FOSTERING SUSTAINABILITY THROUGH

Holistic Steering & Reporting

Sustainability has moved away from a nice-to-have to a core business topic. For companies today, there is no way around working with their stakeholders to address the challenges and opportunities that result from the interconnections between the economy, society and the environment. But how does sustainability become part of corporate strategy and how does business establish sustainable operations along the entire value chain?

By Daniel Schmid and Christine Susanne Müller

From our perspective it is crucial that responsibility for sustainability is placed as close as possible to the Executive Board. Depending on board structure there are different options. The majority of companies associate sustainability with strategy and communication functions – often because these areas typically own the corporation's positioning, reputation, and messaging, including the publication of a sustainability report. However, this risks setting up sustainability as an add-on rather than an integral part of your core business. In 2009, when SAP officially started its journey and sustainability became a strategic corporate objective, the new division initially reported to the CEO. But gradually we found the strongest synergies bringing the CFO into play as of 2014.

There were a number of reasons for the CFO to become the board sponsor of sustainability. One is the conviction that your sustainability agenda gets the greatest acceptance when financial and non-financial performance indicators are part of an integrated steering model. When all indicators are placed on an equal footing, it becomes evident how economic, environmental and social factors interact. But understanding the connectivity between these factors requires a considerable learning process. In particular, it is a question of broadening entrenched ways of thinking focused on financial ratios. And here the CFO's credibility is a major force to advance and legitimize a change in mindset. One of the best means of promoting this transformation was to merge the annual report and the sustainability report into one integrated report. Tangible and intangible value creation are placed equally at the center. This opens up far-reaching opportunities to highlight the links between economic, social and environmental performance.

Powerful integration across the organization

We've seen: executive sponsorship is essential to turn a sustainability strategy into a sustainable corporate strategy. But equally important is a cross-company commitment. To establish ownership across the entire organization, SAP chose a decentralized, federated approach. This requires lines of business across the whole company to integrate sustainability into goal setting, steering, processes and business practices. Executives from each board area as well as key functional leaders form our Sustainability Council and are responsible for working with the CSO to set the company's strategic direction for sustainability and then executing it.

Next to top-down endorsement, bottom-up commitment is just as important to drive behavior change. Since the beginning of our journey, we were able to win supporters at almost all staff levels. Expectations have grown steadily from 77 % of employees saying it is important for SAP to pursue sustainability in 2009 to 94 % in 2019.

The most challenging internal audience to reach are middle managers who tend to be heavily involved in day-to-day operations and focused on reaching their own LOB objectives. In order for sustainability to be truly embedded, sustainability efforts need to be given comparable priority – and it needs to be clear to these managers how it helps them succeed. With stakeholder expectations – be it leadership, employees or directly from customers, we are seeing middle managers also shift mindsets to understand that they need to manage their "green" and "social" line, as well. This requires greater data and transparency across the organization to learn, minimize, and disclose the footprints of your products and services – and better manage material flows through your supply chains. We are therefore building capabilities into our analytical and transactional systems to address these growing needs.

DANIEL SCHMID

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Striving for cross-company reporting standards

There is no doubt that steering and reporting has reached a considerable degree of maturity. But how can you tell if you're working on the right steering issues? And if so, how do you know if the current efforts are sufficient to balance the three fields of action – economy, society and environment? There's still a major methodological gap, because we lack global, comparable, cross-company reporting standards. The Value Balancing Alliance (VBA), a non-profit organization of international corporations, aims to address the central challenge of how to integrate a company's impacts on society, employees, customers and the environment into how that company is measured and valued. SAP is a founding member. The VBA is developing a methodology with which companies can measure and monetize the positive and negative impacts of their activities across the complete value chain in a standardized manner. In this way, all stakeholders learn where a company stands in comparison to the market and in which areas of action there is a need for steering and control.

BEST PRACTICE SESSION WITH DANIEL SCHMID IN THE REPLAY

At the Online Geschäftsberichte-Symposium on June 24, 2020, Daniel Schmid gave practical insights into the topic in a best practice session. The recording of the session and the key takeaways can be ordered from the Center for Corporate Reporting: info@corporate-reporting.com.

For CCR members, the replay of the session is available in the member area on corporate-reporting.com.