2023 SAP Sustainability Report

The race to reap the financial rewards of sustainability action

Message from Renaud Heyd,
CFO, SAP UKI

Every year, we survey global business leaders about what drives or impedes sustainability action. And, each year, we're reminded that there is a desire to see change. While we may all collectively face some of the toughest environmental challenges yet, we should take encouragement from the fact we are all pulling in the same direction, towards a greener, more sustainable future.

As the next Conference of the Parties (COP) conference rolls around, and global leaders, scientists, experts and innovators meet to discuss policy and appropriate targets, we're reminded of the increasing urgency to act now. We all have a responsibility to accelerate driving progress with even the smallest ripple causing a wave.

These meetings are critical in keeping sustainability front of mind for everyone, but taking action is not about calendar focal points. It's about establishing how, every day, we can make more environmentally positive choices, and remove what might otherwise get in the way.

And it's here that the response from UK businesses was clearest. Long-term sustainability action has become financially motivated, an opportunity to do good and reap the rewards. After all, organisations can only thrive in a planet that thrives. From my own conversations with leaders, there's a general feeling that this train has left the station. Environmental action is financially good for business. And it comes as little surprise that 8-in-10 are planning to maintain or increase their work to improve the planet, marking a 12% jump on last year.

Now that this has become a financial conversation, it follows that CFOs and finance leaders should be involved in the process. We are the guardians of business resilience, and we bring long-term thinking to business development, and ensure decision-making aligns with financial objectives. Alongside other business leaders, we can make sustainability a competitive differentiator. Finance leaders can help make profit and purpose mutually inclusive for UK businesses; but supply chain issues, rising cost-of-living and inflationary pressures must be mitigated by the right sustainability measurement and reporting to accelerate chances of success.

Our survey shows that this is where the UK continues to fall short. CFOs are not as involved as they should be, which can impact how well the wider business understands the purpose of taking action, and what returns to expect. This then leads to lack of funding and prioritisation; issues that are then exacerbated by poor measurement and a failure to substantiate the runway to net-zero and other goals.

It's time UK businesses break the cycle and lead the global race to realise and demonstrate how financially rewarding sustainability action can be.

Methodology

The SAP Insights research centre collected data from 301 respondents from across the UK working throughout 29 industries. Respondents had the highest knowledge of their organisation's sustainability objectives and processes. The surveys were conducted in April 2023 via a 10-minute online survey. Some figures are sourced from normalised data from the 2022 respondent group.

301
Respondents

29
Industries

1
Nation

Introduction

It's becoming increasingly difficult to understand the effects climate change will have in the coming years, let alone its impact on economies and society. But we can predict its effect will be long lasting and we're starting to see the impact years of talk, not action have had.

Over the last year, the climate emergency has showed no signs of slowing. We've seen mass droughts, forest fires, unique heat waves and flash floods. And so, while sustainability has a very broad scope, spanning social, economic and environmental issues, this report focuses closely on the latter issue. The social and economic implications of sustainability are key themes which surface throughout our report but require their own dedicated analysis.

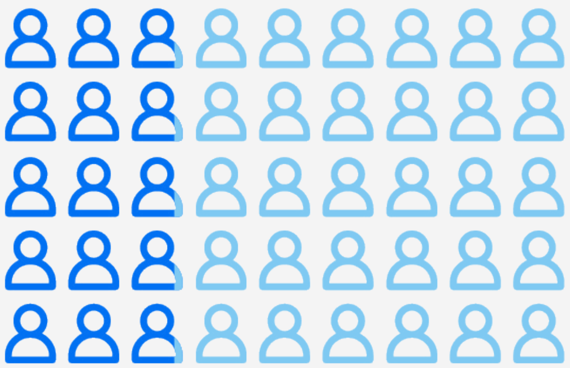
Out of necessity, innovations that can rapidly help combat sustainability challenges have grown exponentially. According to Pitchbook, venture capital has poured into carbon accounting companies, jumping from $60million in 2020 to $767million in 2022, as businesses look to manage and offset their carbon footprint. SAP now has a mature and ever-evolving portfolio of solutions too with Sustainability Control Tower, Green Ledger and Sustainability Footprint Management helping leaders to track, measure, analyse and report on their sustainability commitments.

We've reached a point where awareness of sustainability efforts has become so ubiquitous that it's now part of the very fabric of organisations. Sustainability is no longer a throwaway word in an annual performance report or during an all-hands meeting. Instead, businesses are making sustainable decisions under the influence of customer demands and an evolving regulatory environment that requires strict compliance.

Importantly, it's not just the well-regarded flagbearers that are championing the cause. The likes of Patagonia, AllBirds and The Body Shop continue to drive progress, but we're seeing other big name companies like ASDA, Apple and BMW make public calls and commitments to drastically reduce their impact on the environment.

But as the latest International Panel on Climate Change (IPCC) report shows, progress needs to accelerate faster. We have a rapidly diminishing 'carbon budget' and it's now or never to take action.

2023



Almost a third (31%) of UK leaders now see environmental action having a strong impact on their revenue, profitability and growth

Our research of over 300 UK business leaders suggests there is no doubting the commitment to reducing carbon emissions and undertaking work that directly benefits the planet. It's now more than just a moral or ethical decision, the money is talking too and this will play a key role moving forward.

But realising these material gains is more than just an understanding of where revenue and growth opportunities can arise. UK businesses must build a coherent plan to eliminate waste, circulate materials, regenerate natural systems, and make a meaningful long-term contribution to protecting the planet.

And, as our study shows, the UK is still not where it needs to be.

UK leaders are placing different value on sustainability action

From the disruptions caused by the Just Stop Oil protests to the work carried out by Greenpeace or Extinction Rebellion, grassroot support for climate-friendly initiatives continues to swell. But the influence of these tactics and protest groups is part of a broader reset on the purpose and value of sustainability action, and UK businesses now have a different perspective to what they would have held one decade ago.

So much so that the moral and ethical obligation that once drove the conversation is now a pre-requisite for carrying out this work. What started with a warning from a David Attenborough documentary quickly escalated to a climate warning from the UN – and now businesses no longer need convincing of the necessity of paying attention to their footprint.

What's now emerging is an understanding that beyond being the right thing to do, sustainability action can drive operational efficiencies, save costs, improve reputations and appeal to customers. Sustainability has become a thread that connects UK businesses from retail to manufacturing.

As a result, its value to the wider organisation continues to evolve. Profit and purpose have become inextricably linked and so the discourse around sustainability is changing. It's now centred around business performance and growth, and is being discussed in monetary terms – as an opportunity to offset economic challenges or reach new audiences. In fact, as our study shows, more than one third (37%) of UK leaders report that revenue and profit opportunities are a leading driver of sustainability action. And now, over half (57%) of UK leaders expect to see a short-term positive financial return on their sustainability investments.

This reflects a new mindset that sustainability is no longer a not-for-profit exercise, a set of commitments that fall under the ESG umbrella and seen as a CSR initiative. As businesses invest, they expect returns and that's why it's so important they are well positioned for success.

"Economists have long argued that taking action to improve environmental performance can increase profitability. Customers want to do business with organisations that are conscious of their impact on the planet and purposeful about the decisions they make to reduce their footprints. While sustainability action can also facilitate improvements in product quality or business efficiency.

SAP's study is remarkable as it not only shows this theory in practice but reveals the extent to which UK businesses across all major industries can benefit by connecting financial performance with sustainability action. What is clearer than ever is that businesses behind the curve, not making these investments, are placing their long-term performance at risk, with profitability likely to deteriorate in the near future relative to their competitors. With targets for net zero fast approaching, the stringency of environmental regulations will only increase, and so businesses cannot afford to fall behind. Leaders who move first to seize the economic rewards of taking sustainability action will distinguish themselves from the industry laggards and reach their objectives faster."

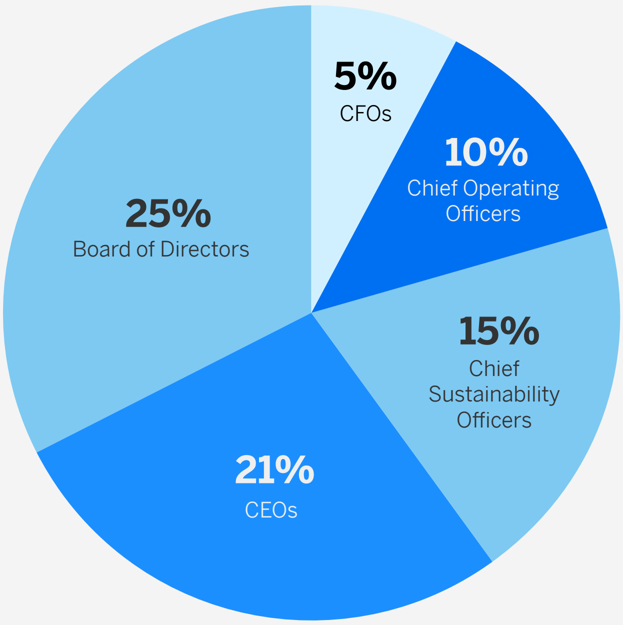
Professor Edward Manderson
Environmental Economist at the University of Manchester

Managing business accountability for climate action

It's one thing to ambitiously target long-term financial returns on sustainability action, it's another to put in place the right processes and accountability to make it happen. Is the UK trying to sprint while it is still learning how to run? Our research suggests this is the case as it uncovers that many businesses are creating their own roadblocks to success.

This starts with who is being held accountable for the company's environment strategy. At a time when sustainability has become a financial motivation, an opportunity to both protect the planet and make profits at the same time, UK businesses are stuck in the same patterns that have held up progress before.

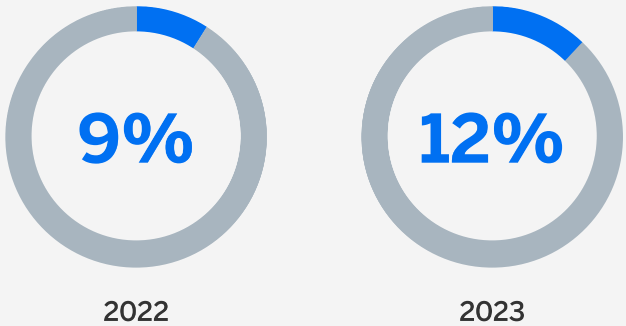
Who is responsible for setting the strategic direction on sustainability action?



A staggeringly low 5% of UK businesses allow CFOs to take responsibility for setting the strategic direction on sustainability action.

Instead of handing the reins to finance leaders, those who have direct accountability to ensure the financial health of the business, many are defaulting to other leaders.

This year, just 12% assigned CFOs accountable for efforts to improve environmental practices.



Almost no change from UK businesses in 12 months as 3% more CFOs are handed accountability for environmental action

UK businesses cannot decide on who should lead the climate charge and this confusion leads to missed targets, underwhelming returns and environmental pledges dropping down the priority list. And the consequences are spelled out for all to see in our survey.

With CFOs and finance leaders unable to get involved in efforts to improve environmental practices, the link between sustainability action and profitability becomes diluted. In these cases, climate work is not inextricably tied to profit and loss, revenue generation and performance, and as a result businesses lose interest. It's no wonder that almost 2-in-5 (38%) of UK businesses cite a lack of funding as one of the top five barriers to sustainability action, an increase on 2022's findings. While almost a third (28%) have difficulty proving return-on-investment on taking environmental action, and 20% cannot get the support from senior stakeholders.

Misplaced accountability is fast becoming a dangerous trap. At a time when organisations are becoming increasingly vocal about the importance of protecting the environment, a failure to practice what you preach can risk severe economic and reputational damage.

Shares in Danimer Scientific, a US PHA polymer supplier, plummeted after Spruce Point Capital, a New-York based capital management firm, released a report suggesting that Danimer exaggerated claims about the biodegradability of its materials. Similarly, popular UK fast-fashion brands, Boohoo and ASOS, amongst others, have become the target of short-sellers after the Competition and Markets Authority announced it was investigating claims of green-washing.

Avoiding these accusations is paramount, from both an economic and reputation standpoint, and this begins with having the right sustainability processes in place. This extends to who oversees the environmental commitments and engages the wider business in meeting the goals, as well as how sustainability action is measured and substantiated.

New year, same measurement shortcomings

Realising the financial rewards of sustainability action requires accurate, comprehensive measurement, analysis and reporting. Businesses that measure the results – and impact – of taking action and demonstrate how it benefits the business will overcome key funding and engagement challenges from wider stakeholders. But, as our survey shows, the UK is still some way from following best practice.

With many now on the road to net-zero, businesses must understand their scope emissions and the importance of measuring them. These emissions are categorised as scope 1, 2 and 3, and relate to different forms of carbon output produced by business operations and across the wider 'value chain', such as by suppliers or customers.

But our research shows that UK businesses do not know how to effectively track and manage these categories. This can impact their environmental targets and progress towards protecting the planet. Fewer than 1-in-5 can track scope 2 emissions to a 'strong degree', while 1-in-10 cannot track scope 3 emissions at all. Also, just 34% can track these types of emissions to a 'small degree', which means that many are operating without a comprehensive framework to inform the drive to net-zero.

On top of these obvious gaps in measurement, UK businesses are not setting themselves up for success as they continue to use conflicting reporting processes. This provides unreliable, inaccurate, and confusing data, making scope emissions much harder to manage.

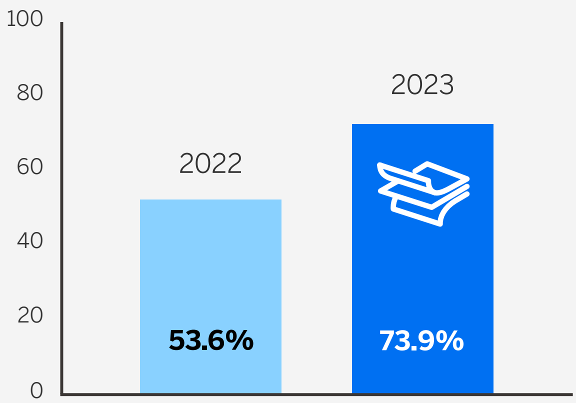
Scope 1 emissions are derived from sources that an organisation owns or controls directly, such as burning fuel in fleet vehicles.

Scope 2 are those that a company causes indirectly and are the result of where energy is purchased and then used, such as what is emitted by powering a building with electricity.

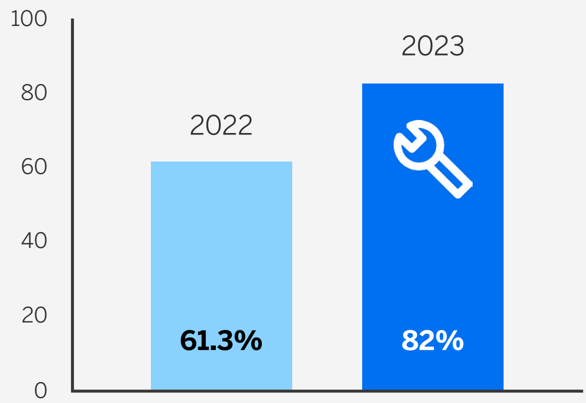
Scope 3 emissions are not produced by an organisation and are not the result of activities from assets owned or controlled by them. Instead, it's third-party emissions, such as those caused by supply chain processes.

Our survey highlights that the UK is making some reporting progress by using direct measurement processes, like deploying meters or sensors, to track certain environmental issues. But this is not a universal experience as guesswork and estimates are still in use.

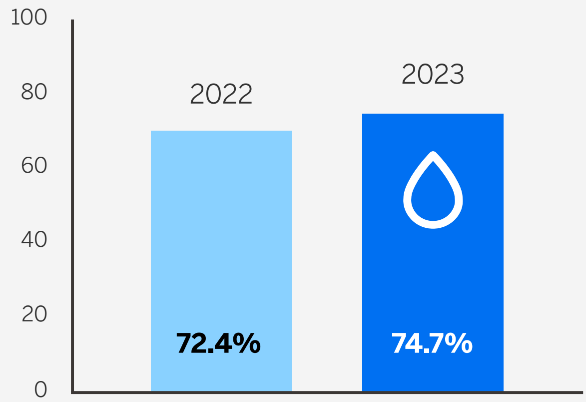
Which environmental issues are UK businesses directly measuring?



Materials Use
A 19% increase

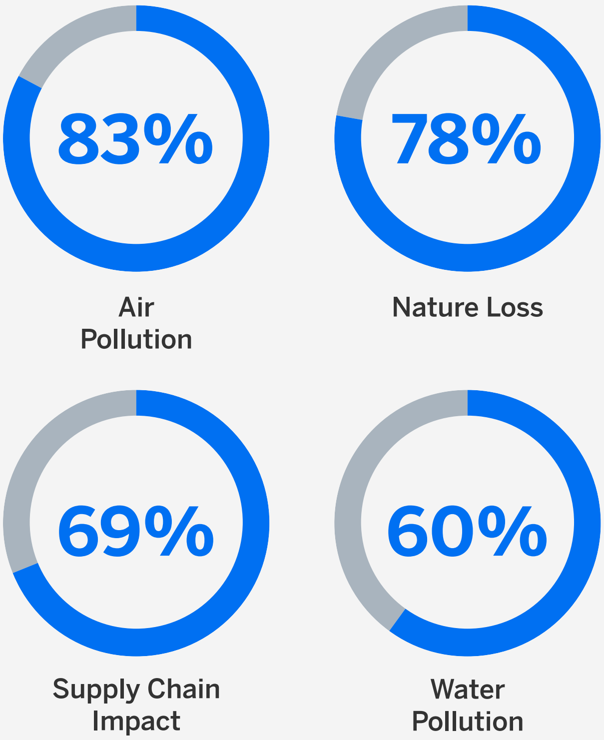


Resource Availability
A 21% increase



Fresh Water Availability
A 2% increase

The UK must extend this same best practice to other important environmental issues, and pivot away from trusting guesswork and estimates. Our research has found that vast amounts of UK businesses are currently using estimations to measure key environmental challenges including:



As we've already seen, businesses face repercussions if they fail to do so. It becomes increasingly difficult to prove ROI, get senior stakeholder support or call for more investment.

Unfortunately, the shortcomings do not stop there as UK leaders are struggling to adopt a standardised approach towards sustainability reporting. Almost two-in-five (38%), for instance, have no consistent methodology for calculating the environmental impact of their products. While our study also found that UK leaders opt for different reporting standards, as almost one third (31%) currently turn to industry-defined standards to monitor and report on issues, and another 30% use standards set out by the UK government.

This could indicate a state of gridlock that will prevent long-term meaningful action. If UK businesses want to realise the link between sustainability action and financial performance, then they must move away from averages, estimates and assumptions, and deal in the 'actuals' – carbon emission data that can be substantiated and inform decision making and progress.

"It is so important for finance leaders within companies to be involved in setting sustainability strategies, but they need to be equipped with the right data intelligence. UK organisations must make available the necessary resources to collect more robust data and bring in the third-party expertise to capitalise upon the environmental opportunities in front of them. Right now, too many face difficulties in obtaining and analysing their data, and do not understand how environmental improvements can be planned and delivered in practice. Overcoming these barriers must be an urgent priority."

A reaction from **Professor Edward Manderson** at the University of Manchester.

msg global:
A case-study in best practice

"SAP is already extremely good when it comes to recording financials with fantastic data quality, and now we're going to bring that same blueprint to carbon accounting. This means we can be just as serious about carbon accounting as we can about our financial performance.

Through SAP Sustainability Control Tower, we identified several areas where our data insights can improve, so we're now implementing SAP Datasphere with SAP Integration Suite to deliver a single source of data truth that will bring us closer to meeting our environmental targets."

Louise Cooke
Executive Board Member
at msg global

SAP is well positioned to support businesses with this transition, and it can provide clarity on methodology frameworks too, assisting with the move towards a global, harmonised model that sees frictionless data exchange and tracking to support thorough measurement and reporting.

Take msg global, for instance, a leading consulting, implementation and managed services provider. The company has its sights set on becoming a sustainable enterprise and turned to SAP to enable the data transparency, measurement and reporting to make its sustainability goals a reality.

With SAP Sustainability Control Tower, msg global published its first sustainability report in 2022, tracking key sustainability performance indicators. Now, msg global can consolidate data from its SAP systems across HR and finance departments, as well as its non-SAP systems. With improved visibility into its sustainability data, msg global's leaders can make informed sustainability decisions based on real-time insights. They can establish baselines, generate reports, and set future-oriented targets and objectives.

See here for more information on how SAP is supporting msg global with its sustainability objectives: https://news.sap.com/2023/06/msg-global-sap-sustainability-control-tower/

Placing this into the context of the new regulatory regime

For UK businesses, there is a high level of climate confusion and inconsistency, and this impacts their ability to realise the financial rewards of taking sustainability action and showcasing these benefits to the wider business. It is now also having a negative effect on compliance too.

As steps are taken within both public and private sectors to protect the environment, and we're seeing innovation emerge as a result, like the growth of carbon accounting, policymakers and regulators have closely followed. There are now a number of new measures in place that mean UK businesses cannot ignore their responsibility to reduce their carbon emissions.

First and foremost, in 2019, the UK became the first major economy to adopt a legal commitment to achieve net zero carbon emissions by 2050. This was accompanied by a new policy directive which requires suppliers bidding for major government contracts to commit to this net zero timeline and to publish their own carbon reduction plan. This means that all organisations, whether public or private sector, goods or service providers, will need to have a robust plan in place to win new business.

That's why paying attention to new regulations and taking steps to evolve the business in line with circular economy practices is so important. For example, the UK government's long-awaited Extended Producer Responsibility (EPR) scheme, set to be introduced in 2025, must be a key calendar moment for businesses, especially those in manufacturing and FMCG.

This new regulation will place the responsibility for a product's end–of-life and environmental impact upon the producer. So, if a business produces items like plastic bottles, they will have a financial and operational responsibility to manage and reduce any resulting household or business waste.

It's a significant shift in mindset and is one of the most progressive global circular economy policies.

For those unsure whether this applies to them, these are the policy qualifiers:

- You're an individual business, subsidiary or group (but not a charity)
- You have an annual turnover of £1 million or more (based on your most recent annual accounts)
- You were responsible for more than 25 tonnes of packaging in 2022
- You carry out any of the packaging activities.

The breadth of those impacted here is broad. From supermarket chains to car manufacturers, organisations will need to record, measure and analyse product data to comply.

When does the EPR scheme come in?

The government had originally targeted 2024 as the date for the scheme to take effect, but it's been deferred to October 2025. However, this does not mean that organisations can delay their reporting and analysis. UK businesses must have the right processes in place this year to remain compliant.

As the government's website says: "EPR for packaging fees have been deferred for a year. You will not have to pay any EPR for packaging fees in 2024. However, you must still follow this guidance and report your packaging data for 2023."

Where SAP can help

Technology will play an important role in helping UK businesses to mitigate any concerns regarding the EPR scheme, or other environmental legislation, and remain compliant.

1.

With SAP Responsible Design and Production, UK businesses can embed circularity principles into the design of products from the outset. Organisations can calculate their EPR obligations, manage plastic taxes, and fulfil their corporate commitments to optimise material choices.

2.

SAP Sustainability Control Tower is designed to enable UK businesses to follow best practice in establishing a sustainability data strategy. It can help organisations to establish and implement the right metrics, follow consistent frameworks, and enjoy advanced analytics and automation to make reporting and analysis a seamless process.

3.

SAP Sustainability Footprint Management empowers organisations to gain unrivalled visibility into the carbon footprint across the value chain. This means that the UK can accurately track increasingly essential environmental data and gain better oversight of material flows across all business processes. Improved 'traceability' helps increase the accuracy of plastic tax payments, mitigates compliance risks and boosts circularity.

Monitor, Measure, Act:

The three steps towards embracing circular economy principles

Embracing the principles of the circular economy; regeneration, waste reduction, robust tracking, reporting and analysis of materials, is not an overnight process but it is fundamental to environmental progress. It's how we will reduce emissions and establish realistic net-zero targets.

For businesses that feel as though they are still in the starting blocks, unsure where to begin or what to do next, our three key steps will help turn good intentions into meaningful action.

1. Closely monitor environmental developments

To truly embrace and engage with the circular economy and reap its rewards, businesses must be an active participant within the wider ecosystem. Being passive or purely reactive to new policy, regulation or environmental trends is a short-term approach to a long-term challenge. Without being involved in these conversations, business leaders could find that their needs or requests are overlooked, and that they may need to allocate more time and resources to stay compliant or amend their business model further down the road.

As we've seen with the introduction of the UK plastic packaging tax or the Extended Producer Responsibility scheme, policymakers and regulators are not holding back with new guidance and frameworks. Ensuring what may come next is appropriate for all, as opposed to those influencing the debate right now, requires active engagement. As part of their 2024 strategies, UK businesses should look to build deep and systematic industry relationships to drive the future of environmental policy.

2. Invest in robust measurement

As our research shows, too many UK businesses are relying upon guesswork to inform their environmental strategies. This is not a sustainable model to follow and meet net-zero goals, and take action to improve the planet.

With new regulations on the way and greater public scrutiny on ESG performance, UK businesses need to invest in robust measurement tools and processes to get to grips with scope 1, 2 and 3 emissions. Organisations must measure material origination, quantities and flows as well as the social and environmental context. Leaders need to be asking: "How is this impacting biodiversity?" or "How is this supply chain driving up my carbon emissions?". Answering these questions requires having quality data at your disposal to measure and analyse, which can then inform sustainability decision-making.

3. Take concerted action

Faced with a number of different objectives, regulations and commitments, it's all too easy for businesses to find themselves in a state of paralysis, not knowing where to start or being fearful of taking the wrong step. That first leap is often the hardest but most important part.

As a form of best practice, businesses should look to take action that sets themselves up for long-term success. As part of their wider business strategy, they need to start evaluating how to position their enterprise to embrace new operational models. Leaders must establish how they can fundamentally shift their service consumption model to focus on regeneration. This includes a review of R&D priorities, the viability of supply chain systems and a better understanding of whether they are working with the right industry partners to meet their objectives.

Discover how SAP can help you take these three key steps: https://www.sap.com/uk/sustainability/our-approach.html

Our commitment to sustainability

As a global technology leader, SAP is both an enabler and an exemplar of the sustainable intelligent enterprise. We strive to create a positive economic, environmental, and social impact worldwide. We do this by providing products and services that meet the sustainability challenges facing our customers and leading by example in our own business operations and practices.

We believe that improving our sustainability performance allows us to lead by example and enable customers to do the same. Key to this is embedding sustainability into our core business strategy, and we have established four main focus areas as part of this drive; climate action, circular economy, social responsibility and holistic steering and reporting. Our efforts have been recognised by some of the world's most trusted business sustainability rankings, including as a top three performer in IDC's Sustainability Index and ranking 55 out of 100 in Corporate Knight's latest sustainable corporations index.

We are committed to achieving net-zero emissions across our value chain by 2030, twenty years earlier than the wider 2050 target.

As part of this drive, we are working towards establishing a multi-phased supply chain engagement programme by 2024 and have also set a target of having each of our top one hundred suppliers reporting company-wide and product-level emissions for key products by 2027.

SAP is uniquely positioned to help build a low-carbon future and create the foundation for a circular economy. But such a fundamental shift cannot be accomplished by one single entity. Businesses, governments and regulators must scale up their efforts, and we are ready to play our role, drawing on more than 50 years of industry and supply chain experience to accelerate progress.

Embracing the global circular economy has never been easier. Find out more at: https://www.sap.com/uk/sustainability/circular-economy.html

Our work with BT

BT Group is a global leader in telecommunications and a visionary innovator in connected technology. With SAP, it shares a vision for the future; a world where intelligent digital solutions can generate growth without coming at the expense of the planet.

Realising this vision requires strong commitments to environmental action and progress, and BT Group's Manifesto clearly sets out an ambition to accelerate growth through responsible, inclusive and sustainable technology. This includes helping customers avoid 60 million tonnes of CO2 by 2030.

With many of its business customers setting their own net zero targets, BT is looking to understand the carbon footprint of its products aimed at the enterprise market. To provide this level of visibility, BT is piloting the SAP Sustainability Data Exchange (SDX) to share carbon data with its enterprise customers for their BT product inventory. This means that customers can easily access and take this information into consideration when they purchase products through SAP Business Network.

As SAP SDX adheres to strict carbon data interoperability standards set by the Partnership for Carbon Transparency, BT's global and UK enterprise customers can access standardised sustainability data.

"This collaboration represents an important milestone in helping business customers standardise sustainability reporting. While value chain emissions typically represent a greater proportion of a business' carbon footprint than operational emissions, tracking them and measuring has been missing. With new tools like the SAP Sustainability Data Exchange, backed by BT's secure and resilient networks, customers gain visibility of their carbon hotspots across their supply chain and can act on those, enabling us to deliver on one of our manifesto pledges."

Sarwar Khan
Global Head of Digital Sustainability, Business at BT Group

Trust us to power your sustainability journey

Get in touch to discover how SAP can help you to realise the business benefits of taking robust sustainability action, supported by quality data insights and measurement.

www.sap.com