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Interview by Michael S. Hopkins

How SAP Made the Business Case for Sustainability

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As SAP's first-ever chief sustainability officer, Peter Graf was prepared to lay out the business case for sustainability to stakeholders and customers of every kind. But he had to make the case to SAP's own board of directors first.

INTERVIEW BY MICHAEL S. HOPKINS

FOR MORE THAN A DECADE, Peter Graf, a computer scientist by training (Ph.D. in artificial intelligence), has focused on marketing at SAP, the business management software company. Graf worked on product and content marketing, was in charge of product strategy and coined NetWeaver, a technology platform that aligns information technology with business requirements.

Since March 2009, though, Graf has had a new role: chief sustainability officer for the company.

He now leads a global team that oversees all sustainability-related initiatives, from the creation of solutions that enable sustainable business processes for SAP customers to SAP's own sustainability operations, including key social, economic and environmental programs.

Unsurprisingly, Graf is not shy about his view of sustainability's future in organizations. His public remarks include claims that sustainability will occasion "the biggest transformation in business since the invention of the Internet," and that for sustainability-adopting companies "there is money to be made. There is money to be saved."

But Graf says his first task as an inaugural CSO was one of perception. "I had to be very careful not to come across as a marketing show," he says. "That means when we talk externally, the initial conversation is all about SAP as an exemplar, SAP as a role model. What SAP does internally, what our carbon targets are. Because we



THE LEADING QUESTION

How are leading companies evaluating the costs and benefits of sustainability investments?

FINDINGS

- ▶ SAP identified the top five business drivers related to sustainability.
- ▶ The five key drivers: compliance; re-source productivity; market advantage; work force morale; business model evolution.
- ▶ Early steps included tailored education of SAP's board.



"Resource productivity" is the second of the five parts to SAP's business case for sustainability-related investments. Pictured here: the atrium of SAP's LEED platinum certified building in Newtown Square, Pennsylvania.

need credibility to say, 'We are really doing this sustainability stuff ourselves.' It works. And *then* we can say, 'By the way, we're using our own system to do it.' And then the last step can be, 'And you can buy those systems, too.'"

Graf's second, and bigger, task was to grapple with internal corporate strategy. He had to make the business case for sustainability-driven actions — and the case for trying to build SAP into a sustainability role model — to SAP's own board of directors.

Graf spoke with Michael S. Hopkins, editor-in-chief of *MIT Sloan Management Review*, about how he made the sustainability case internally, what the payoffs have been and how SAP customers have — and haven't — responded.

Take us back a couple years to before SAP had even created such a thing as a chief sustainability officer. What did you do to urge SAP in that direction?

Sustainability-related work wasn't at all new at SAP, but it hadn't yet been taken to the board of directors as a major strategic initiative. So we began to make a specific effort to educate the board on an ongoing basis. We sent biweekly e-mails on sustainability to our executive council and the executives on the board of SAP. We said, "OK, here's what carbon accounting means. This is what an offset is. This is where people see the challenges in terms of water. Here's what our customers have been saving when they did EHS," the SAP environmental, health and safety management software.

It was all in very short e-mails, kind of a quick link or just a blurb, but it was continuous. And after half a year, they felt like they were somewhat attached to the topic. They understood what was going on. They knew the terminology a little bit. They knew how an offset is different from an abatement curve, stuff like that.

Then, we created the business case. We had a presentation that was about 50 slides. But we knew we were only allowed to show five slides in the board meeting, so we scheduled individual two-hour meetings with board members.

In those individual meetings, we focused on where we knew the board members would have the biggest interest. So for Bill McDermott, who today is co-CEO but back then was head of sales, we wanted a conversation about how big the market is for sustainability-related products and services, how you could engage customers, what the business case is for *them*. For Jim Snabe, also co-CEO today but back then the head of products, we talked about which type of development effort we would need, how many people we would require, what the key solutions would be and what capabilities we would need.

When the board met as a group, it was, arguably, the best-prepared board meeting I've ever been at.

It was a complete home run. One person said, "We're having the conversation here that I have with my kids at every dinner." I was surprised how strong their commitment was and how immediate their agreement was that we have to adopt a long-term strategic focus on sustainability. It was unanimous with all the eight board members that we had in the pre-briefings. And the actual board meeting was 20 minutes.

What did the board decide to do, specifically?

They said, "Yeah, we understand. This is the money you need over a long period of time. We understand once you start this, there's no way back. Peter, you're in charge, we're going to put you in this position [SAP's first chief sustainability officer]. Are you OK with that? Yes, OK, let's do it." Done.

You paint an incredibly rosy picture of how the process went. Most executives we talk to or survey tell a different story, full of impediments — one of the biggest being how they struggle to build the business case for sustainability-related investments. How did you frame a business case that earned you a go-ahead in a 20-minute meeting?

It was crystal clear. Let me outline it for you. There are five pieces.

The first piece is compliance. For *customers* of SAP who are in regulated industries, compliance is obviously a much bigger issue than it is for us, a software company, which is not really a regulated industry. But we have to comply with our customers' codes of conduct.

One of our largest German customers told us, "We cannot buy any more software from you," and we almost fell off our chairs. We asked why, and they said, "Well, you don't have sustainability in your code of conduct. You don't have a *sustainability strategy*. We have it in our code of conduct. And we can't buy from you." This is in spite of the fact that we have been in the Dow Jones Sustainability Index since its inception and we're

leading the software category for three years in a row now. It doesn't matter. We did not have a sustainability strategy that we had put into operations or our products, and that's what they were looking for. By the way, we are one of the largest suppliers to that customer in Germany. They didn't do this for their entire base of 100,000 suppliers, just their 200 biggest.

But in fact, more and more customers in 2008 and 2009 brought out codes of conduct that say, "Our suppliers need to have a sustainability strategy."

So that's the first part of the business case — you're responding to an increasingly common customer requirement that vendors are pursuing a sustainability strategy. What's next?

The second thing is resource productivity. What we committed to in the business case was that not only can we make money and enhance our brand, but we can save a lot of money throughout SAP, too. We've shown some of the inefficiencies. In our first year of existence as [a dedicated sustainability] organization, our sustainability strategy delivered €90 million of savings to the company.

That's from a 7% reduction in energy consumption, 25% reduction in paper and printing, a 30% reduction in airline travel — I had promised cuts of €10 million, and we delivered 90 million.

The third aspect to the business case was the competitive edge we could create in the marketplace. We sized the market for sustainability software between 2009 and 2014, and we estimate in the most conservative setting a €7.3 billion cumulative license opportunity over those five years. This market is huge. We open the door into the boardroom, because that's where we are strongest in selling and that's where this discussion's really happening. And I'll tell you, I have been with SAP for a long time, I've been an executive vice president for quite some time, and it was never easier to get into a boardroom than with this topic. It's what people have on their minds.

The second piece to your business case is cost takeout from resource efficiency. The third piece is projected market opportunity. What's piece No. 4?

The fourth part of the business case is the way sustainability really re-energizes our work force. We needed something where people say, "Yeah, I'm

proud to work for SAP. We have a huge impact. This is a great opportunity." People need to come to work for a purpose that's bigger than selling software.

The last piece, which is the actual deal maker, is beyond the business case. The last piece is to sustain the business model. And we understand that sustainability for SAP in terms of software is similar to the challenge of globalization or the business use of the Internet. Sustainability has the power to fundamentally change the way business processes work. And we must, as the leader in business process software, be a leader in sustainability if we don't want to lose our leadership position.

Sustainability is inevitable. We will not sell enterprise software five or 10 years from today if it doesn't have sustainability built in at every point in the value chain. Every company will follow toxicity, follow water, follow product footprints along the value chain. They'll want to understand how they need to change sourcing. They'll want to optimize transportation for carbon or time or both. Those are the kind of things that really make the difference.

Of the five parts in your business case, only a couple look easy to quantify, and even one of those — the market-size projection — can look to some people highly speculative. Do you try to quantify the parts that are more intangible, such as employee engagement? Or can you justify your sustainability investments just by showing returns on the things you can count?

Yes, the things we can count are, frankly, enough. I pretty much came in with numbers for parts two and three of my argument — quantifying how I could save the company money through efficiency and make the company money in this market by selling software. Re-energizing the work force was something that we consider to be more of a soft point. I'm trying to measure how we re-energize, but I'm having difficulties putting a number next to it. No. 1, the compliance part, was more of an all-or-nothing question. We can't put a €20 million deal in jeopardy because we don't have a strategy. We cannot afford to be not chosen because of it.

How has this played out in the company? What have been the payoffs so far? (Other than that €90 million in first-year savings, I mean....)



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— PETER GRAF

I'm using our own software to extrapolate our carbon footprint. We have a carbon target to reduce our carbon emissions back to 2000 levels by 2020. That's pretty steep. We are at about 20% reduction right now. We have increased our renewable energy purchase to 33% globally, so one-third of SAP's electricity today is from renewable sources.

I'm trying to understand what SAP needs to look like in five or 10 years to make my targets. We need to transform SAP's 14,000 combustion cars into an electronic fleet. We need to become much more clever in terms of remote engagement with customers. We can't be on the planes so much. We need to reshape our whole event structure. This year we put on SAPPHIRE NOW, which was more like a TV show, a virtual event on the Web, as compared to bringing 21,000 people to one place.

We had a core team of about 10 to 15 people when we started this. It very quickly grew to about 150 so-called sustainability champions, people who are in all locations of SAP and in all lines of business who help us drive for the cultural transformation of the company. Today we're about 1,000 people who are dealing with sustainability.

One interesting thing is that we have used our own analytical software to analyze the responses of our employees to survey questions about sustainability, like how important is it, do you know what our strategy is, do you contribute to our strategy. We can slice this information by age and gender and region and what have you. And when you slice it by age, between ages 20 and 30 is the highest percentage of people who think it's important. Between 30 and 50, it kind of goes down. And then it really jumps up again at about 45 to about 60. That's partly why it resonated so strongly with our board, which obviously is composed of more senior people.

What do you find among your customers' organizations worldwide? Do you find them making the business case as easily as you can make it?

No. The biggest problem is that many people won't act until there's a compliance requirement. But you do not need a compliance requirement to make the business case work. The strongest business case of all is that of energy, and it's a business case where there's no doubt about it. Everything has been a little bit slowed down because of what didn't happen

at Copenhagen. That took the air out of this whole movement a little bit.

The biggest challenge with the business case is you need a baseline. And to get a baseline, you have to do a lot of work. That is extremely difficult because usually you lack the expertise. Of course, consultants can come in and help companies understand what this whole thing is about — the economic, the environmental, the social sides, what's your energy bill, how much carbon is there, where do you get the energy from, what's your Scope One, do you include Scope Three, yes or no, all that.

At the end of the day, you need to understand a lot of metrics to understand where you are. And then, you need to make assumptions. You need to make assumptions about the price of energy. You need to make assumptions about the cost of carbon, about whether there'll be a tax, whether there'll be cap and trade. You need to make assumptions about the global variations if you have plants in different areas that might be regulated differently. So it very quickly gets very difficult.

Many people want to quickly understand where are we today, how much are we paying for energy, where are the potential savings.

In a way, you have to make the first step in order to make the first step.

You've got to take an initial leap in the dark?

Yes. Yes. That is exactly the point. You need to make an investment — I'm not even saying in IT, it could just be time and people — to go and figure it out. And then you need to believe it.

The beauty about this is we create the pressure for other companies to do some good. One of the motivations that I had, and I learned this lesson from 14 years of being in this company, is that SAP is of a size that whatever we do is important, and whatever we don't do also is important. And if we engage in a topic as sincerely and with as much money as we are doing in sustainability, it gives license to everybody else to do the same.

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