

Resilient Edge: A Business Vitality Podcast from Deloitte

S1 Episode 2 — Incentivizing Sustainability

TRANSCRIPT:

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What gives me hope is that while the words are multiple and indeed complex as they're expressed in the regulation, the software technology absolutely, absolutely exists today, not tomorrow, not next year today, to help companies get through that process so that the sustainability professionals of the world can go from reporting and regulation to actually convincing boards that the business model transition we've signed up for will be possible through Enterprise Resource process transformation.

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Chip Kleinheksel: Hello and welcome to episode two of Resilient Edge, a Business Vitality podcast from Deloitte. I'm Chip Kleinheksel, the Chief Technology Officer of Deloitte global SAP Alliance, and I'll be your host as we explore some of the most pressing business transformation issues that organizations across industries are contending with today. Now to the question at the heart of this podcast, how do you go from thinking about change to actually making it happen and at scale? This season, we're focused on three crucial areas, artificial intelligence, supply chain, elasticity, against disruption and sustainability.

To help me unpack them, I'll be joined by experts from Deloitte, SAP and beyond, who will share insights from transformation successes that they've been a part of. I'm really excited about today's topic. It's an incredibly timely one. Let's talk incentivizing sustainability, from wildfires and rising sea levels to new regulations and unpredictable costs, the signs of climate change are all around us.

Deloitte research shows that many CXOs rate it as a top three issue and say that it will have a big impact on their organization's strategy and operations.

In fact, more than four in five of them have even been personally impacted by climate events within the last year. Now, historically, businesses have viewed the move to net zero as a costly and risky challenge, but this transformation is also a powerful opportunity for companies that get it right. Most business leaders want to take action on sustainability, but the path forward isn't always clear. How can they turn intent into action, and how do they identify the most crucial abatement levers to pull for help answering those questions and more. I'm really excited to introduce my guests for this episode. First is Sophia Mendelson. She's the Chief Sustainability and Commercial Officer of SAP. Sophia, welcome to Resilient Edge.

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Sophia Mendelson: Thank you, Chip and hello listeners.

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Chip Kleinheksel: Now, can you tell us a bit about your role and background?

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Sophia Mendelson: My job is to oversee SAP sustainability globally, both for ourselves on the corporate side as well as for our customers on the commercial side. Every day, it's imperative I get up and think about how we can use software, technology ecosystems and partnerships and customers data itself to scale sustainability and then integrate it back into the traditional, modern economy. Fantastic.

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Chip Kleinheksel: Great to have you with us and rounding out our thinking. Today is Jacques Buith. Jacques is Deloitte's Global SAP Sustainability Leader. Jacques, great to have you here. You were so excited to be on the pod. You flew all the way over from Europe to New York just to be able to join us. Can you describe your role and your responsibilities?

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Jacques Buith: Yes, thanks, Chip. No. Very, very happy to be here and combining, indeed, this trip also with this conversation, with my role to bring the SAP Sustainability Solutions that are there and package them into our clients conversations.

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Chip Kleinheksel: Well, great to have you both excited to get into the discussion. We really want to focus it around structuring decision making, around sustainability ERP systems and the technology that can help drive that and enable it, and even more generally, I'd love to get your thoughts on the present and future of corporate sustainability. So let's start there. Sophia, are you finding that our clients are particularly focused on sustainability right now?

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Sophia Mendelson: Well, the answer is yes, but before I answer a trip, I have to tell you and your listeners what happened in the studio. When you said Jacques flew over for this podcast, the two sustainability people sitting here, Jacques and I were like, "No, no, no, efficient movement only." I guarantee you Jacques did many, many, many things. Things on one plane ticket.

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Chip Kleinheksel: Well, said we accomplished lots by having them here, spending more than a week in the city and doing a lot of different projects. Absolutely. Thank you, Sophia.

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Sophia Mendelson: To your question Chip, the answer is yes. Continues to be a secular macro trend that they focus on across countries and across multiple years, regardless of who might be coming in or out of office or what other topics might be taking up business headlines.

At the moment, our shared clients are focused on it because their stakeholders are first and foremost their talent base, we see increasing interest, I would say even demand chip from young talent coming into any of our customers, as well as I'd say SAP and I'll venture to save for Deloitte. Not only that, we act responsibly, for example, choosing the highest quality reliable offsets for Jack's flight, but they're also serious about it. In our business model, you want good talent. Tell me how you're scaling it within your business, turning it into a P and L. The second is investors, which continue to focus on sustainability and environmental, social governance or ESG factors, because they're telling the

investors something about the business, something about the governance model, the quality of talent leading the company.

And then, of course, there's regulators, whether it's a carrot in the US with a inflation reduction Act or a stick in the EU with some of the penalties we see if you don't do sustainability right and reported on it correctly, it's pervasive, regardless of where you're based and across industries. And finally, it's the end user. It's the customer. We've broken out of this. Yeah, it's green, but will they pay more for it? Conversation, table stakes in consumer goods, table stakes in other industries we both focus on, like automotive and mail in mining here to stay and only getting more complex and more interesting.

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Jacques Buith: Absolutely, if I can build further on the four themes that Sophia just mentioned, those are absolutely the relevant elements why we see our clients having a specific interest in sustainability from a strategic dimension. It differs by region, and it is different in various industries. So if you talk energy intensive industries, the topic is pretty much in the boardroom. At the strategic level, the manufacturing and the hard to abate sectors are very much in the forefront.

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Chip Kleinhessel: How are sustainability imperatives shaping or reshaping corporate priorities?
Sophia, maybe we'll start with you?

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Sophia Mendelson: Chip, the first thing I would say is I'll take the verb reshaping, not shaping. Love it, because this is about integration, right? We have finally graduated from the thinking that a company almost needs to be born anew out of a startup from California, or completely torn down and re-materialized as ornately circular to be caring about sustainability, what I see in the C suite with boards and directors is that they're taking what they thought would be true five years ago and then looking at it through the lens of sustainability.

So let's get specific. Supply Chain is an imperative part of every major company's C suite level conversations. They already have a supply chain strategy. They've already decided, most likely, post covid, to bring back onshore, to maybe shift from just in time to a model that gives them a little more slack. Now, as they're executing on that overarching supply chain strategy, they're also asking themselves first, what's the energy? What's the embedded carbon of moving things around? Because

that's going to demonstrate efficiency or lack of efficiency, in the supply chain. If you're seeing something on your SAP sustainability dashboard that really pops and you click into why one type of unit, one line, one SKU, has a much larger carbon impact or footprint than another.

You might then see that that's because of flying. And you can immediately ask yourself, Okay, why are we flying the T shirts up? They were late and the Christmas rush is coming. What happened in that supply chain. So it's really a leading indicator. My favorite customer conversations are the ones where we're really proactively, either enhancing community engagement or avoiding physical climate risk. Like, Hey, do you really want to put that bottling factory that requires water in a place? Space where we're not sure there's gonna be ample water to continue business and maintain good relations, can we not only look at where you're sourcing from, but also take the exact same data and apply it to your R and D strategy?

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Chip Kleinheksel: I love that, and data brings me a little bit to one of the challenges, because I know for a lot of organizations, being able to have access to that data can be a bit of a challenge. Maybe. Jacques, can you talk about what are the main challenges you're seeing?

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Jacques Buith: Yeah, you already mentioned data. That is the number one so in sustainability, having access to the right data, having access to accurate data, having access to data that will be so robust in the processes that you can start reporting on. It is something that we are figuring out together with SAP, with Deloitte at the moment, because we have to realize that in this new world of sustainability, the indicators, the triggers for management to make decisions upon is not readily available in our old days of corporate governance and how businesses are run from a financial metric perspective, those processes are embedded.

They are implemented. We do have systems SAP systems around it for 1020, 30 years, and that works in this new world of carbon, of plastics, but also the social aspects of diversity and inclusion equal pay. Those are new elements of data that we need to find out. How are we going to get the data? How are we going to store the data, but also, how are we make the data comparable? We need robust processes for that. We need structured for that, and we need sap to implement and to store that data in a systematic way.

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Sophia Mendelson: So first of all, Jacques, I could listen to you say robust all day long. This is my favorite moment of our podcast so far. Second of all, of course, Jacques is right, right, and what we ultimately need to make sure of is that the companies who are the backbone of this modern economy do not get stuck in a but if we only had the data right, not having the data is no longer an excuse. It's no longer an excuse for the Gen Z talent base you're trying to attract who could care less if it's hard for you to get the data, it's no longer an excuse for the end user, customers that Jacques referred to, and from the technology point of view, the data is now available. I mean, that's exactly the horizon data of SAP, right? That SAP sustainability understands what we already have access to is the data you need, and what we're now doing is taking your traditional business data and comparing it with the sustainability data, made all the more easy by Gen AI, by the way, and then putting it in the hands of the very decision makers we started talking about.

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Jacques Buith: In addition to data, I would say, which is the number one, it's also a changing corporate governance. So it's also about the management structures, the board of directors, and the responsibilities and the education that needs attention. We work with a number of clients on the supervisory board level, where they need to be educated on the topic of climate, climate adaptation, for them to ask the right questions to the CEO and the CFO and then the CEO and the CFO and the management board they need to be educated on, for example, the topics that Sophia mentioned in the supply chain, if there is supply chain disruptions, that they have to realize what the sustainable solution for reorganizations and structural changes are. So education, in addition to data, is also a key element.

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Sophia Mendelson: And time, Jacques, because you said something so true, which is that the traditional financial system, the traditional governance system, has had what 150 years of audit practice. I mean, you know better than me, right to mature, and here we are applying the same rigor of regulation, the same rigor of audit, to basically brand new baby data and Chip inherent in so many of the questions you've asked Jacques and I is, Why? Why care? Why now, and there's something happening around the globe that it's imperative we highlight, which is that the physical climate risk predicted in the climate models has arrived. It's impacting individuals, communities, supply chain, cost of living, cost to our customers today, and that's like fuel on the fire for this conversation.

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Jacques Buith: Yeah, look at their events in Dubai with the water and the rain and the completely disastrous weather effects, but also Europe. Last summer was disastrous, and I fear that this summer will be worse. So companies need to start thinking, How do I set up my. Factories. How do I set up my offices? How do I set up my supply chains? Because it's here, it's real, it's physical, and very severe risks.

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Chip Kleinheksel: So if I can summarize a little bit in terms of priorities, where clients are focusing, I loved Sophia. How you set it up? It starts with talent, it's investors, it's regulators, and ultimately the customer right? And then from the challenges that are being faced, data, making sure we're educating our talent and our people, and then time.

So Sophia, when it comes to solving some of these problems, how would you say organizations are currently approaching the move to net zero?

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Sophia Mendelson: Well, let's answer the question by starting with how they used to approach it. So you used to approach it purely through a sustainability lens. And you can see that in the origins of sustainability and ESG reporting, standalone reports, and then you can see that in the hiring practices of major companies around the world, stand alone sustainability offices. And then finally, you can see that in the KPIs and the targets of the companies and the customers we serve, stand alone, net zero goals. Now what's happening is that's bleeding in to their sister equivalent across the board, and we see the wheel now being taken by two pairs of hands, not just the chief sustainability officer, and don't get me wrong, she still firmly got her hands on that wheel, but also the CFO and his or her office, who are aware there is profit and margin on the table, as well as risk.

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Jacques Buith: Couldn't agree more. It started as you all remember with several years ago, right? That there were CEO statements of by a date, 2030, 2040, 2050, of the company becoming net zero. And then after that statement, the Chief Sustainability Officer started to realize, okay, that is a statement. I still have 15 years, 20 years to go. Let's make a plan. But what now is happening that is not good enough anymore. It is integrated in the key business processes. So it's each and every, as Sophia is saying, each and every board member, each and every management team in its own right, needs to

think about those KPIs, and in the supply chain, it will be more, a little bit more on the environmental side of it, whilst on the HR, it will be more on the social elements. But not only it'll be both.

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Chip Kleinheksel: I love how you said integrated, because as somebody who does a lot of ERP implementations. We go and we design and we implement for supply chain. And when it comes to sustainability, it shouldn't just be a separate topic. I'm gathering requirements about how the supply chain needs to work in this new system. And those requirements need to include like circularity and how we're taking in returning products and recycling and things of that nature. It's not a separate thing. It's integrated, and that's how these solutions need to be done. Moving forward. Jacques, what's Deloitte role in this process? How are we helping organizations get over these hurdles and solve some of these problems?

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Jacques Buith: Yeah, no, absolutely. That is also what we believe within Deloitte, that sustainability should be an integrated element in all the offerings that we have, but also in all the capabilities that we're having. And I personally believe those capabilities need to be built in all the professionals within the Lloyd within SAP that are implementing and integrating the SAP system, whether you're a finance professional, supply chain, professional each and every one need to have basic knowledge and advanced knowledge of how to accelerate and progress in his or her area of expertise, from a sustainability dimension.

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Sophia Mendelson: Jacques, so much of what you're saying actually reminds me of a to this minute, previously private thought I've always had, which is that I kind of love that sustainability is getting just a little bit boring. When I started in this space some 20 plus years ago, I was looking for like the mushroom that ate carbon, or the energy company that was gonna change overnight. And what I see now is that we have sustainability professionals talking about governance and controls, talking about margin, talking about integration into the 10k and if their data is going to be in the footnotes or not. And at first I had kind of an adverse reaction, and now I'm thinking, Yeah, this is how it feels to be getting it done.

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Jacques Buith: It's an interesting thought, because chip you said in the beginning, it's in the boardroom, it's in the strategic direction, which is true, and we love to amplify that and to be in those discussion. But what Sophia is saying is also very, very true the moment it becomes boring, it becomes established. That would probably mean that we have. Progressed significantly. So I like that thought.

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Chip Kleinheksel: Sophia, we won't tell anybody that you called it boring. You know, only, only just the people who listen to this podcast, I guess will hear that. But I think the point is valid in the sense that it's becoming more mainstream. It's just the way that people are thinking. And that goes back to my comment around, if I'm a supply chain team designing technology for supply chain, I'm just including sustainability as part of the requirements.

Jacques, you said it if I'm thinking about, what are the financial reports that a business needs? Well, sustainability is going to be a part of those requirements and a part of those reports. It's no longer this thing that we need to attach on as an after effect. It's integrated, it's embedded. And that's the best part about it, correct. So really, really love the points and topics. What Deloitte is doing, what SAP is doing, it's integral, it's important, and it's how we're all going to take the next step.

So I'd like to get more hands on here and a little bit more tactical. Let's discuss implementation. Sophia, Jacques, in your view, what's needed to enable people reaching their company's net zero goals? Is it more know how? Or is it technology?

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Sophia Mendelson: Impossible question, because it's got to be both. I want to impress upon the listeners that as someone responsible for sustainability software, I am not implying we can Sass our way out of this. This is going to be an ecosystem play. I mean software without the people who know how to design it for sustainability establish it for existing processes with integration of sustainable outcomes, and then what the heck to do with that information and the opportunity costs and the decisions one has to make along a cost abatement curve, need to come together, or We will not make progress at pace.

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Jacques Buith: It is absolutely about people, process and technology. Had those three belong together, and clearly we're now seeing a lot of movement into that. In Europe, we have the CSRD. Here in the US, it's the SEC, it's the California act. So there is some real, tangible regulatory regimes that are asking and demanding from our clients to start reporting. And that's what we see our clients are doing. So the first very tactical action that almost every single client in Europe, but also more and more here in the US, starting to do is the materiality analysis. So starting to identify what are the material elements, the material impact towards sustainability, environmental and social elements, and from those the KPIs are derived, and starting to report on those. So those actions is what we see many companies starting to execute at the moment.

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Sophia Mendelson: Yeah, action is the right verb. I mean, we spent a lot of time on the why we did. I mean, I think we can say it collectively, globally. We burned a lot of years on the why, and then we got to reporting, and that was a major step forward. But it's the action that's now taking us out of just a reporting and regulatory framework, and that's where it becomes impossible without the three things you said. So well, what is it, people, processes and technology?

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Chip Kleinheksel: So, how are you seeing SAP and Deloitte and the sustainability solutions that are out there? How are you seeing them being experimented with and used by companies in different industries to be able to take that next step?

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Jacques Buith: For example, take the automotive industry, where you see customers starting doing demand and ask for different vehicles, and with regulation coming in on the environmental side, with scope one, scope two and scope three. It's also the automotive industry in their supply chain that will have a big step to make with all those parts and all those suppliers providing the materials that they now need to know how the environmental footprint is set up. So those companies are thinking of those co PIs and starting to reshape and redesign their processes beyond their own organization, so the entire supply chain is changed in order to meet those regulatory demands.

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Sophia Mendelson: And you can actually see that conversation happening in real time, where our two organizations might be talking to an automotive customer in Europe, dare I say, Germany. And that

then translates into a conversation X number of months later, with their supply chain in Japan, to use a real example. And then I see that months later, with their mining and extractives supplier and partners in Australia, can literally trace it through the supply chain.

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Chip Kleinheksel: Sophia, what are some of the outcomes you've seen from companies that are now starting to leverage these solutions? And Jacques, obviously, I'd love to hear your take on this as well.

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Sophia Mendelson: The key for the customers leveraging the solution is that they've used combination of their people and processes and, of course, software technology to go from estimates, which is like our best guess to actuals, which is based on their enterprise resource information. And to go from the corporate view, come on. I mean, who's buying the LLC? You're not buying the LLC, right? You're buying the t shirt or the carton of milk, to the product view.

So the data has gotten better, and then the data gets more relevant because it's encompassed in a discrete good. And now we're having a conversation. So I'm thinking of a particular customer who, in this case, actually sells a commodity. And you think, by definition, what could they do with a sustainability product? Here they have used our software technology to show that they can take two different types of steel, produce one with more energy intensity, one batch with less energy intensity, and look to command a green premium. Quote, unquote, on the less energy intensive one.

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Jacques Buith: Food and retail is a big example. With ingredients shipped around the world, you see more and more that those products are also including the externalities that comes with the product and is used as advertising, as marketing. But before you can do that, you do need to have the right information.

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Sophia Mendelson: Sometimes I think of carbon in the atmosphere as the tragedy of the commons, and the more accurate and the more specific we can get and pass on that value to the individual consumer, the more I see sustainability data and technology finally addressing the tragedy of the carbon Commons.

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Chip Kleinhessel: And I, like you, said value to the consumer, no doubt, but also, companies are starting to actually see an ROI from this as well. It was interesting. I was just reading a Deloitte Report, or a Deloitte study that came out in March. It was called unleashing sustainability value in food and agriculture, where we surveyed a number of folks. And when you snip it down to the Food and Agricultural executives that were surveyed, of the 350 exec surveyed, 99% of them actually reported experienced revenue growth, and 98% of them reported cost reductions over the three years prior for the survey.

So it shows that these strategies, as they're being implemented, they're making it obviously great for our planet, great for our consumers and the customers, but also can bring an ROI to our businesses as well. In that world, it's a win for everybody.

This has been an absolutely fascinating conversation to be a part of. I'd love to finish it off with some optimism. If you're both game, what gives you hope when it comes to the sustainability journey we're all on?

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Sophia Mendelson: Actually here, I gotta give a shout out to some of the unsung heroes, the nerds sitting in the bureaucracy of regulation. Ultimately, what the words on the paper are trying to do is achieve the communal ideals we've started to express that actually, climate change is already affecting our individual daily lives. We know it'll affect it more, and we know it'll be worse if we don't do something and we now collectively find that unacceptable.

What gives me hope is that while the words are multiple and indeed complex as they're expressed in the regulation, the software technology absolutely, absolutely exists today, not tomorrow, not next year, today to help companies get through that process so that the sustainability professionals of the world can go from reporting and regulation to actually convincing boards that the business model transition we've signed up for will be possible through Enterprise Resource process transformation.

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Jacques Buith: Yeah, Chip, I really love the question you asked, because I'm very positive, and I also have hope of the change. We are doing this for a very good reason, and we're doing it for a better world for all of us, for accelerating the sustainable development goals and bring equity between

global north and global south. So that is what is personally driving me into this business and into this conversation.

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Chip Kleinheksel:

The software exists to help and we have a younger generation absolutely who's an impetus for driving this forward, along with many of us. I think that's a great place to wrap things up. Sophia, Jacques, thank you so much for being a part of Resilient Edge.

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Jacques Buith: Thanks, Sophia, thanks Chip.

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Sophia Mendelson: Thanks, guys.

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Chip Kleinheksel: My guest today have been Sophia Mendelson, SAP Chief Sustainability and Commercial Officer, and Jacques Buith, Deloitte Global SAP Sustainability Leader. I'm Chip Kleinheksel, and this has been Resilient Edge, a Business Vitality podcast, paid and presented by Deloitte and produced by BBC StoryWorks, commercial productions. Thanks for listening. We'd appreciate if you leave us a review until next time.