SAP INSIGHTS

Business Reimagined: Sustainability as Strategy for Growth

A recent SAP Insights global research study reveals that most companies are taking at least some steps toward greater environmental sustainability – and that the more effort they put toward that goal, the more competitive and profitable they expect to be. More than a third of midsize companies believe that environmental issues are already financially material to their business results or will be within five years.

SAP Insights surveyed midmarket executives to find out how their companies are incorporating sustainability into their business strategies, how they might use it to drive growth, and what technology's value is in supporting sustainability. We broke out survey respondents with annual revenues of less than US$1 billion, then divided them into three distinct groups by revenue from smallest to largest. (See sidebar, **About the Survey**).

Beginning to follow the money

The research shows that midsize companies have both external and internal motivations to take action to improve the environment. Across all three groups, the top drivers are government regulations, commitment to the Sustainable Development Goals of the United Nations, and commitment of the board of directors and CEO. Among the smallest midsize companies, the top motivation is regulatory pressure, while the two higher-revenue contingents cite board and CEO commitment. Interestingly, the fourth-highest motivator across all groups is revenue and profit growth opportunities, suggesting that companies are beginning to perceive financial benefits in pursuing sustainability. (See Figure 1 and full survey data.)

About the Survey

The SAP Insights Sustainability survey collected data from 7,423 respondents, of which 4,537 were companies with annual revenues of less than US$1 billion. To understand how the sustainability focus evolves as a company grows, we segmented these companies by revenue. Read all of our survey results here.

Small midsize

$50M to $249M

Medium midsize

$250M to $749M

Large midsize

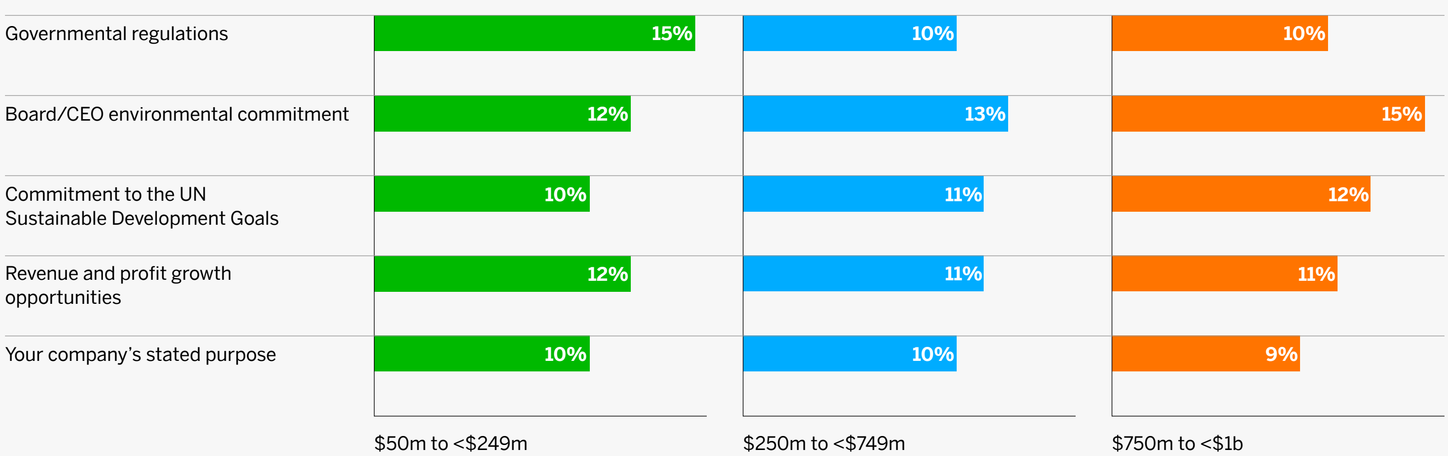
$750M to $999M

The smallest companies account for about 40% of all midsize respondents. Those in the middle are roughly another 40%. And the largest are the remaining 20%.

Figure 1
Top Box Motivators in Taking Environmental Action

May not add up to 100% due to rounding.

What forces motivate your company to take action to improve the planet's environment?



Source: SAP Insights

The silence of the supply chain

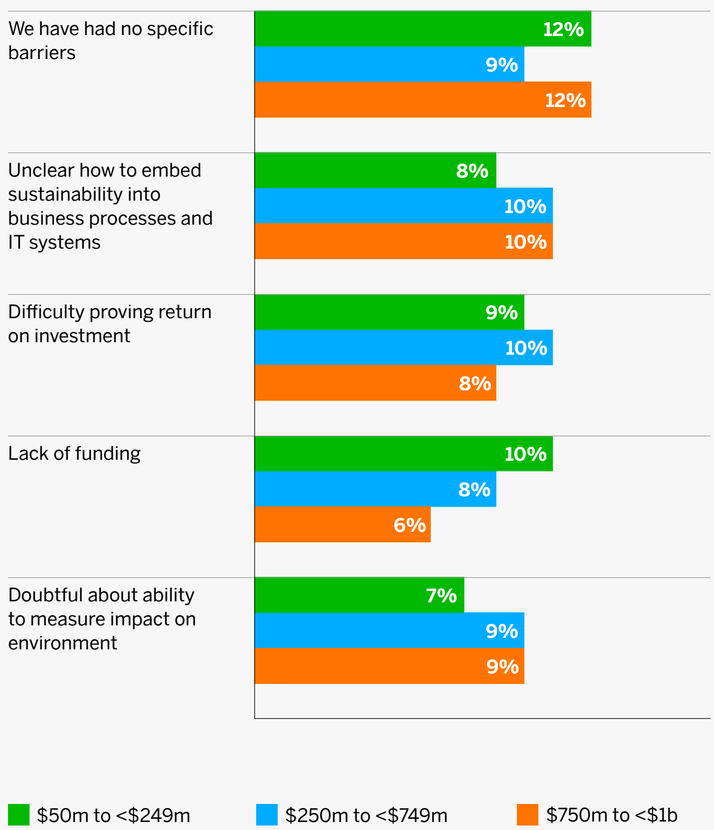
The barriers to action on improving the environment vary by segment. All of the midsize companies express uncertainty about how to embed sustainability into business processes and IT systems and how to prove return on sustainability investments. But the largest companies are notably more likely to say that their partners are not asking them to act – a surprising response. But that will change as sustainability increasingly becomes a strategic imperative throughout the supply chain. The smallest companies, by comparison, are significantly more likely to say that lack of funding is their biggest barrier to action. (See Figure 2 and full survey data.)

Trying to do it all

When asked to rank their top priority for investments across a variety of environmental issues, midsize respondents rate them all of roughly equal importance. Interestingly, the larger a company is, the more likely it is to consider every issue a high investment priority. As with barriers to action, this likely reflects the reality that larger companies simply have more revenues to invest. (See our full survey data for results.)

Figure 2
Top Box Barriers in Taking Environmental Action

What are the main barriers in your company for taking action to improve the planet's environment?



Source: SAP Insights

May not add up to 100% due to rounding.

Data is crucial – but lacking

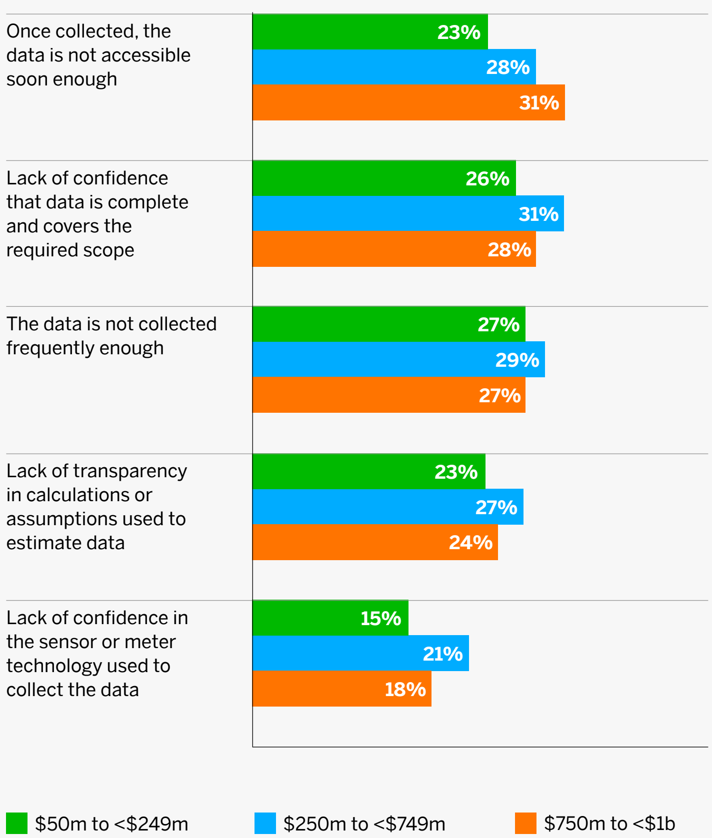
Data is at the center of any sustainability effort. It's part of the road map for incorporating sustainability into operations and proving ROI. It is used to identify and track environmental impacts, such as CO_2 emissions or energy consumption. The signals from data break down barriers to action. Indeed, the more environmental impact data a company has and the more satisfied it is with the quality of that data, the more likely it is to recognize that sustainability data has value in driving strategic and operational decisions.

However, it's clear from midmarket respondents that they don't yet have all the data they need – nor is it the quality they desire. The research shows that smallest companies are the most dissatisfied with the quality of their sustainability data. Both the smaller and medium-size groups are the most concerned when it comes to whether the data is collected frequently enough. They also lack confidence in its completeness. Larger companies are less likely to be dissatisfied with the amount and quality of their sustainability data. Their dissatisfaction is focused on how quickly they can access it, which suggests that they are eager to use the data to drive strategy. (See Figure 3 and full survey data.)

The signals from data break down barriers to action.

Figure 3
Reasons for Being Dissatisfied with Data Quality

For the environmental issue areas whose data quality you're not fully satisfied with, which reasons apply?



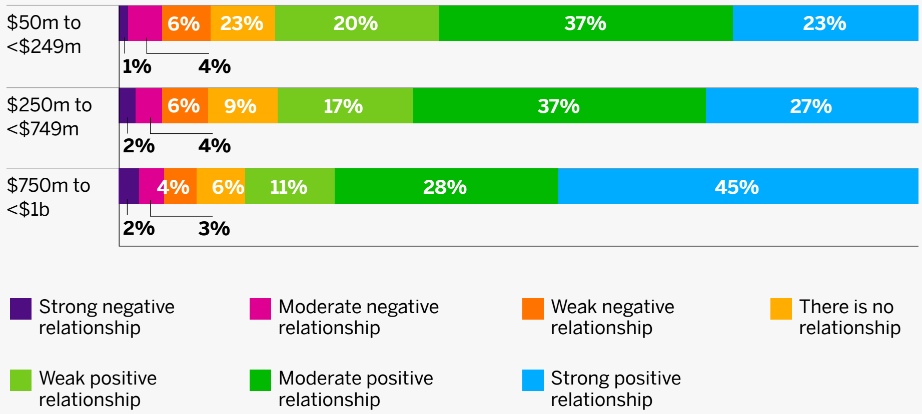
Source: SAP Insights May not add up to 100% due to rounding.

Sustainability data will get better

Despite the current problems with data, there are signs that they will improve. That's because the majority of midmarket companies say that sustainability will play a strong role in their long-term competitiveness and profitability. In fact, nearly half of large midsize companies are already incorporating sustainability data into their operational and strategic decision-making to a strong degree. (See Figure 4.)

Figure 4
Profitability

How do you perceive the relationship between your company's long-term profitability and environmental sustainability?



Source: SAP Insights

Signals from the future

Sustainability isn't just an ethical demand, although it's harder to do business when the planet is in crisis. It also has a direct impact on the bottom line. The SAP Insights research shows that the larger a company is, the more likely it is to pay attention to sustainability. That should be a signal for companies looking to grow.

While the data doesn't draw a direct line from attention to the environment and business success, it suggests taking action sooner rather than later. With environmental sustainability becoming a top concern for regulators, consumers, and investors, companies of all sizes will experience more pressure in more ways to take responsibility and action. If these actions make them compliant before compliance is required, they can avoid potentially damaging penalties. And as customers increasingly demand that companies demonstrate concrete action on environmental stewardship, businesses that provide greater transparency into their efforts are better positioned to grow.

Know where you stand

To pursue sustainability as part of a business strategy, midsize companies should first know where they stand in terms of environmental impact. With this understanding, they can identify where they can make the most meaningful changes to mitigate negatives and foster positives. They also need to be able to report on their status and progress, to both the public and to upstream and downstream business partners who must then report on their own supply chains. Since you can't manage what you don't measure, midsize companies must take the critical step of identifying which metrics are most immediately relevant, such as water and materials usage.

Technology can play a critical role in helping companies decide how to become more sustainable by providing the tools to gather, measure, and analyze relevant data. If you're already capturing data on financial inputs and outputs, you can broaden the scope of those systems to include sustainability metrics, such as power consumption across facilities or the carbon footprint of different methods of shipping, and link them to the bottom line. Existing technologies echnologies can help companies perform tasks such as monitoring overall carbon output, calculating the carbon footprint and compliance of products, and facilitating waste management and recycling.

Though the research shows that pursuing a sustainability strategy will be complex, there is no questioning the urgency of action. A large majority of midmarket respondents say that sustainability is a critical part of their future competitiveness and profitability. Midsize companies will need the technology and partners to help them understand their impacts and incorporate sustainability data into their strategic decision-making. Many are already working to gather the data and specify the metrics that will matter today and into the future. And as pressure builds on companies to do more, those who view sustainability as already financially material to their performance predict that they will perform better and be more profitable than their peers.

The race is on.

Ready to learn how to scale your sustainability initiatives? Speak with an SAP partner today.

Get tips to develop a sustainability strategy for your business. Listen to this on-demand webinar ↗

About This Research

The SAP Insights research center conducted this survey to measure the challenges companies face in fighting and reversing environmental degradation and when they believe environmental issues will affect their financial condition or operating performance. The study took place between November 2020 and January 2021, and 7,423 responses (5,621 usable) were collected across 16 industries, 19 countries, and four continents.

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