

SAP Learning Insights



SAP Learning Insights Podcast

Transcript Episode 052 – Sustainability Update - with Michael Jordan

In this episode, David Chaviano met again with Michael Jordan, Education Portfolio Manager & Academic Ambassador at SAP with a focus on data-science and sustainability. After Michael gave in episode #23 an overview on sustainability and explained how SAP supports businesses to run in a more sustainable way, today's episode focuses on where we are standing with sustainability and concepts of circular economy in businesses and if all this is finally relevant for students and learners.

And at the end of this episode, Michael of course shares some final words of wisdom with you.

SAP Learning Insights #23 - An Introduction to Sustainability - with Michael Jordan:

<https://podcast.opensap.info/sap-learning-insights/2023/04/25/an-introduction-to-sustainability-with-michael-jordan/>

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Transcript

David Chaviano: Hello, and welcome back to the SAP Learning Insights Podcast. Today, we're revisiting a topic introduced over two years ago, sustainability within the SAP ecosystem, featuring our expert, Michael Jordan. Last time, we discussed the basics and broader impacts on businesses of sustainability within the SAP ecosystem. In this episode, we're going to focus on recent changes and how newcomers to SAP can leverage these insights as they grow their careers. Great to have you back on board, Michael. How are things on your side?

Michael Jordan: Oh, super. Really interesting. I mean, always very, very busy. There's so much happening in the sustainability world. And I don't think that's going to ever change until I retire.

David Chaviano: Job security.

Michael Jordan: Job security. Perfect. Exactly.

David Chaviano: All right. So let's start off with a broad question. And for everybody who's missed the initial conversation, you might want to check episode 23. That was back in 2023. So check that episode out if you want to quickly catch up on sort of the introduction to the topic. But so we're going to try to build up upon that um with a very broad and vague question to you Michael what's new.

Michael Jordan: Well what's new I mean within the sustainability world itself just with sustainability topics it's a lot of the same stuff and and if you just look at that it can be a little bit depressing if you look at um what's been happening with the growth of emissions despite all the best efforts we're trying to make um the growth in the amount of stuff we're using and how little is being reused. The World Resources Institute each year brings out the global circularity report. And a few years ago, they said 9% of materials were being reused, then it was 8% the next year, then 7%. And just some weeks ago, the latest said 6%. So in some ways, we're going backwards. And yet, there are some fantastic opportunities. And in the business world, we're learning more and more how to do a better and better job. And so if you look back quite some years we had a corporate social responsibility department that was very much on the side of business business and then SAP and some other companies but particularly SAP made sustainability a core part of its corporate strategy so it's one quarter of under Christian Klein of that and now what's interesting is it's what I think is really new is the fact that sustainability is just becoming more and more how you do business it's not some bit of software on the side that manages things, but it's just part of the day-to-day business more and more. I mean, it's kind of at the start of that journey, but that's the direction. And I think that's the really exciting part for us.

David Chaviano: Okay. But you touched on something I wanted to follow up with is I feel like in public discourse, the topic of sustainability is sort of taking a backseat and maybe reframed or looked at more as an efficiency gain. So not necessarily trying to reduce waste, but from an environmental perspective, but just to improve your bottom line.

Michael Jordan: Right.

David Chaviano: And I feel like anything that can improve your bottom line and not necessarily count as a sustainable practice from an environmental perspective, but sort of fall into the same bucket these days. What's your take on that? Am I being too cynical?

Michael Jordan: No, I don't think you're being cynical. I think that sometimes there are different kinds of public discourse taking place within the business world and within the news generally and within politics. I mean, certainly within politics, I think we know who we're speaking about. There's been a kind of a real cynicism about sustainability. And I think some further on the right think it's just an excuse for sort of more regulation and to a certain extent that's true you know you it's very important to use markets it's very important to use business practices to drive sustainability forward

and to see opportunities there but a lot of them see it in those terms but actually within the business world to a large degree not a hundred percent but to a large degree it's just carrying on and in some cases accelerating what you can do for this because it makes sense i mean if you're looking at most businesses rely to a certain extent on natural capital they take stuff they add value to it they produce a product and they sell it and there's less and less stuff in the ground so the best thing to do is to keep that material in use through multiple cycles that's sustainability so doing it makes sense anyway as a business model so looking at what they call servitization leasing products instead of selling them or selling the experience like with a you know i don't have a car anymore but if i need a taxi i can book a taxi so i just have it when i need access to a car for example so a lot of these things just make business sense now for sure not all businesses will become sustainable. And some of the nervousness on the right, I can understand a little bit because in some areas of business, really they're not taking the whole cost of the production. So if you put a lot of bad stuff into the environment as a side effect of doing a business, then I think there is a role for regulation. It's typically called EPR, not ERP like we talk about, but extended producer responsibility, which basically means the producer pays. But if producers often, if they can get away with just dumping that pollution into someone else's yard so that they make more profit, very often they do. So there is a definite role for government to say, okay, great that you have a business. It's great that you're making money, but you should be taking the whole cost of production, whether that's an environmental cost or a social cost. However, when we're looking at it from an SAP point of view, we want to help companies obviously disclose and report on some of those things, which we do, but we also want to show opportunities of how business can be used with these new sustainable business models to reduce risk, provide opportunity, and obviously deal with regulation as well, and make profit. There's nothing wrong with that from my point of view.

David Chaviano: Okay. So at a bare minimum, I'm going to stay with my cynicism hat on for a little longer. So at a bare minimum, the sustainability topic or having sustainability consciousness within your ERP could save you from a PR crisis or from legal action that might follow up based on your practices in the past. So you're at least insured there.

Michael Jordan: Absolutely. I mean, putting it in a very simplistic way, this is super simplistic, but I always kind of think there are three things that move business. One is regulation. They have no choice. One is risk, the cost of not doing it means it will affect their cost of capital, it'll affect their insurance, and it could potentially affect their business badly. And one is opportunity for new potential revenue opportunities. To be honest with you, regulation, we have to help our customers deal with that anyway.

And we do that with helping them report in because there's all these different climate regulations now. And I mentioned this EPR, extended producer responsibility regulations. And so we do that anyway. But if we just take risk as an example, if you look at a, I won't give company names, but if you look at big beverage producers, if they rely on fresh water, if they're not managing access to fresh water and they're just using it up, they will have no business in the end. The same with, I remember talking to a very large food producer that had about 20,000 farmers. Now, at the time, they were complaining they have no real data on the quality of soil health. And so soil health around the world is dropping and dropping and dropping. Now, if you've got no soil, you have no crops. And so you can't produce the food. So you don't have a business anymore. And this is true of so many businesses, quite apart from the climate risk, which affects all of us. But the natural capital, because people make things, even service providers rely on things in the end, we have to manage that natural capital. And the idea that we can just avoid those discussions is crazy, in my opinion.

But what's interesting is that's being much more connected into some of the financial instruments. So last week I was at a climate conference and there was a one panel discussion with some senior people from the insurance industry about climate risk and natural capital risk. And they were saying that this is all being connected more and more and more into the overall cost of doing business. So if you have to insure companies and their natural capital risk is too high, that will cost

them more. If they want to raise funds and it's clear to investors or clear to the banks that they're not managing their natural capital, certainly it's not connected fantastically yet, but in the future it will become more and more expensive for them to get that funding. So managing your sustainability risks helps you to manage your business risk. And at the moment, many businesses are just building half of their risk profile. So just taking this one example of risk shows that sustainability, avoiding it, would be arguably insane for businesses. And if you think about it, one of the things businesses, especially publicly listed companies do, is whenever they're talking about their investments, they have to list out what are the risks for those things going wrong. And yet natural capital risk is, I mean, it's getting more and more into the mix, but it's not being front and center. And yet it's one of the most important indicators of the potential success or lack of success of a future business.

David Chaviano: Okay. That makes a lot of sense. And steering this back towards what SAP is up to, I'm sure we've all heard of the SAP business suite by now, the concept, it's all the rage at the moment. Do you have maybe an overview as to how, the sustainability topic built into the business suite concept. I imagine it's hard to pinpoint because there's not one circle on the diagram that says sustainability because it needs to be sort of built into the practices and processes across the entire business suite. But maybe you can give us a bird's eye view as that role it plays.

Michael Jordan: Sure. Well, this kind of goes back to what I said right at the start, that this is what's new is that it's becoming core to what businesses do. So until fairly recently and still out there in many cases, its sustainability is treated a little bit like a bolt-on. So you have companies that produce little bits of sustainability reporting software. And they're very good for what they do. But the point is it has to be rooted and embedded in the core business. And that's where SAP is really strong. Everything from materials procurement and evaluating suppliers in your supply chain through product design, through product lifecycle management. So all the supply chain management software. It has to be embedded there. All the operations software and management software and everything through logistics, just about every part of finance, every part of the business has to reflect this.

So in that sense, sustainability is an outcome. And the one thing that I guess is a challenge for us sometimes, we do have a kind of portfolio of sustainability solutions. But I would argue, and I hope this isn't too contentious, but I would argue that customers don't care whether we call it sustainability software or not they care that it solves a sustainability problem they've got so if you look at um if you go right back to the beginning if we i talked about circular economy as one of the sustainability challenges we work on how do you keep materials in use and i mentioned that the global circularity report has had the worst amount of reuse this year that they've seen since they've been producing the report. It's just six point something percent. Now, the starting point for circularity is, being able to design products, product lifecycle management, that are modularizable with components that are ethical, from ethical sources that can be taken apart and reused with products that can be upgraded, remanufactured, refurbished, and eventually recycled.

And so it starts there. And then all the way through the business, and this is, of course, SAP's raison d'être, this is what we do, business processes, from end to end. There are impacts within existing software where it's less necessarily about capabilities, although we do add particular sustainability capabilities. It's more about the use case where they're applied all the way through to the kind of external logistics. And then potentially within the context of circular economy, you couldn't need to introduce take back processes because let's say, instead of selling the product, which ends up in landfill, you want to bring it back in house and maybe you lease it to the customer instead. And we do have scenarios where we do that. And then the customer needs to be able to track the performance of that product and then quickly be able to decide can we upgrade this can we refurbish this can we remanufacture this or is it now if such a poor quality that we we have to recycle it somehow and we can recycle it because back at the design stage we designed it so it could easily be taken apart and you don't have components which are so stuck together or melded like plastics for example that it can't be recycled so that whole thing is an end-to-end thing. It

involves enhancing existing processes. It involves creating new processes around take back at the end of life. And that is stuff that, which is SAP's bread and butter, to be honest.

David Chaviano: Okay. And since beginners and students are probably a primary audience for this podcast, I have to turn it back to their perspective and understand what exactly, do they have to do anything here? Or it sounds to me like this is just going to filter... Down naturally through the the stuff that they're learning and on-the-job training well.

Michael Jordan: Yeah i mean in a sense like ai it's just becoming filtered into everything however i think the important thing is you i don't think there is an area somebody may come up with an example where this isn't the case but i don't think there's an area in what sap does where sustainability will not be part of it and i guess my argument is that if you're not doing sustainability as part of what you're doing in whatever business scenario you are not doing proper business it's not that you're missing something i mean i i'm on the advisory board of a an sort of a sustainability mba and with a slight tongue in cheek they were talking about how do we position this and i was saying why don't we say don't sign up for half an mba because if you're my argument is if you're um like if you learn risk management but you don't take into account natural capital risk like I was just saying, you've only got half your risk profile. If you're not looking at strategy from the point of view of where these sustainability opportunities are, you're only doing half an innovation module and all these other cases. In some sense, this is becoming part of everything. And so for a student, they will see this. However, there is a need to change mindset. And if you've got the mindset that allows you to see the opportunities and the problems that come as a result of sustainability, then you're going to be in a much better position to be identifying this when you're, as a student, as learning this or you become a practitioner.

And what I would say is, we don't talk about this very much, but one of the topics that's very popular out there on the market now for people interested in sustainability is systems thinking.

It's not massively complicated, but basically the premise, if I really simplify it, is most companies, SAP has got 51 years of experience of seeing a problem or an opportunity in building a piece of software which helps us to manage that. What we've not necessarily systematically done, although it's definitely developed over the years, is to look at and say, is there a risk that we've just moved the problem somewhere else? We've fixed it in one place, but we haven't looked at the wider impact for other stakeholders.

And if I give a really kind of slightly silly example, if I buy an electric car, but it's powered off a coal-fired power station down the road, then I've just moved the problem. I haven't fixed the problem. So I feel very good about having my electric car, but the source of the electricity is possibly even worse than getting it from gas at the gas station. So one of the things I would recommend to any learner is to just look up and get an understanding of systems thinking and this is reflected in lots of areas now there's um within the design world there was this trend towards human-centered design to look at the impact on human and now the trend is towards a concept called life-centered design so when you're trying to fix a problem you see an opportunity look at the potential innovation opportunities and the potential impact on human beings and on the environment as a whole so that should be a core part of your process. And so these kinds of things, I think, make the product-by-product learning that they do make more sense, in my opinion, and you'll be able to seed some of the sustainability opportunities there.

David Chaviano: Okay. And from the employer perspective, I imagine if a potential employer within the SAP ecosystem, SAP itself or one of our partners, make it clear to a student that has, I guess, an interest in this area that the company as a whole, the organization as a whole, already has this orientation. Perhaps that could be a recruiting advantage. I don't know. But I'm wondering, is there something that a partner company within the SAP ecosystem can do to differentiate themselves in this light? Or is it just it's sort of standard all across the board and we're all doing the same thing?

Michael Jordan: Yeah, that's a funny question because my immediate response is I don't want them to be differentiated in this way i just want everyone to be doing it yeah it's such an important thing however you're quite right it's it's certainly at this stage and for some years it's going to be a differentiator i think the key thing i mean the opportunity for partners and if you're a learner the way to differentiate yourself is helping customers to see a line of sight between their day-to-day business and what they can do with our sustainability software so it's not treated as two separate worlds quite frankly people are too busy you know a lot of ceos they have children or grandchildren, they know that they should be doing this, but they just don't have a line of sight between how they can integrate these, for example, carbon emission software and make it part of their everyday world, just like as if they were doing financial accounting or managerial accounting or transaction materials, building materials, ledges and all that kind of stuff. All that financial and materials transactions, they can track.

At a very detailed level and aggregated all up and um and we need to show them how with our software they can do similar things in using similar approaches so they're not having to learn a whole bunch of new stuff they don't have much time for this stuff so if learners can show this relationship it's really good so for example we're at the moment we've just started work on a carbon accounting and management certification i don't quite know what the the the title will be but we had a couple of very large sap partners and one of the senior leaders from one of the partners said to me in a big meeting you know i don't care about your individual products and your learning journeys like we can manage that we can train ourselves the problem we have is that we're dealing with big companies and we we need to show with all these different products how we can architect the whole thing together to meet all the emissions challenges because there are so-called scope one, scope two, scope three. They're all managed at different levels. You have to learn about how you set the organization. It could be equity-based boundaries for your emissions, or it could be your control-based boundaries.

And all this stuff that is probably people are listening to and thinking, what on earth is that all about? These are really important things for companies to understand. And then they can see how our solution set around emissions handling can help them manage that and meet all the regulatory requirements. And if we can help partners customers see that line of sight and see how we simplify that whole process there's a huge opportunity but it has to be done within customer language it has to be done using the kind of this is why i say i'm talking again and again about making sustainability just part of how you do business and the extent to which we do that in my humble opinion the extent to which we do that is the extent to which we'll be successful and the extent to which we help our customers become more and more sustainable while being successful businesses well.

David Chaviano: Said but you touched on this being um an additional thing that has to be sort of covered or adapted to in addition to the regular day-to-day business that has always been a focus of ceos and everybody else that sort of brings in the opportunity for artificial intelligence perhaps to help pick up the slack here to assist in the improvement of practices efficiency etc so it doesn't need to be so much more, I guess, human focus into this. Do you have a take on AI and how it'll help or potentially harm here?

Michael Jordan: Sure. Well, I think there are some huge opportunities here. I mean, of course, we're building AI capabilities into sustainability solutions all the time, and that's great. But for me, one of the, I'll give you an example where I think there's a huge opportunity. And this is, I wouldn't say this is an SAP position, but it's something that, I've seen. If we look at the challenge, for example, of helping customers become circular. Now, there's so many conferences about circularity and keeping materials in use and how you change your business model. And like I said earlier on, you change your approach to product development, to materials procurement, and then that has an impact all the way through the business. And then, like I said before, you need to have some take-back processes in many, not all of them, than many of those circular business models so that you can upgrade, remanufacture, et cetera, et cetera, and you keep control of the materials. And therefore you can reuse those materials theoretically.

The challenge with that is it requires process changes all the way through the business. So if you think of everything from design, procurement, and manufacturing, but even marketing and legal and the logistics and reverse logistics, as they call it, bringing things back in, there is not an area that I can think of that isn't impacted. So the physical amount of change for a business to become circular is pretty scary. And the amount of knowledge that each of those groups need to add to what they already do is quite a challenge. Now, one of the things I think can be transformative will be dual agents and AI agents generally. So if you look at theoretically if you were looking at this doing this with human beings you would let's say let's start with product design so you'd get a small group of people and say right we need to change our design approaches so that it's ethical design we're designing up our washing machines or cars or whatever so that they can be upgraded recycled the materials won't degrade so fast all those kinds of things so you may say to a person a can you go and start doing some research on materials that we could replace the existing ones with that don't meet our sustainability standards. Person two, you can say, right, can you check out the data requirements and look at all that. Person three, you can say, gets the feedback from customers in terms of existing. And there's a whole bunch of activities. You need a team working on this. And now you replicate that kind of team.

Every part of the business for the change that's needed to become circular now with dual agents effectively what you can do is you can just tell them okay this is what we want you to do this is the data that will ground as it's called you you ground you with you know the regulations maybe with a new set of design standards etc etc and you will be and this is where the human will be in the loop we talk about human in the loop for this because it shouldn't be the ai just makes all the decisions on its own, go and do this. And this can be done in a very short amount of time. I mean, it's super fast. And then you could replicate it with, again, throughout the business and get the agents to work with each other. Some weeks ago, we got one of our colleagues from the innovation labs in Vancouver to build a sort of a lab preview of something like this for a designer who had no clue about sustainability, no clue about circular economy, and no clue about regulations. And just to create a kind of agent that would work with them to do a product design to make it circular. And one of my colleagues, Darren West, presented it at the Science Museum in London to a new Circular Economy Institute. And it generated a lot of excitement around their potential. So I think this is just one example. I think maybe in a year's time I'd come back and realize it wasn't quite as simple as that. But I think agents could be transformative for realizing the opportunity that comes from circular economy that's not being realized right now. okay.

David Chaviano: That sounds good so there's hope.

Michael Jordan: I hope there's hope otherwise it keeps me in a job but it's uh i i think uh there are quite a lot of false starts but the thing that's i think that's the most exciting for me is this movement away from being a separate bolt-on thing sustainability it's just for me i'm seeing this academia and i'm seeing this in business it's it seems that The trend to me is this is just how you do business. That's the opportunity for me.

David Chaviano: All right. That's been some great insights. And since we've taken basically half an hour of your time, I always want to collect some final thoughts, advice that you have for newcomers to SAP on the future outlook and things they should look out for and maybe learn along the way as they start their journey.

Michael Jordan: Yeah. I did mention this mindset thing, systems thinking thing, all that sort of stuff is good. And I think it's keeping half, you know, not too much of your time, but realizing, our business doesn't exist independently of the planet and independently of society and and it's so easy we're so involved in our day-to-day business we see that we think that's the only world and if i was speaking to a newbie especially a student or a learner at the point where you're getting is just an sap view make sure that you take any opportunity to get an outside in view of what's going on because um this is really important i mean there's a lot of things you can read there's a fascinating book you don't have to agree with its concept but fascinating book called donut economics which looks at how the business world has to recognize there are limits within the ecosystem we we live

in we can't just destroy it okay and there are needs of society that we need to take account of things like that just to be proud of of sap and be committed to what sap is doing but always keep a bit of a perspective that's outside in i suggest i mean I'm an academic ambassador. I've done a lot. I'm lucky enough to be able to do a lot with outside SAP. And I think that's essential for my SAP job. I couldn't imagine doing my job if I wasn't able to collect those outside in perspectives.

David Chaviano: All right. Excellent advice. Maintain your perspective. Look to your left and right. No tunnel vision.

All right, Michael, thanks for sharing your insight today. Really appreciate you giving us your time. Thanks to everybody for listening. Reminder to everybody out there, episode 23, if you want to get an introduction to the topic. Michael, thanks again for joining.

Michael Jordan: You're welcome. It's great to speak to you.

David Chaviano: All right. Keep learning, everybody. Stay curious. Bye.