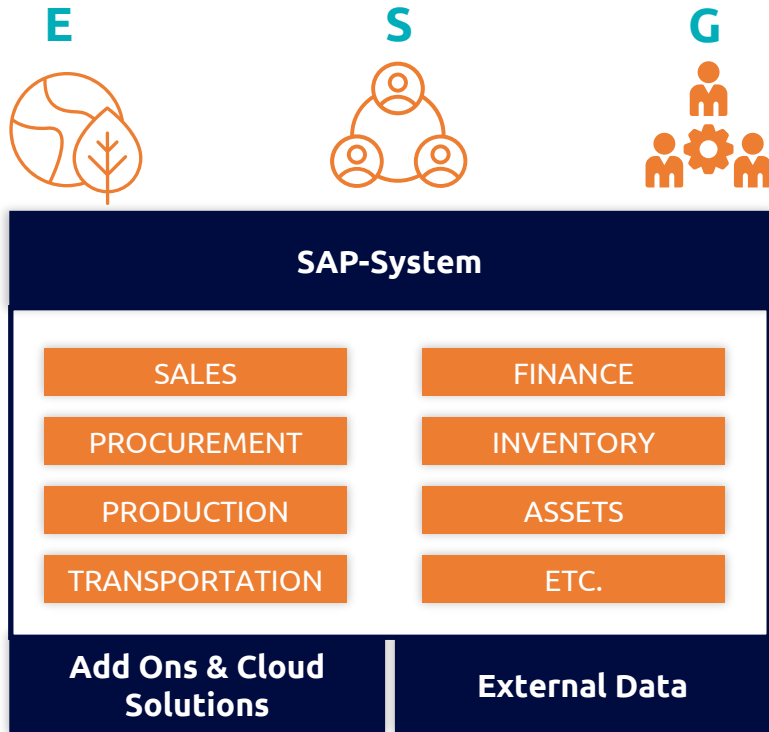
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Where Is the Relevant Data in Your SAP System?

In reality: Relevant Data is often missing

Possible Reasons for Missing Data

- Data on sustainability was not relevant until now

- The fields in the SAP system are not defined as mandatory fields

- The values are maintained in external systems and therefore not in the SAP system

Problems with Reporting

E

S

G

SAP-System

SALES	FINANCE
PROCUREMENT	INVENTORY
PRODUCTION	ASSETS
TRANSPORTATION	ETC.

Add Ons & Cloud Solutions

External Data

+

ANY Reporting Tool

=

1. Poor data means less validity of the report
2. The question of the reporting tool is (initially) not relevant
3. The decisive factor is the improvement of data in the SAP system

BUILDING RESILIENT DATA IS THE KEY CHALLENGE

Time Is Running...

IF YOU WANT TO REPORT ON SUSTAINABILITY IN FISCAL YEAR 2024, YOU NEED TO ACT NOW TO COLLECT THE RIGHT DATA.

SAP ESG Cloud Tool Assessment

Your Data Already Knows!

Your Questions

How ready is your SAP System for CSRD Reporting?

Various system aspects are analyzed to derive recommendations and actions that improve automated ESG reporting.

It includes environment, social and governance dimensions to make non-financial indicators, considering international standards, quantitatively tangible and thus measurable, controllable and comparable.

How ready is your SAP System for CSRD Reporting?

Your system is 20% ready to support CSRD Reporting.

Climate Change E1

In only 30% of the quantitative disclosure requirements of the E1 standard, the analyzed system is well prepared.

Main areas for improvement:

// Document fleet consumption (Scope 1)
// Standardize energy purchasing

Own Workforce S1

In only 10% of the quantitative disclosure requirements of the S1 standard, the analyzed system is well prepared.

Main areas for improvement:

// Maintain basic employee master data

External HR-System indicated
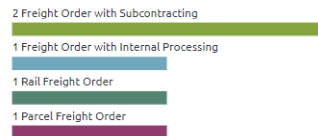
Tool-based Identification of Poor Data Quality

Data element 2 — *Who transports the goods?*

Data element 3 — *Where are the goods transported to?*

Data element 1 — *What goods are being transported (in tons)?*

Data element 4 — *How are the goods transported?*

5 Freight orders	60.00% with subcontracting

Document Types

2 Freight Order with Subcontracting
1 Freight Order with Internal Processing
1 Rail Freight Order
1 Parcel Freight Order

Mode of Transportation

Road Rail Postal Service

FREIGHT BOOKINGS

2 Freight bookings	0.00% with subcontracting

Document Types

1 Air Booking
1 Direct Shipment Air Booking

Mode of Transportation

Air

Freight orders

20.00% with missing distance   20.00% with missing weight

Freight bookings

50.00% with missing distance   50.00% with missing weight

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Tool-based Analysis of Material Flow

Material Upstream Flow // 100% Invoiced Net Value in €

Coloring **Geo Regions**

West Europe 442
East Europe 74K
100%
Middle Europe 3.9B
35%
North America 13M
< 1%

537K / 537K
Tons of goods invoiced
OFF

3.9B / 3.9B
Invoiced Net Value in €
ON

General

Invoiced Net Value per Geo Region

4B
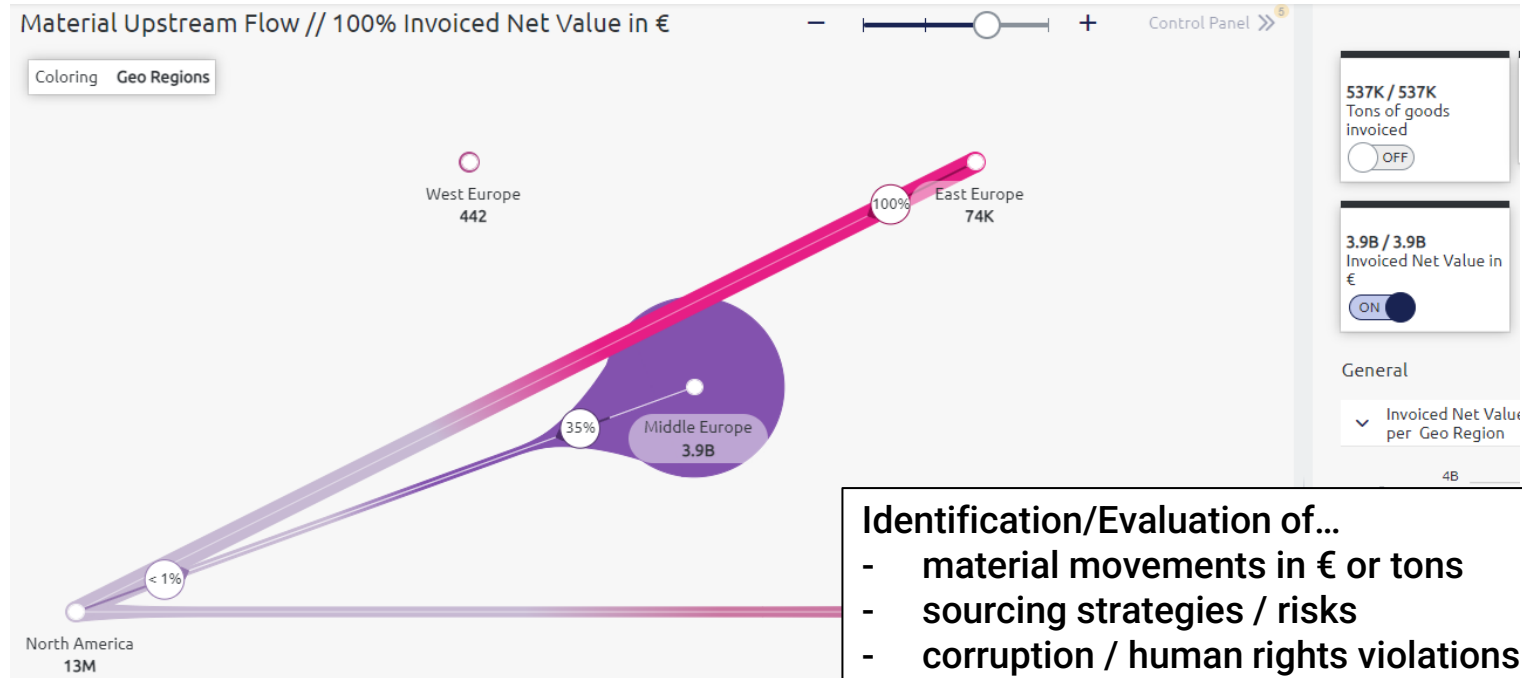
Identification/Evaluation of…
- material movements in € or tons
- sourcing strategies / risks
- corruption / human rights violations risks
- …

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SAP ESG Cloud Tool Assessment by IBIS

Wrap Up

Where to Find More Information

- https://what-is-esg.com
  - Dedicated website for ESG
- https://e3zine.com/greenwashing-keeps-you-dirty/
  - Greenwashing keeps you dirty. Dr. Markus Koetzle, E-3 magazine, P. 80-81, October 2022.
- https://sapinsider.org/topic/sap-cio/sap-sustainability/
  - What Is Sustainability?
- https://sapinsider.org/expert-insights/sap-sustainability-control-tower-integrating-a-suite-of-technologies-to-enhance-esg-reporting/
  - SAP Sustainability Control Tower: Integrating A Suite of Technologies to Enhance ESG Reporting. Nithyasree Balasubramanian, Expert Insights
- https://sapinsider.org/blogs/why-successful-esg-and-sustainability-reporting-relies-on-data-transparency/
  - Why Successful ESG and Sustainability Reporting Relies on Data Transparency, Blog

Key Points to Take Home

- Make sure that you utilize what's already available in your organizations and SAP system.
- Start early with your ESG preparation.
- Make sure that the ESG relevant data is complete, accurate, consistent and auditable.
- Leverage Best Practices which support your ESG compliance.

Thank You! Questions?

Dr. Heiko Hecht

hhecht@ibisamerica.com

Social

linkedin.com/in/heikohecht

@IBISAmerica

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