



Week 1: The Corporate Sustainability Journey

# Unit 1: Accelerating a New Era of Sustainability Management

Accelerating a new era of sustainability management  
**ESG expectations are continually growing**



**RECORD**

**ESG transparency along the value chain**

Data spanning multiple sources, formats, and organizations, without the granular level of detail and precision



**REPORT**

**New and increasing ESG reporting requirements**

Multiple frameworks and standards to report against and fulfill the respective requirements



**ACT**

**Sustainability touches all business processes**

Sustainability strategy and initiatives disjoint from corporate strategy, business models and processes



Accelerating a new era of sustainability management  
**ESG transparency is the first step in solving these challenges**



**RECORD**

Move from averages to actuals with data across the value chain

**88%** of the world's supply chains networked through SAP



**REPORT**

Incorporate relevant frameworks with built-in audit & assurance

**>600** ESG frameworks & standards simplified on extensible data foundation



**ACT**

Embed sustainability into your business DNA

**50 years** of market leadership in enterprise processes & applications

# Thank you.

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# Week 1: The Corporate Sustainability Journey

## Unit 2: Profit and Sustainability

# Sustainable Business Strategy instead of a Sustainability Strategy



## 1 Establish a sustainability business strategy

When you empower your entire business to contribute to sustainability, it becomes a top strategic priority with measurable results.

## 2 Embed sustainability data into processes

By inserting sustainability data in your business processes, you can make sustainable and profitable decisions and measure performance.

## 3 Manage carbon and climate exposure

Accounting for and managing climate-related emissions across all parts of your value chain can help reduce financial and reputational risks.

## 4 Embrace circular economies and waste fewer resources

Efforts to avoid, reduce, reuse, recycle, and reclaim materials can help you minimize waste and adopt circular economy processes faster.

## 5 Prioritize people across your value chain

A diverse, respected, and nurtured workforce is a more agile and productive workforce that supports your bottom line and sustainable processes.

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## Week 1: The Corporate Sustainability Journey

# Unit 3: Holistic Steering and Reporting

## Companies need to act on sustainability now

# Sustainability is more relevant than ever...

Customers

**79%**

of buyers are changing preferences based on sustainability

Investors

**50%**

of all professionally managed assets will be ESG-mandated by 2024

Employees

**90%**

of employees indicated that a company's ESG efforts enhance job satisfaction

**Companies**

**70%**

of EBITDA could be at stake from sustainability challenges

## ...and is becoming a license to operate.



EU Taxonomy



Holistic steering and reporting

**SAP aspires to a world with zero emissions, zero waste, and zero inequality.**



**We take a 3-zero approach to drive sustainability impact**

## Holistic Steering and Reporting

**Zero Emissions**  
with Climate Action



**Zero Waste**  
with Circular Economy



**Zero Inequality**  
with Social Responsibility

Holistic steering and reporting

**Challenges with data availability and quality**

# Create the right Data Foundation

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Regulations and your own targets

Data from enterprise apps where possible

Record and calculate new data types

Recurrence, automation and traceability

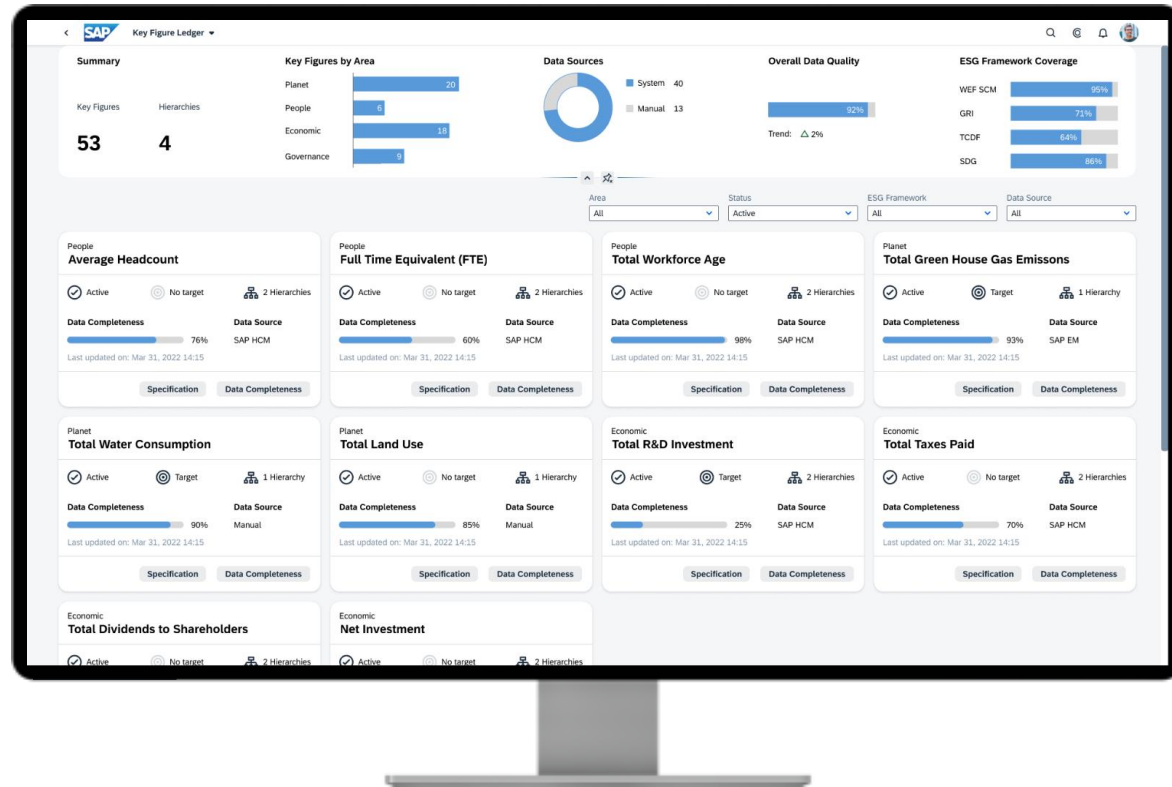
More common metrics over time



**25% of companies  
make ESG the primary  
focus area of their digital  
transformation.**

Holistic steering and reporting

# Integrate ESG performance for strategic decision-making and comply with regulatory reporting



## Record: Actuals instead of averages

Measure ESG factors with out-of-the-box integration with SAP systems for faster time to value and granular data visibility based on actual data, not averages

## Report: Audit-ready ESG metrics

Report regulation-compliant ESG metrics covering common frameworks (such as GRI) based on an open and extensible solution with the largest ESG ecosystem

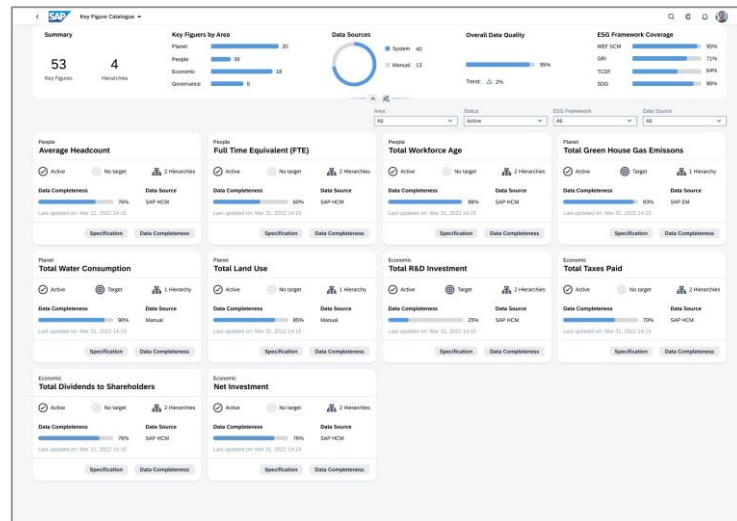
## Act: ESG-embedded business processes

Act by planning your future with actionable insights, forecasts, and targets, as well as tracking initiatives and changing business processes

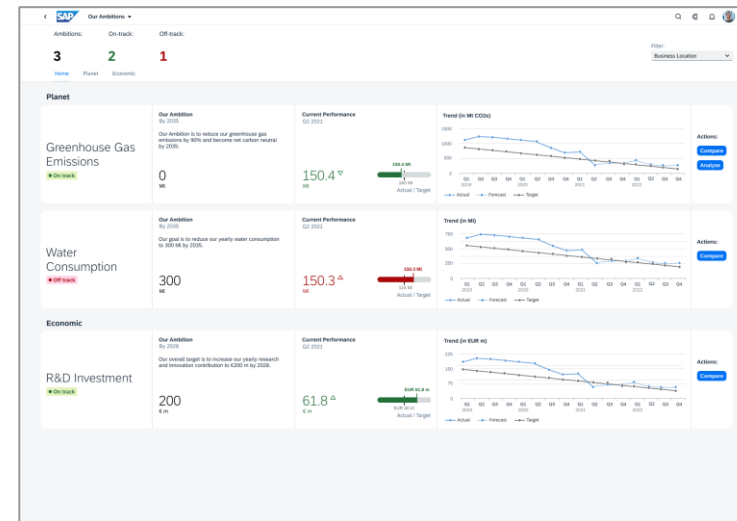
# Holistic steering and reporting

## Sustainability reporting applications

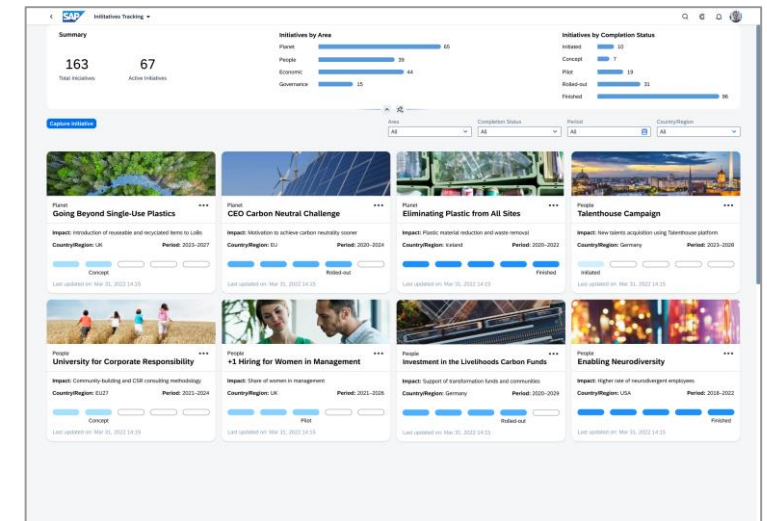
### Manage sustainability data assets



### Monitor strategic sustainability KPIs



### Track sustainability actions and initiatives



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Week 1: The Corporate Sustainability Journey

## Unit 4: How to Maximize Positive Impact and Profitability Through Sustainability

# How to maximize positive impact and profitability through sustainability

## How to build an effective sustainability strategy

1. Identify material ESG issues for the business (that have an impact on the business and on which the business has an impact).
2. Identify the key stakeholders for the business, their weighting of what is material (which may differ from the business weighting), and how you might engage with them.
3. Develop a materiality matrix to help prioritize.
4. Develop sustainability strategies, goals, and targets.
5. Develop the business case for the proposed strategies and investments.
6. Determine the reporting and disclosure metrics and approach.
7. Operationalize the strategy (governance, structure, incentives, and so on).



How to maximize positive impact and profitability through sustainability

## Focusing on material ESG issues improves financial performance

Firms managing for material ESG issues outperformed by 6%

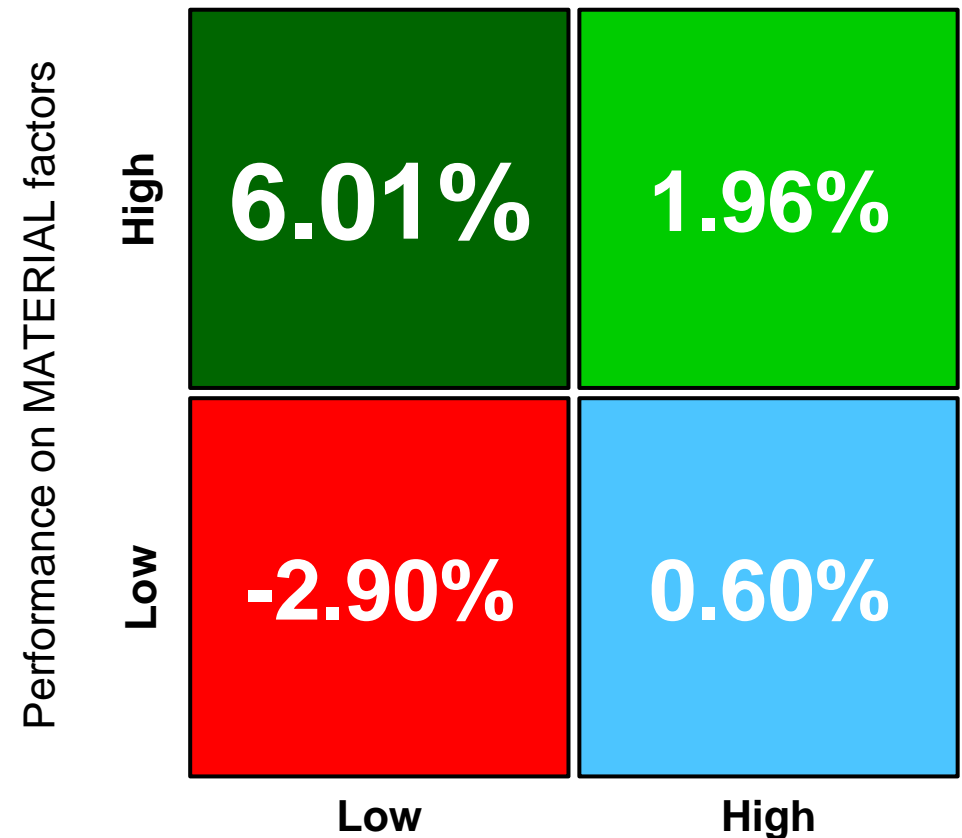
Firms managing for all ESG issues performed less well at 2%

Firms managing for immaterial ESG issues (0.6%)

Khan et al 2015: Calendar time portfolio stock returns for 2300 firms (1991-2014)

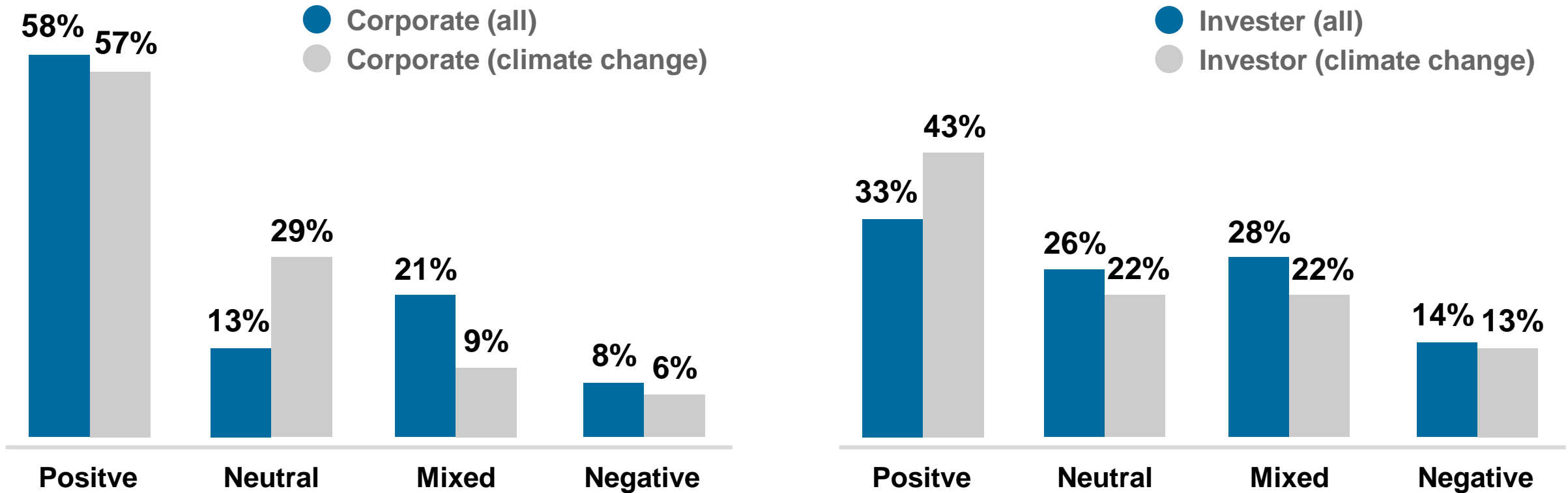
Materiality standard: SASB material metrics

Stock returns (in annualized alpha) by type of sustainability performance



How to maximize positive impact and profitability through sustainability

## NYU Stern CSB analysis of 1200+ ESG/ financial performance studies (2015-2020)



Positive and/or neutral results for investing in sustainability dominate. Very few studies found a negative correlation between ESG and financial performance (based on 245 studies published between 2016 and 2020).

How to maximize positive impact and profitability through sustainability  
**Sustainability is the next wave of total quality management**

**NYU Stern CSB Return on Sustainability Investment (ROSI™) Framework**

**Sustainability Drivers of  
Financial Performance  
and Competitive  
Advantage**

When a company embeds sustainability in its strategy and practice, it...



**Improves:**

- Customer Loyalty
- Employee Relations
- Innovation
- Media Coverage
- Operational Efficiency
- Risk Management
- Sales & Marketing
- Supplier Relations
- Stakeholder Engagement

**Drives:**

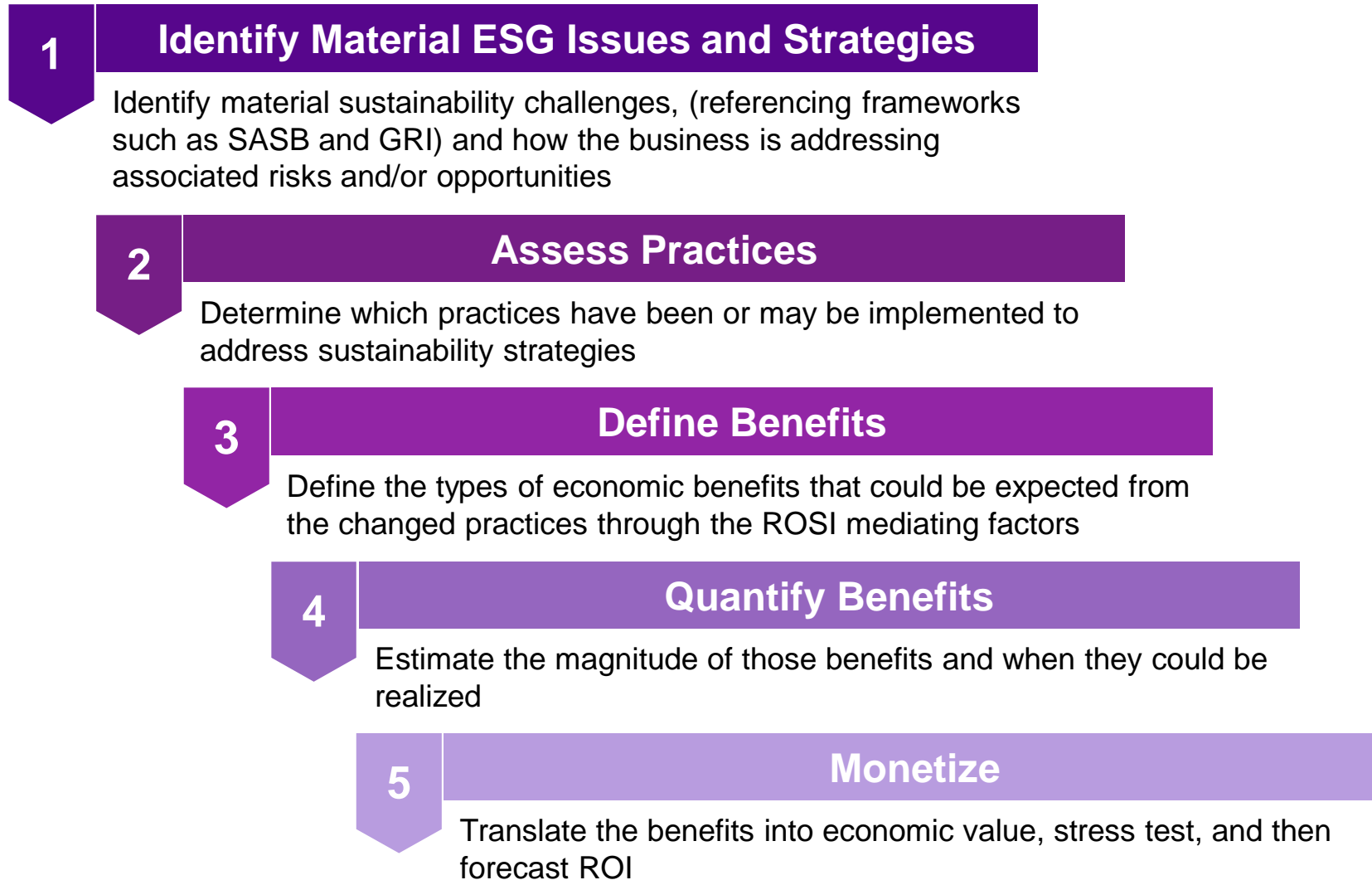
- Great Profitability
- Higher Corporate Valuation
- Lower Cost of Capital

**Delivers:**

Short- and Long-Term Value Creation for Shareholders and Society

# How to maximize positive impact and profitability through sustainability

## ROSI methodology and collaboration process



How to maximize positive impact and profitability through sustainability

## NYU Stern CSB identified 18 sustainability strategies for automotive

### *Strategies Identified*

### *Key ROSI Drivers*

Reduce Resource Consumption  
Improve Waste Management  
Reduce Carbon Emissions  
Reduce VOC Emissions  
Recycle And Recover From End-Of-Life Products

Operating Performance (includes  
Operating Efficiency, Improved Sales  
and Marketing, and Better Media

Minimize Downtime In Regions Prone To Natural Disasters, Water Scarcity, Etc  
Avoid Use Of Conflict Minerals  
Improve Safety  
Improve Governance Around Sustainability  
Use Renewable Energy

Risk Reduction

Incorporate more sustainable materials or design into the product  
Increase Fuel Efficient Product Presence  
Innovate to Provide Long-Term Improved Sustainability Technology  
Increase Sustainable Product Presence  
Engage Consumers With Sustainability Through Innovative Services

Innovation

Engage Employees In Quality Of Worklife  
Engage Suppliers On Specific Sustainability Matters (Improve Ecosystem)  
Improve Talent Acquisition, Employee Retention, And Productivity

Stakeholder Engagement (Includes  
Better Supplier and Employee  
Relations and Customer Loyalty)



How to maximize positive impact and profitability through sustainability  
**Financial benefits of sustainability (illustrative subset)**

## Sustainable Strategies

- Reduce resource consumption
- **Improve waste management**
- Improve employee relations
- Innovate to provide long-term improved sustainable technologies

## Sustainable Practices

- Implementing new water filtration system
- **Recycling paint and solvents**
- Implementing ergonomic changes to the production line
- Producing more electric vehicles

## Benefits

- Reduced costs for water, energy
- **Reduced costs for wastewater and toxic waste disposal**
- **Reduced costs for paint, solvents**
- **Revenue for recycled materials**
- Higher productivity, increased worker safety
- New revenue from innovative products

# How to maximize positive impact and profitability through sustainability

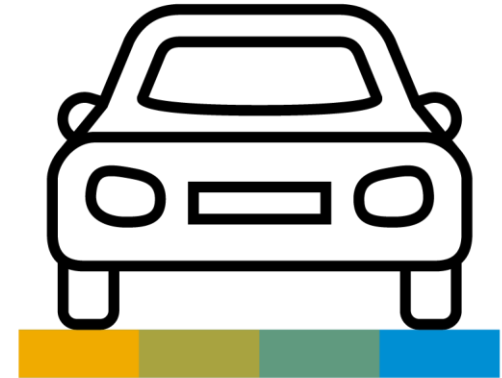
## **ROSI findings**

### **Automotive sustainability strategies drive:**

- Higher operational efficiencies
- Risk reduction
- Innovation and growth

### **Contributing substantial tangible financial benefits**

- Can improve earnings up to 3.7% of revenue



## How to maximize positive impact and profitability through sustainability

### Operating performance strategies and ROSI

Strategies	Benefits	Mediating factor	Monetization methods
<b>Reduce Resource Consumption</b>	Reduced electricity or water cost	Higher operational efficiency	The reduced per unit cost of energy or water on current year production. Subtract any costs to achieve the benefit for operating income impact. Calculate NPV assuming 5 year forecast of net operating income benefits and upfront investments.
<b>Improved Waste Management</b>	Revenue from selling recycled materials	Improved sales and marketing	Average selling price per ton of solid waste on amount sold less the cost to recover (calculated as \$ per ton) less cost per ton to recycle.
	Saving from using recovered waste	Higher operational efficiency	Saving from using less virgin material and lower disposal costs associated with the recovery and reuse solid materials (weighted average per price per metric ton).
	Saving from using recycled water		Savings from reduced spend on fresh water due to using recycled water net of costs to recycle plus the savings unless waste water disposal cost using average disposal price per M3.
	Cost avoided from traditional waste disposal		Per unit disposal cost per ton of waste to the amount of material recovered/reused or recycled.
	Energy savings in manufacturing		Energy savings by comparing the weighted average energy intensity per ton using virgin material to the energy intensity using recovered/recycled material.
<b>Reduce Emissions – Carbon</b>	Savings from reduced need for carbon credits	Higher operational efficiency	Reduced spend on carbon credits due to the reduction in emissions in manufacturing subtract costs incurred to achieve the reduction for net operating income benefit.

## How to maximize positive impact and profitability through sustainability

### Innovation strategies and ROSI

Strategies	Benefits	Mediating factor	Monetization methods
<b>Increase sustainable Product Presence</b>	Incremental sales from new sustainable products	Improved sales and marketing	Incremental sales from the number of zero emission and low emission models sold using the weighted average price per unit. Incremental margin on zero emission and low emission vehicles sold assuming an average cost of goods sold (COGS).
<b>Innovate to Provide Long-term Improved Sustainability Technologies</b>	Increased pricing on products with enhanced sustainability features	More innovation	Differential in average price per vehicle with and without innovative sustainability features minus the sales weighted average COGS of sustainability features, and multiplied by the number of non-zero and low emission vehicles sold that include the added sustainability features.
<b>Engage Consumers with Sustainability through Innovate Services</b>	New revenue streams	Improved sales and marketing	Annual revenue stream from sustainable services (e.g. car sharing, in-vehicle security or emergency services) less wages and other SG&A costs associated with the services.
<b>Incorporate More Sustainable Materials into Product Design</b>	Saving from substituting materials in product design (i.e. recycled and renewable materials)	Higher operational efficiency	Raw material purchased that is renewable/ recycled/ lightweight materials in tons multiplied by the differential in weighted average price of traditional versus renewable/ recycled/ lightweight material per ton less any additional operating costs required
	Lower costs on energy and resources used in manufacturing when using renewable/recycled lightweight materials	Higher operational efficiency	Differential in weighted average spend on energy and resources in traditional manufacturing versus the weighted average spend on energy and resources in manufacturing using renewable/ recycled/ lightweight materials multiplied by the amount of substituted sustainable material less any additional amount of operating costs incurred on using the substitute materials.

## ROSI key findings

### Waste management reduces costs, generates additional revenue

#### *Examples of Practices*

- Process improvements to recover, reuse, and recycle waste (including water)
- Increase the number of landfill-free sites
- Dedicated group to identify reuse opportunities

#### *Results*

- Cost savings due to lower spend on virgin materials
- Increased net revenues from sales to recyclers
- Reduction in water costs by using recycled water
- Energy savings due to lower use for recycled vs virgin materials
- Reduction in waste disposal costs

**EBIT impact of \$235 million**

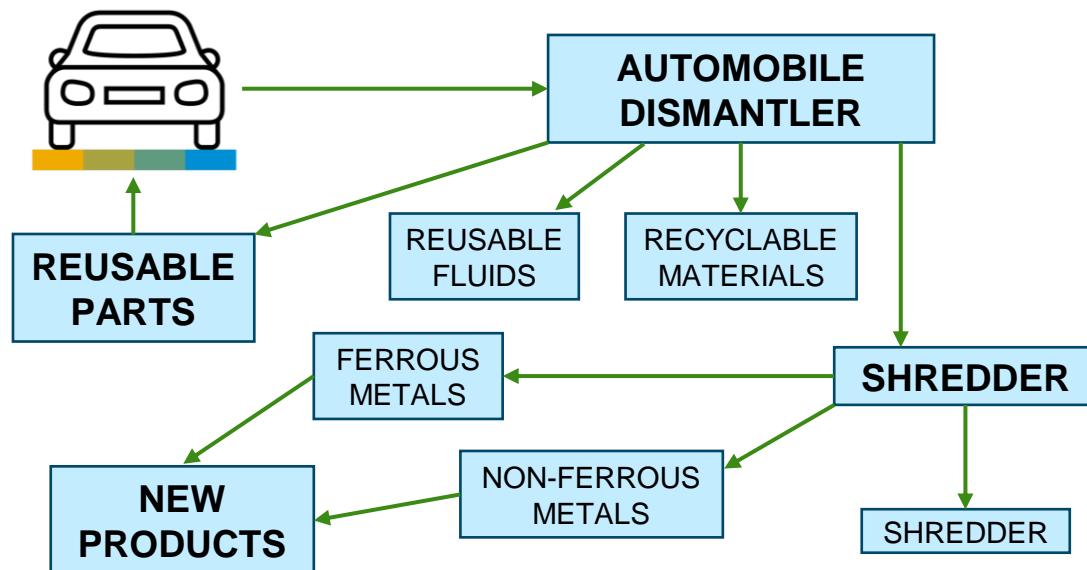


## ROSI key findings

**Incorporating benefits of sustainability strategies into decision-making requires a systems thinking approach**

### Examples of Practices

- Recovering and recycling materials from end-of-life (EOL) vehicles – to maximize the benefit, reusable material needs to be incorporated in the car design



### Results

- 2.5% of treated EOL material was recovered and reused and 10% was sold to recyclers in Europe
- Savings achieved from reduced virgin materials, process savings, and lower disposal costs, and in incremental revenues generated from sales

**Total EBIT savings of \$100 million**

## ROSI key findings

### Current reporting frameworks may not be adequate for measuring financial benefits

#### *Examples of Practices*

- Number of product recalls is standard reporting, but not financial impact
- Information on costs is needed to understand the financial impact; not currently aggregated

#### *Results*

- Average repair cost per vehicle times average number of cars per recall
- Average legal and PR costs per recall
- Money spent on increased quality control, premium redesigned parts, and additional training

**The financial benefit of more than a dozen fewer recalls was more than \$550 million.**



## How to maximize positive impact and profitability through sustainability

### **How to monetize the return on sustainability investment**

Create a cross-business unit of executives to manage the process. It can be led by the sustainability function or finance.

For each sustainability strategy embraced by the company (ensure they all tackle material ESG issues), identify the ROSI benefits of key practices.

Assess the baseline and put in place tracking mechanisms to assess ROSI over time.

For forward-looking projections, use the same process, but you will need proxies for some data on which you build your assumptions (see NYU Stern ROSI library for help).





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