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How CFOs can Help Meet Corporate ESG Goals

CFOs have a pivotal role to play in stewarding their organizations' ESG journey. A thorough understanding of the regulatory environment, a clear data management strategy, and intelligent use of technology are key to tracking and reporting sustainability and ESG progress to stakeholders.

Contents

3 Introduction

5 CFOs Should Take the Lead

7 Data Collection and Management: A Fundamental Challenge

9 The Importance of Data in Driving Sustainability Efforts

11 Effective ESG Reporting

15 The Way Forward

Introduction

Environmental, Social and Governance (ESG), a set of practices to assess an organization's ethical and sustainability practices, are a core mission of many businesses today. They represent the three main topic areas that companies are expected to report in. A goal of ESG is to capture all the climate-related financial risks and opportunities inherent to a company's day-to-day activities.

Far from the traditional marketing exercise it used to be, the endeavor leads to serious outcomes, with much focus now on managing risks and capitalizing on opportunities for business value.

Investors, regulators and other business stakeholders are increasingly demanding better disclosures on climate change matters. They are challenging companies that are not factoring the effects of climate change into their critical accounting judgements.

Given the evolving reporting landscape, it is clear that companies are increasingly held accountable for their impact on the environment and society, and are thus expected to enhance the quality of the information being reported on ESG. Emerging ESG regulations require companies to report beyond their direct impacts and include areas such as Scope 3 emissions, which encompass a company's entire value chain.

Besides the International Sustainability Standards Board (ISSB) standards that several regulators in Asia Pacific are planning to mandate, starting January 2024 under the European Union's (EU) Corporate Sustainability Reporting Directive (CSRD), companies with more than 500 employees in the EU will have to start capturing data for regulatory-driven sustainability reporting[1]. This includes data on travel-related emissions. Many non-EU companies with operations in the EU will also be required to disclose in alignment with the new directive.

[1]Deloitte, CSRD – A Simple Step-by-Step Guide

In the United States, the Securities and Exchange Commission (SEC) has also proposed requirements covering the reporting of Scope 3 emissions in financial statements. Registrant companies would be required to disclose Greenhouse Gas (GHG) emissions from upstream and downstream activities in its value chain, if material or if the registrant has set a GHG emissions target or goal that includes Scope 3 emissions.

According to Deloitte's 2023 CxO Sustainability Report[2], 65% of CxOs said the changing regulatory environment has led their organization to increase climate action over the last year. To drive further action and keep up with the evolving regulatory requirements, companies must beef up their capabilities in reporting and assessing their impact.

For many firms, the problem is this: They cannot report what they cannot capture, and they cannot capture what they cannot see. What's needed is a solution in place to capture and report on emissions, including Scope 3 emissions which encompass a company's entire value chain, like travel-related emissions. This allows companies to avoid non-compliance to local stock exchange requirements for listed companies, or global regulatory frameworks such as ISSB and TCFD (Task Force on Climate-Related Financial Disclosures).

To address the development, organizations need to develop an ESG materiality assessment framework that adheres to industry disclosure requirements on sustainability. This would provide a plan of action so that efforts at reducing their footprint and reporting their impact are structured and clear. The below shows a workflow that companies can use as guidance across different areas:

What should companies do?

Governance

- Bring climate change onto the board agenda
- Develop processes for considering the impact of climate change

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Risk assessment and strategy

Assess climate change risk and opportunities and their implications on the business model

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Metrics and targets

Set metrics and targets to address climate change effectively

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Financial statements

Ensure that climate change disclosures in narrative reports are clear, balanced and meaningful

↓

Narrative reporting

- Reassess assumptions used in cash flow projections that underpin recognition and measurement
- Provide transparent disclosures of the underlying assumptions used in the preparation of the financial statements

Source: Deloitte report[3]

[2]Deloitte 2023 CxO Sustainability Report
[3]Deloitte, A Closer Look, Climate Change - from a Danish Perspective

CFOs Should Take the Lead

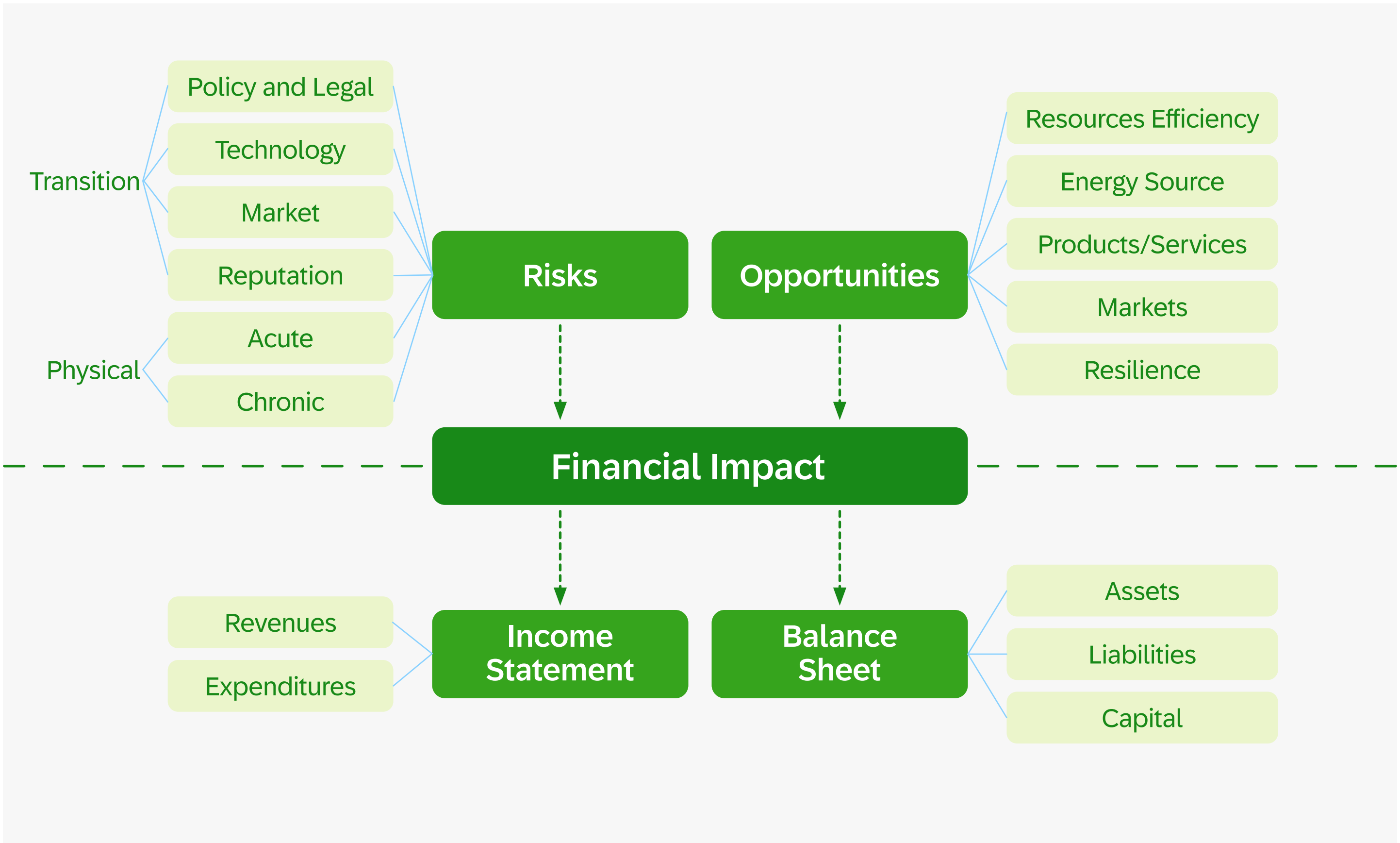
Organizations often delegate ESG disclosures and reporting to its sustainability committees, but CFOs and other finance leaders can also be the driving force for this important initiative, given the value they can bring to the sustainability reporting process and both the financial impact and risk of non-compliance.

Deloitte's research[4] finds that in only slightly over one-third of organizations (37%), sustainability efforts were led by CFOs. Clearly, finance leaders can take a more active role.

CFOs can play a key role in ensuring the relevance and accuracy of non-financial information provided to external stakeholders, and the connectivity of financial and non-financial information.

This applies to risk analysis as well as governance, internal monitoring, measurement, prevention, mitigation and third-party assurance. In addition, they are uniquely suited to identifying and balancing the added value of both finance and sustainability measures.

Categories of Climate Opportunity and Climate Risk



Source: FSB TCFD

[4]Deloitte, How ESG disclosures may expand the nature of the CFO's role

The methodologies for tracking and assessing the financial impact of sustainability measures are becoming more advanced, including internal cost accounting methods for sustainability projects. Using their ability to develop new tools and solutions, internal dashboards as well as individual and collective performance criteria, CFOs have the big-picture view to impact both financial and non-financial performance and create roadmaps to reach their goals.

What roles can a CFO play? In short, a catalyst, strategist, steward, and operator, as described in a Deloitte report[5]:

Catalyst:

For sustainability report disclosure and subsequent assurance, CFOs will set the strategy and drive the organization's reporting direction, and engage stakeholders within the organization or the organization's sustainability committee, to provide important reporting metrics.

Strategist:

Set strategic goals, make decisions and derive a Finance strategy. Use core Finance skills from financial analysis and resource allocation to reporting systems as part of the transition to a sustainable enterprise. As key executives, CFOs can help quantify the financial value that is created with investments in sustainability and resolve potential conflicts that come from embedding sustainability into the corporate strategy.

Steward:

Manage compliance and control systems. Ensure that the company has understood and complied with the increasingly complex sustainability legislations to avoid hefty penalties. It is also essential to develop a good understanding of the most pressing ESG issues and quantify their impact on long-term performance.

Operator:

Ensure the skills, quality and efficiency of the Finance function. Finance departments must operate efficiently and effectively, providing a variety of services to the business, such as financial planning and analysis. CFOs must also be able to quickly access, transform and interpret ESG data.

[5]Deloitte, The CFO as the Driver of Sustainability

Data Collection and Management: A Fundamental Challenge

While many enterprises have taken a stance on ESG and set up extensive programs, a large proportion of firms struggle[6] in progressing towards their ESG goals. Data is at the center of the entire endeavor, yet most organizations fail to efficiently and effectively collect, measure, analyze and apply it to continually improve their ESG efforts.

ESG disclosure is becoming more robust and stringent, so data need to be of high quality, and be traceable and verifiable. Inadequate internal ESG data management tools hold organizations back. According to Forrester, many organizations are still using generic office technology, such as spreadsheets and email, to collect, analyze, apply, and report ESG data[7].

Fragmented data points sitting within different departments increase the complexity of obtaining structured and reliable data, while the lack of overall visibility to the reporting metrics will result in heavy reliance on individuals to collate data. In today's business environment, modern technology is indispensable to data collection and management.

[6]Challenges and solutions in measuring and reporting Scope 3 emissions | Deloitte Netherlands
[7]Forrester, Prioritizing ESG Is Not Optional Anymore

ESG data is also commonly not well integrated throughout an organization. One example is the collection of data on Scope 3 emissions, which include business travel emissions. Such information could come from multiple sources, such as airlines, travel management companies, hotels, transportation suppliers, and other stakeholders. This makes it difficult to obtain accurate and reliable data, in turn affecting the quality of the data, as it can often be incomplete or inaccurate. Companies need to find an effective way to collect data from various sources.

Here are some suggested steps[8] to collect Scope 3 data:

1. **Get familiar with your value chain** by creating process maps: They serve as checklists to request data from third-party stakeholders that may have to be added to one's inventory.

2. **Position data requests to your stakeholders:** It's important to stress the value of the data that stakeholders are providing, so they will be more motivated to provide high-quality data and potentially even create data management systems in future that benefit both parties.

3. **Assess supplier sustainability maturity:** Consider how ready a supplier is when it comes to providing the context for their data. Use common accounting and reporting standards to align different sets of data for easy transfer of information.

4. **Ask if suppliers have conducted Life Cycle Assessments (LCAs):** Suppliers that are more mature in sustainability practices may have LCAs for products that you buy from them. This provides accurate and useful information and saves time from relying on a more generic industry average for the product.

5. **Create an Inventory Management Plan (IMP):** Develop a formal, repeatable data collection process so next year's inventory becomes easier to compile. An IMP can better equip an organization to collect more accurate data to meet reporting requirements.

[8]Ramboll, How to Collect Quality Data for Scope 3 Inventories

The Importance of Data in Driving Sustainability Efforts

As corporate travel resumes with a vengeance post-pandemic, it can be a good example and case study of ESG data collection. The World Economic Forum[9] has stated that employee travel is one of the greatest contributors to corporate carbon emissions, so there are opportunities for companies to make an impact by making their corporate travel more sustainable.

With the right data, organizations will be able to accurately understand the sustainability impact of their employee travels, set goals, raise awareness, track progress towards goals, promote accountability for their overall emissions and figure out avenues of improvement.

[9]World Economic Forum, Business travel won't be more sustainable post-COVID unless companies take action

To execute a sustainable travel strategy, organizations need to:

Craft a data strategy based on a clear understanding of the data challenges and important use cases. Build data analytics capability to access relevant data internally and externally and leverage artificial intelligence (AI) to analyze the data.

Identify inadequacies in the technology and systems used to monitor, manage and prepare for transparent and robust disclosures. Consider enterprise-wide data systems to support the collection, validation and analysis of sustainability and climate-related data.

Assess the availability of accurate, complete, and quality data necessary to monitor emissions (usage and reduction).

Identify the analytics requirements and gaps in disclosures against regulations and standards. Create a single, centralized location for calculating, monitoring, and managing/ reducing emissions for corporate travel.

Implement a data uplift program to enhance the organization's ability to accurately source and integrate new sustainability and climate-related data to make robust and accurate disclosures.

Better engage stakeholders, including supply chain partners, by improving communication with them, to obtain better quality data. Create standardized reporting tools and dashboards to support quality reporting and disclosure, and train relevant stakeholders on how to integrate sustainability and climate-related data into decision-making.

Standardize end-to-end reporting and disclosure processes to optimize efficiency, eliminate duplication, and develop standard operating procedures that are formalized with documentation.

Build a next-generation finance operating model to enable finance departments to collaborate across organizational boundaries. Use an agile operating model to complete tasks dynamically and react quickly to volatility and disruption.

The bottom line is that sustainability is only manageable if it is measurable. Organizations need to bring data together to track their progress, share their results, and bring clarity to their future plans.

Effective ESG Reporting

For both companies and investors, a long-term view is inseparable from sustainability considerations. However, investors are much more likely to favor decisions that lead to sustainable, long-term value creation even at the expense of short-term earnings shortfalls, but finance leaders are much less inclined to make that trade-off.

A top priority for companies, therefore, is to align with investors and stakeholders.

This involves a strategic and transparent communication of sustainability efforts, by leveraging data collected and presenting information through comprehensive reporting.

Effectively conveying sustainability data through robust reporting mechanisms not only signifies a commitment to transparency, but also serves as a powerful testament to corporate responsibility. By weaving a compelling narrative around sustainable initiatives, companies can instill confidence among investors and stakeholders, demonstrating a clear understanding of the evolving landscape where ethical and sustainable practices are pivotal.

Companies can choose to prepare their sustainability reports via three common ESG reporting frameworks, or a combination of frameworks. The selection of these frameworks and standards, such as GRI[10] (Global Reporting Initiative), IFRS[11] (International Financial Reporting Standards) and SASB[12] (Sustainability Accounting Standards Board), is based on the company's material issues and objectives.

As investors', regulators', and other stakeholders' demands for corporate ESG responsiveness continue to grow, more and more board members have discussed whether ESG measures should be incorporated into executive remuneration plans to highlight how management will be held accountable for ESG results. Since there is evidence that positive ESG results can drive long-term shareholder value, executive incentive plan designs will likely increasingly include "quantifiable" ESG measures.

By effectively communicating sustainability data through transparent reporting, companies provide a tangible and measurable account of their contributions to sustainable development. This, in turn, becomes a key metric in evaluating the performance of executives. The narrative woven through these reports showcases the direct impact of strategic decisions on the environment, society, and corporate governance, creating a comprehensive picture for stakeholders.

According to the UN Global Compact[13] (UNGC), Scope 3 emissions make up more than 70% of a business's carbon footprint. However, only about 20% of organizations disclosed their Scope 3 emissions for the 2020 fiscal year, according to 15,000 companies tracked by Bloomberg.

[10]Global Reporting Initiative
[11]International Financial Reporting Standards
[12]Sustainability Accounting Standards Board
[13]UN Global Compact

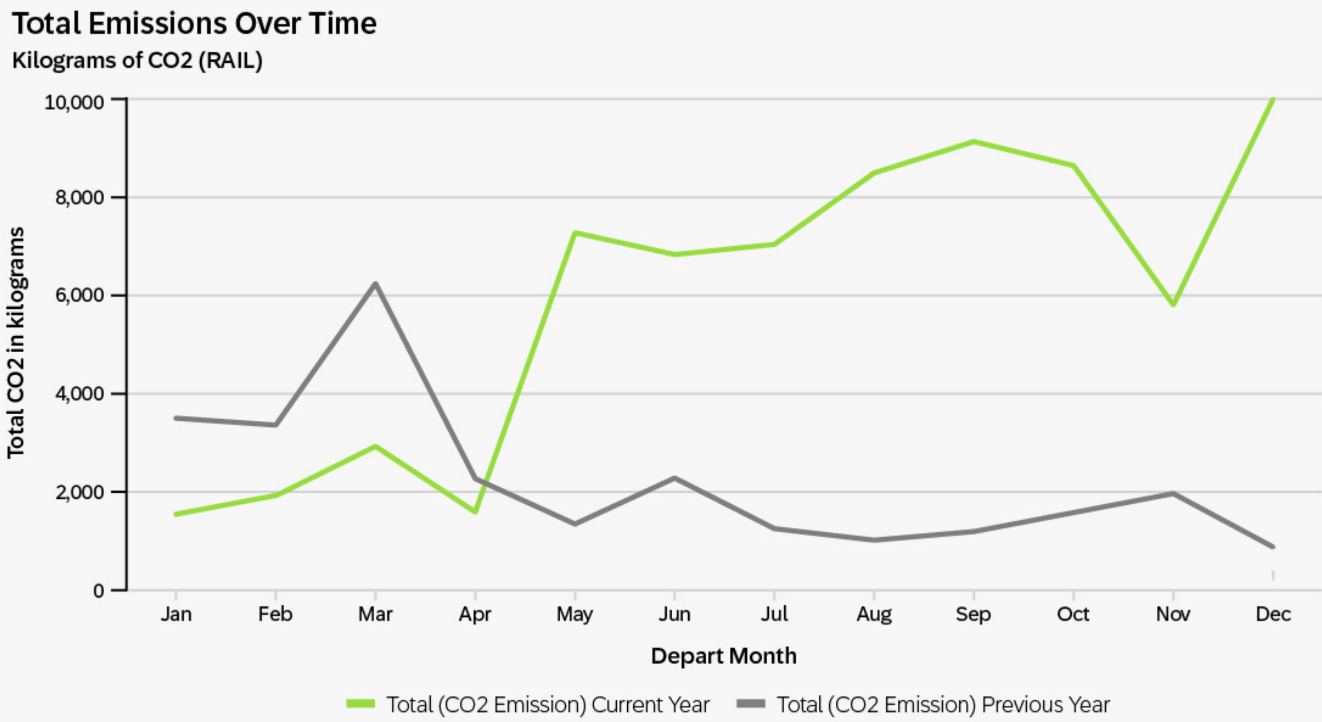
In the aforementioned Deloitte study[14], only 37% of respondents were ready to report Scope 3 emissions in 2022, up from 31% in 2021, but still a minority.

CFOs must start by having the right tools to help them view and track their organizations' sustainability initiatives. SAP Concur solutions have reporting capabilities that analyzes employees' awareness of their travel sustainability goals and their sentiment on various aspects of sustainability, and will provide insights to shape and sharpen internal communication policies.

Employees should have access to sustainable travel options, and have visibility over features such as transport using renewable energy, nature-based solutions, community-based projects and sustainable aviation fuel.

Organizations' reporting tools must also deliver regular reviews on critical factors, and provide deep-dive analysis to deliver monthly, quarterly, and annual reviews on carbon emissions.

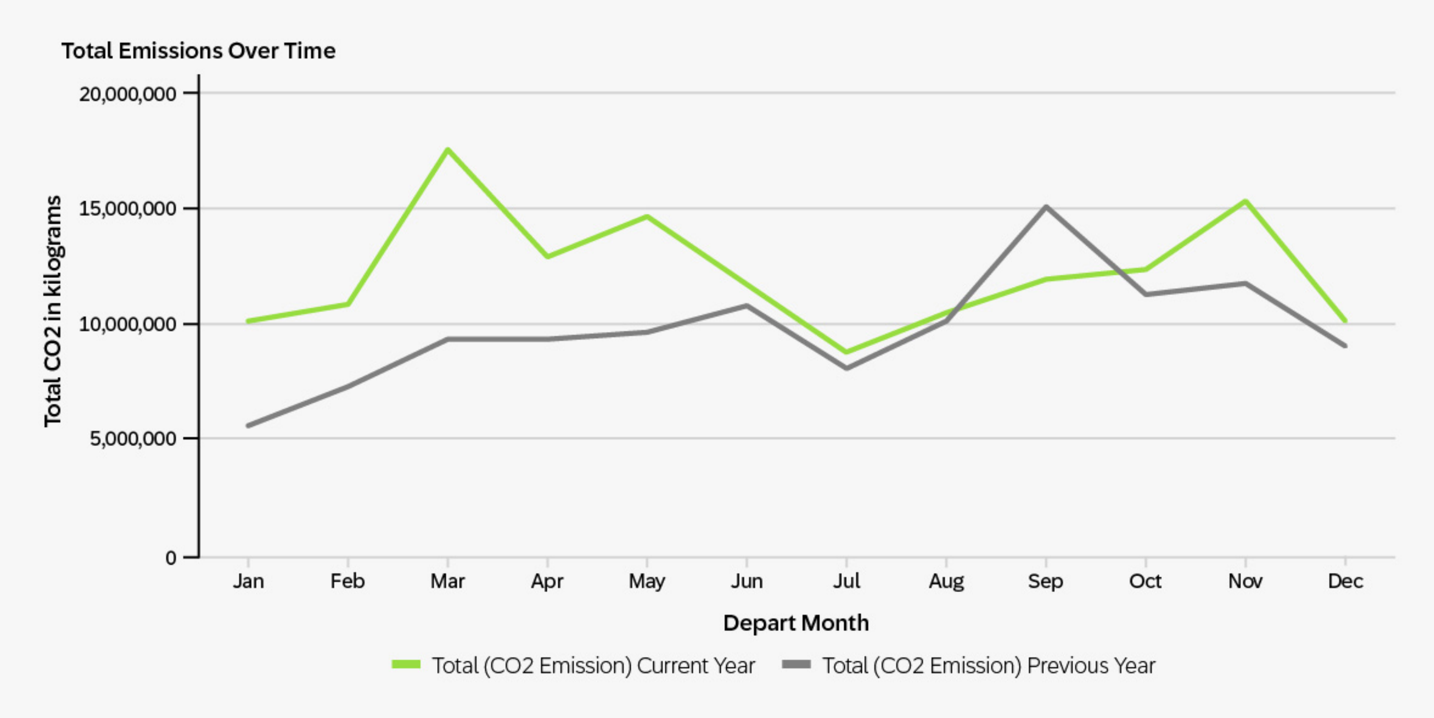
In the following section, we illustrate how organizations can utilize SAP Concur solutions to calculate, track and manage Scope 3 business travel emissions.



For the Current Year (CY), your organizations rail carbon footprint was **70.9K** kilograms of CO2 vs **26.3K** kilograms of CO2 in the Previous Year (PY)

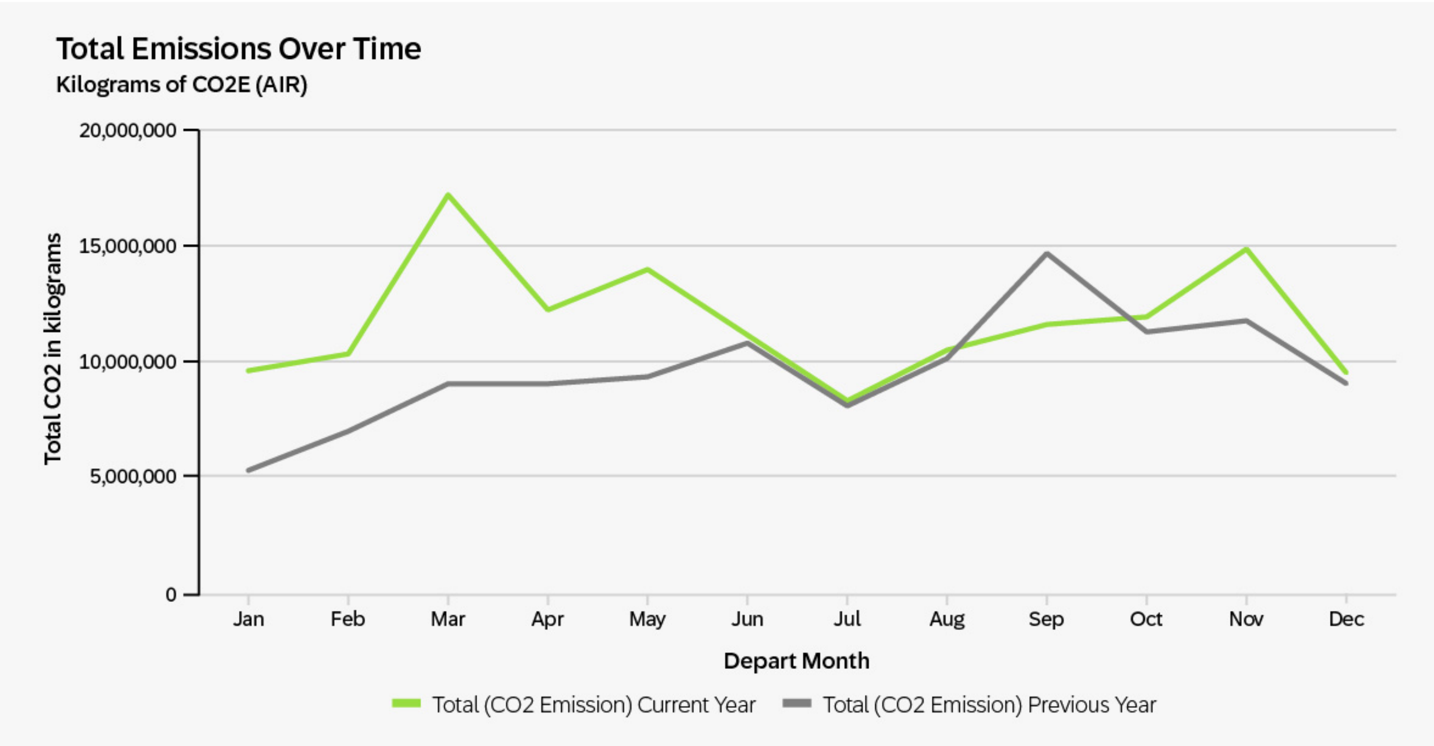
It is important to establish a baseline of your business travel emissions at the start. Through customized reports, you will be able to effectively report on your CO_2 emission progress in the long term.

[14]Deloitte, How ESG disclosures may expand the nature of the CFO's role

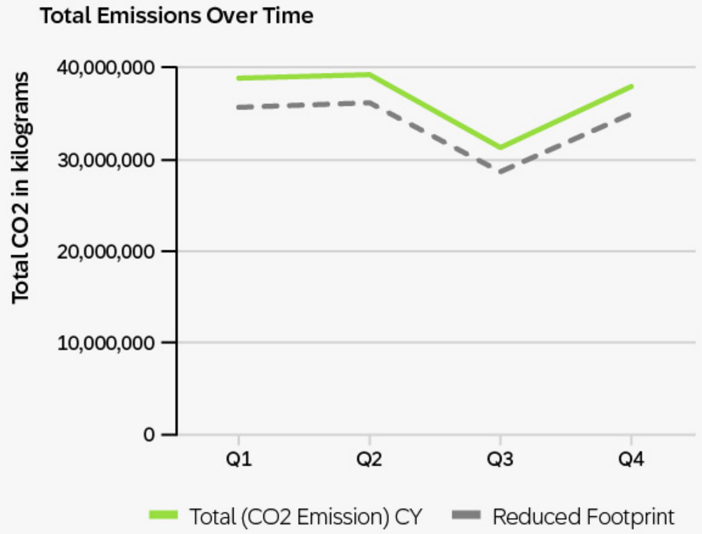


Example of data tracking to show the impact of an organization's travel program on carbon emissions. For a mature enterprise that has fully implemented Concur Travel & Expense (T&E) globally, a measure of improvement would be a decrease in year-over-year (YoY) total CO2 emissions.

A mature organization would have a firm T&E policy with a clear call-out of sustainable policies, minimal out of program spend, and reporting customized to sustainability objectives, among other things.



Through specific air travel tracking, travel policy can be adjusted to encourage more sustainable travel, for example, by exhorting travelers to fly on more sustainable routes or travel by rail.



146.8M
Current Year (CY) travel carbon foot print (kilograms)

11.3M
Proposed reduction (kilograms)

The COVID-19 pandemic proved that certain business operations can continue without travel. Consider implementing "no-travel" weeks once per quarter to reduce CO2 emissions and raise employee awareness of the impact that their travel has on the carbon emissions strategy of your organization. Based on your average weekly emissions, that is an annual CO2 savings of 11.3M kilograms.

Blocking one week per quarter as a travel-free week is an example of an innovative measure that companies can roll out to cut CO2 emissions. The projected CO2 emissions savings can be reported in their ESG disclosure report, assuming that internal incentives and controls are in place to avoid the travel (and emissions) simply being shifted to other weeks in the year.

SAP Concur Solutions to Support Travel Sustainability

Concur Travel:

Highlight sustainable options and green partners with custom fields, so when employees are booking travel, they can quickly pick the most sustainable choice.

Guide employees towards greener travel before, during, and after their trip. For example, should they rent a hybrid car?

Use personalized messaging to explain your company's sustainable initiatives, helping employees understand that it's not about not traveling, it's about traveling smarter and more efficiently.

Concur Request:

Use powerful rules-based engines to proactively guide employees through compliant options.

Enhance sustainability aspects of your entire employee spend programme, making sure travel and expense policies are aligned and respected while offering a seamless end-to-end experience.

Intelligence:

Dive deeper into your analytics and get insights into carbon emissions, top destinations, green suppliers, business traveller practices, and spending behaviours.

TripIt:

Show employees their individual travel footprint and give them practical options for offsetting their impact.

Concur Expense:

Use electronic receipts to go paperless and cut miles of paperwork out of the process.

Partner Ecosystem:

Use our App Center to find sustainable suppliers who can support you at all levels of your corporate social responsibility strategy.

Reporting tools should also offer options to travelers to shrink their carbon footprint. Employees should have choices such as transport using renewable energy, nature-based solutions, community-based projects and sustainable aviation fuel, for example. Reporting tools should also show available climate solutions, and their certifications, project specifics, current pricing, and the Sustainable Development Goals they impact.

CFOs, travel managers and sustainability officers must also ensure their organizations can swiftly choose technological solutions that align with their sustainability goals, apply them to address their carbon footprints, and manage their impact and documentation within the same platform.

T&E policy owners, such as HR or Travel Procurement, play an integral role in the company's overall sustainable T&E program.

Travelers can contribute meaningfully by harnessing tools that actively track their carbon footprint and encourage them to be conscious about their travel choices.

Artificial Intelligence (AI) plays a transformative role in enhancing data collection and management for sustainable travel and emissions reporting. Through advanced analytics and machine learning algorithms, AI can efficiently process vast datasets, providing real-time insights into travel patterns, carbon emissions, and environmental impact.

Technology solutions help organizations embed sustainability into every part of their business processes, such as their travel and expense programs. By prioritizing or incentivizing responsible travel, committing to safety and equality, and eliminating waste, firms can make a positive impact on their businesses and the planet.

The Way Forward

To meet the requirements of regulators and expectations of customers and shareholders, organizations must better navigate the challenges around data collection, sustainability reporting and information disclosure.

In their pursuit of their Net Zero or carbon-neutral goals, those that are able to deliver clear improvements convincingly over time will win confidence from important stakeholders and signal their progress towards a sustainable future. Technology will be a vital enabler and organizations should look to harness it intelligently.

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About SAP Concur

SAP Concur is the world's leading brand for integrated travel, expense, and invoice management. Driven by a relentless pursuit to simplify and automate everyday processes, the solutions guide employees through business trips, move authorized charges directly into expense reports, and automate invoice approvals. By integrating near real-time data and using AI to analyze transactions, businesses can see what they're spending, improve compliance, and avoid possible blind spots in the budget. SAP Concur is imagining a world where travel and expenses practically manage themselves, helping businesses run at their best every day.

Learn more:

Visit Concur.co.in

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