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Podcast Inside SAP S/4HANA - Transcription

Inside SAP S/4HANA Episode 94: Exploring Data-Driven ESG - Navigating Sustainability in the Corporate World



Talal: Hello and welcome to our podcast Inside SAP S/4HANA. There is no customer success without product success and project success. I'm your host, Syed Talal Hussain, product manager of Sustainability and Artificial Intelligence at SAP Engineering. We kicked off this year with a series on Sustainability podcasts. In Q1, we talked about the impact of Sustainability on digitalization with Deloitte. Then we had Accenture as guest in Q2, where we discussed circular economy and EPR. For today's guest, I have invited PwC to talk about ESG and its impact in making data driven decisions. Let's welcome our guests first. I have Benjamin Lösken with me, director at PwC. And Daniel Merdan, senior manager at PwC. I always start my podcast with a simple icebreaker question to my guests, and that has become more of a tradition now. So Benjamin and Daniel, tell me something about yourself that audience may not know. Benjamin, you may go first.

Daniel: Yeah, that's beside my projects that I do in the sustainability, I'm, let's say, a sporty guy. So this year I kicked off Kitesurfing because I like the wind. And that's also one major purpose for sustainability to use wind energy. That's what I do in my leisure time and also bringing sustainability to life there.

Benjamin: That's a good one, Benjamin. Actually, I completed two studies next to business economics, and IT. I also finished in philosophy. And my major there was business ethics. So now working in the field of ESG and SAP, I do see a lot of parallels to my studies, which is really nice.

Talal: A very interesting, especially like the link of kitesurfing with sustainability and with power. I think it's definitely a good motivation and that's something I will always remember. That's good to know. Let's get directly into the topic now. And first I would like you to explain your roles at PwC. What exactly do you do? This is for the audience, you know, and this is also specifically in the light of ESG. If you can link to that.

Daniel: I'm working since 15 years already for PwC and since a couple of years now I'm focused on sustainability topics. So I started basically in the whole area of transformation in terms of ERP transformation, finance transformation, business transformation. And then since a couple of years we focused on transformation of ESG in terms of processes, data and systems. Today I'm leading a team for non-financial reporting with around 15 colleagues, and the team is always growing because it's an emerging market at the moment and we are building basically ESG IT architectures. So consulting our clients, how to transform the whole system architecture, the data model, the whole underlying data flow to become an effective and efficient organization and to get transparent data and information for sustainability. And the current focus is on the regulatory topics, which is EU taxonomy and the CSRD, so the Corporate Sustainability Reporting Directive, this is where we currently do a lot of implementation projects, especially with a focus on SAP. So bringing ESG into S/4HANA and also implementing solutions like the sustainability control tower, sustainability footprint management and building basically everything into the SAP environment. And beside that, we as PwC we also develop additional software components based on SAP, for example, for the CSRD perspective to help our clients to really have an holistic picture.

Benjamin: I do bring in a ten year background at PwC on SAP data analytics and SAP implementation projects. And for the last one and a half years, I've been focusing together with Benjamin on developing multiple ESG solutions here at PwC, either as software as a

service solutions based on SAP BTP, also content based as our ESG reporting manager, CSRD, which Benjamin just mentioned, which is enhancing the SAP sustainability control tower with the full set of CSRD KPIs.

Talal: Definitely very interesting outlook and I'm particularly intrigued by it and I'm pretty sure a lot of our audience would also be interested in knowing more about the solution enhancements that PwC has made using the SAP available solutions like SAP Control Tower. So, and for that exact point, I would like to hold on to it and get back to it in the later question. And before we get to that, I think it's also important that we put some more perspective on it. We talk about a little bit on the opportunities. I think everybody at this point is quite well aware of the opportunities. We definitely mentioned that. I would also like your perspective on the challenges that ESG is presenting. Let's shed some light on this one. Just touch into opportunities and also the challenges then we can build on from there.

Benjamin: ESG offers multiple opportunities and values for companies from very different angles, like cost reductions through energy efficiency gains, while implementing these measures, better access to capital through a higher ranking and scoring at investors or financial institution rankings. Better talent acquisition as ESG can also help to improve employee ratings and retention and employee satisfaction. So as you all might know, you are also identifying with your company that you're working in and at the end helps to improve the overall company's image. So a lot of companies are actually looking forward to implement this next to the pure regulations that basically are forcing a lot of clients now to implement new ESG measures. But here, yeah, we also see a lot of challenges that comes with the implementation of ESG reporting typically. So first of all, the data availability and quality, meaning that the data for reporting is not always available regarding completeness and accuracy, we have to consider data from various source systems, of course from SAP, but also from non-SAP source data, especially in the field of ESG. Use cases, it's also required to have data harmonization. All of that has to be brought to an harmonized data model. And in addition to that, you also have to ensure data granularity because next to reporter, you also want to foresee in the next steps, steering purposes, analytical purposes, where you need much higher data granularity at the end.

Talal: All right. That sounds interesting. And just to sum up for our audience in terms of opportunities, what we talked was cost reduction through better energy efficient gains. We also talked about investors and financial institutions incentives, because we can see a lot of those investments are coming towards ESG friendly companies and also talent acquisitions and overall. And in terms of challenges, I would like to summarize for the audience. What we talked about was mainly the availability, accuracy and the meaningfulness of the data. That's primarily the main challenge. The reason for summarizing this because I would like to take exactly these challenges and opportunities and would like to ask you to map it on a client case. You know, so as we all know, PwC has successfully implemented many, many different projects in very different domains. Now walk us through the implementation case, maybe one client implementation case and walk us through step by step how you made it, how it happened.

Daniel: Yeah, certainly one of our recent client cases was a big S/4HANA implementation for DAX 40 company in Germany with a global footprint, of course, and they have set up for the S/4HANA project 10 to 12 different value streams. And the specific here was that sustainability was a separate value stream for the whole project, which is quite new. It was

also a foundational value stream, meaning it is like a matrix organization. So this ESG or sustainability group needs to be connected to all other value streams. For example, for record to report, for demand and supply, for supply chain management, for purchasing and so on. And the focus of our value stream for sustainability was to set up an ESG IT target picture. We have to define what kind of solutions do we want to implement in the SAP environment. But it also accompanied a tool selection process because it's a very dynamic market. And the client also wanted to know what kind of solutions are beside SAP on the market. But at the end, our let's say, selection process ended in the sustainability control tower as the holistic tool which fits to the client and also incorporates the new ESG regulatory requirements. So in taxonomy and the corporate sustainability reporting directives.

Talal: That's a very interesting point that you've picked and I'm sure it's interesting for all the audience out there. So sustainability being the key value stream here. I think it's a good focus point and the use of sustainability control tower also definitely puts the right direction. Now let's go into more detail if you could. So how was ESG integrated into this S/4HANA transformation project like the exact part of ESG? How did it come into picture?

Benjamin: Yes, certainly. So in general, we always recommend integrating ESG into S/4HANA transformation projects as early as possible. So that means that you need to integrate ESG at every project step. How we basically do it: we have defined a five step approach that I will now walk you through. So in the first step, the team needs to identify what data is already collected or what can be collected in the future of SAP and also considering the materiality assessment from the client. So what are the relevant topics that we need to report on for purposes in the future? The next step is then to define the end to end processes for the future, including data collection and having the different ESG data points in SAP, but also out of satellite systems and then moving to the third step. Yeah, conducting fit to standard workshops where we evaluate basically the system solutions in SAP or also interfaces to SAP. And the purpose of this workshop is to define also change needs or requirements for the overall ESG data model. In the fourth step, we are then designing the functional and technical solution for S/4HANA. And this means that we really, for each module, considering what ESG data points are we require in the future, what kind of mandatory fields, for example, do we need, where do we might need additional data points to come to a full scope ESG data model? Yeah. And then in the fifth step, we basically have the technical implementation of the solution design, ensuring alignment with the functional and technical conception and also ensuring a smooth go live process.

Daniel: That's very well explained and complete set of five steps to tackle this enormous problem. I'm assuming there will be a lot of challenges with this particular project. Can you briefly touch on the challenges that you faced?

Benjamin: So a central challenge was complying with the external regulations with different environmental and social standards and of course a high expectation of stakeholders because everybody is demanding now transparent ESG information within the company, but also from a supplier and client side. The second challenge was a lack of a harmonized data backbone. So having an overall ESG data platform in place. And the third one was also that we are currently having a very dynamic market. A lot of different solution providers, but there is no benchmark and no best in class solution yet because every solution provider has also a large roadmap for implementation. And therefore we also started with a software

selection process and finally then also found the most efficient solution with a sustainability control tower.

Talal: Definitely sounds interesting. And the key takeaway, at least personally for me, is in terms of challenges, data being the primary driver of all challenges. That's my key takeaway. And also since it's something new that we are doing a relatively new, I would say the lack of standards is probably also the major challenge in this case as a key takeaway. Let's briefly touch very quickly on how did you solve those challenges, if you could, you know.

Daniel: Firstly, we basically defined an overall IT target picture for the ESG key areas. So starting with comparing different solution providers, mapping different criteria and finding the most suitable solution, which was, as I said at the end, the sustainability control tower. The second was transforming all the ESG regulatory requirements and translating it really into data, technology and bringing it on a very granular level. We use the so-called data dictionary for it, where we define each data point, each data element that I need for the new CSRD regulation. And that also worked quite well to identify all the different data points with an SAP. And another challenge that we then tackled was having at a very early stage, a look and feel for the client. So starting with a proof of concept for different solutions. So starting with a sustainability control tower where we implemented different KPIs which are, let's say a bit more complex or highly relevant for the client, testing also the in taxonomy solution from SAP. And this really helped the client to see, okay, what can I expect and how does it look like at the end? That was also a very practical and good approach to have, let's say, visible and transparent results. And then after the blueprint, the proof of concept, we are now in the implementation phase. So rolling it basically out and now having an implementation plan for the next one and a half years to ensure that we implement all the different so-called ERS standards, for European sustainability reporting standards, with all the different requirements for the client. As we have also connecting topics, especially regarding calculation of scope one, two and three emissions, as well as calculating the emissions also on a product level, we are now starting with a second proof of concept for the sustainability footprint management, which is then the also connecting solution to also bringing it into life. At the end what was also demanded by the client is to have an holistic ESG data model, to have one central data platform where we can find everything which we need for sustainability. This is also what we have set up together with strategy to bring this into life. The project really enabled the client at the end to position itself as a pioneer in sustainability, because when we look at the market, they are not so many companies yet who are on this journey and it is really a lighthouse project which is running together with a client at the moment.

Talal: Thank you for sharing the details. I would like to actually get back to Daniel now since we have the client project now. And Daniel briefly mentioned that there was this implementation of SAP products by using the PwC standard. So there was this product called CSRD. I would leave it to you, Daniel, and explain what it does and briefly touch on how it was used.

Benjamin: Benjamin already mentioned the CSRD. The Corporate Sustainability Reporting Directive is one of the new ESG regulations by the EU, which requires from clients to report a very high number of new KPIs around sustainability. This includes data from a wide set of data sources. Also many new ones. And CSRD manager has a comprehensive reporting solution developed by PwC and SAP which helps clients to report all necessary KPIs which

are required here. So how does this look like exactly? We are developing content packages which are enhancing the data foundation of the SAP Sustainability Control Tower, which is the ESG reporting and steering solution from SAP with a wide set of additional calculations, interfaces and also full set of dashboards to be able to cover the complete CSRD framework. Here we are starting with the quantitative information now and our global practice from ESG is supporting the process by helping us to derive the information sitting in law text into KPI definitions and our Enterprise Cloud Solutions team here at PwC is then taking over the implementation on the basis of SAP BTP. And the first release is now planned for end of this calendar year. Overall, the CSRD Manager enables companies to meet their sustainability reporting obligations efficiently and empowers them at the same time with actionable insights to drive their sustainability agenda forward.

Talal: That definitely seems like a powerful tool to streamline sustainability, reporting and decision making, and I encourage the audience to look it up. It's actually a very interesting project. Before we reach the end, I would like to take quick recommendations. Anyone who is listening to this podcast specifically from the client's perspective. Of course, PwC is a partner organization. What are the quick recommendations that you would give in terms of if anyone wants to implement end to end sustainability reporting solution?

Benjamin: Implementing sustainability reporting requires a holistic approach with active involvement from various business units. It's an iterative process that should align with the company's long term sustainability strategy. To start, companies must define their level of ambition and set clear goals for ESG reporting. Then identify material ESG issues that matter most to the company and stakeholders helps to derive relevant KPIs for the reporting at the beginning. And then next to that, analyzing existing data sources and considering IT architecture for integration is crucial. Benjamin already mentioned the setting up of the ESG IT target architecture at the beginning is very important. And then the pilot project is recommended to test the feasibility and effectiveness with the responsible persons in the company and then begin with selected legal entities, departments or countries to minimize risk here and gain experience and to basically have a good use case to see if this would also hold the case for a wider implementation. And after a successful pilot, extend the standards to all areas for comprehensive reporting solution. And then at the end, the activation of ESG reporting into the existing processes and also including automation of data collection enhances the efficiency and minimize also errors at the end.

Talal: Definitely these are some clear, good recommendations. And as from the client project, sustainability is now popular as one of the value streams that are bringing direct value to the customers who implement them. And following these recommendations and general guidelines, it's definitely serving a good purpose for everyone out there. This is all the time we have for today's podcast, and these are some really valuable practical insights coming directly from the individuals who implement them. Thank you so much, everyone, for joining. Thank you so much, Benjamin, thank you so much, Daniel, for joining.

Daniel: Thank you also for hosting us and for letting us have this great exchange here. I'm sure that one or the other listeners could take something away from it. Happy to run this journey. In the next years, there will be a lot of projects and a lot of exciting ESG topics.

Talal: Definitely. Let's keep the momentum going. Thank you so much, Benjamin. Thank you so much, Daniel. One more time. Thanks, everyone, for joining this episode. Feel free

to drop us an email via insides4@sap.com and let us know which topics are of your interest. Tune in next time and be Inside SAP S/4HANA. Thank you.

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