

# ERP EP5: the CFO's role in navigating the ESG Trilemma: Cost, Commercial, and Compliance

**Ganesh:** The trend is moving towards ESG-centric resource planning. So, therefore, the future of ERP is sustainable.

**Richard:** Welcome to the future of ERP podcast from SAP. My name's Richard Howells. I'm a vice president for thought leadership for SAP's ERP Finance and supply chain solutions. And I'm pleased to welcome my guest, Ganesh Ram. And today we're going to be discussing the CFO's role in navigating the ESG trilemma of balancing cost pressures, commercial realities, and compliance regulations. So welcome Ganesh. Would you introduce yourself, please?

**Ganesh:** Thank you Richard, and it's a real pleasure to be here. I'm Ganesh Ram, a partner in our UK practice based in London, and I'm delighted to join you to speak about this fairly important topic, I would reckon around ESG and the role of CFO in driving this agenda forward.

**Richard:** Okay, thank you. So, some people may not be fully aware of E S G, so again, a common understanding of the term. Could you just give a quick overview of what ESG is and why it's important to know about from a CFO's perspective?

**Ganesh:** Think ESG as a concept is much more beyond those acronyms in general, right? This is about creating a future or protecting the future that we've got for generations to come, right? So rather than the acronym, I will encourage people to think about this is a responsibility for each one of us to protect the future we live in.

**Richard:** Yeah. But I mean, sustainability is gonna be something that we'll be considering for the rest of our lives, to make sure that there's a future for future generations. So it's a hot topic and a literally and figuratively. And a really important topic as well. So, in December I was doing a little bit of research before we did this recording and PWC published a paper, the CEO's ESG dilemma, and it's highlighted that a recent survey from PWC of global investors. And the thing right at the start of that survey that really interested me was that's outcomes such as effective corporate governance and greenhouse gas emission reductions were in the top five priorities of business drivers for these investors.

But on the other hand, 81% of them said they would only accept a 1% smaller reduction return in their investment to make it happen. It appears like they wanted to have their cake and eat it.

**Ganesh:** Absolutely.

**Richard:** So can you give a little bit more insight into some of the research that PWC has done in this area?

**Ganesh:** Sure, Richard. The essential dilemma that we're trying to highlight is what investors, are investing in companies with high ESG ratings. They, at the same time want to ensure that they get the returns for their investment and they are not currently Managing expectations around any shortfall on the outcomes from their investment that obviously, as you explained, it's a bit of the cake and eating it too, right? Because the reality of a company trying to get better ESG rating would mean investment. And that investment means it will need to withhold some of the outcomes from investment. So it's a bit of a chicken and egg. Now, if I add the third dimension to it around availability of skills. Skills, not just in finance, but skills beyond finance, but also bringing your consumers or making consumer awareness around the need for sustainability. And the reason why increased sustainability comes, perhaps comes at increased cost too. Right? Then really takes this dilemma into the trilemma world. So, you know, in summary, the trilemma from a CFO perspective is savings, stakeholders and skills. The three "S".

**Richard:** I mean, sustainability is and pressures around sustainability is coming at companies from all directions. I mean, we as consumers want to buy sustainable products from sustainable companies. Regulatory bodies are demanding sustainability and compliance to regulations. employees are wanting to work for a company that's well respected and ethical and sustainable, and add to that the investors as well. And we've got a really complex pushing at all angles to the company. So with this balancing act of managing costs, commercial realities, and the compliance regulations, how is the role of the CFO changing?

**Ganesh:** Yeah. Look, the CFOs have got a tough job. I think got from lots of conversations with the CFOs I have a lot of empathy for them because it's not easy to navigate that complexity that you've just articulated. Right. Essentially as you have potentially gathered from our survey too, we are seeing companies, or we advise companies to have a very clear view on their strategic stance around ESG or what we are calling the true north, right? Because that would help drive sort of the direction of navigation if you like. And there are four

really, different ways around it. So there's a conformist, which is looking at, I believe in the financial return around ESG and can still ESG a regulatory boundary. you've got the pragmatist who believes that ESG is an important factor in influencing the firm's performance. The strategist who believes that ESG is part of the firm's purpose and it'll ensure long-term success. And finally, we've got the idealist. These companies believe that ESG is the purpose, and in living that purpose, I maximize sustainability. So once you understand what sort of organization you are, and it is a continuum. So you could be in one of those purpose statements today and then move, take a stance, and reevaluate after two or three years. But that would help set the state.

**Richard:** That's a really interesting way of defining how different companies approach to ES G. But how do you bring the people in the company with you as well? How is the CFO navigating these trilemmas?

**Ganesh:** Yeah. So I mean, one of the things that the CFO once you've got the true North as we've just described,

**Richard:** You've identified the type of company you want to be.

**Ganesh:** Then I think the CFO can then play a number of roles to help or actually has to play all of these four roles. In day-to-day. One is sort of the steward and what that represents is extending your reporting, which the CFOs generally do around finances into non-financial reporting. These also look into the kind of regulatory frameworks and license to operate mechanisms. Then you've got the catalyst. Right. This is the C F O influencing functions beyond finance. You know, very good example of this is clearly marketing and supply chain. You've then got the operator, which is about data management, talent management, talking about the skills that we spoke about, and driving sort of the reporting angle, if you like, through data analysis and scenario analysis. And the last bit is into the strategic role. So being that advisor to the CEO in perhaps moving an organization from one of the earlier Northstar that we discussed, but also managing the external relationships both with the investors , the shareholders the analyst firms, the credit rating firms as well as sort of the broader market. But also equally internally, you know, explaining the ESGstance that the company has taken, why they've taken it, and what they're currently doing to ensure that they are conforming or they are being the pragmatist that they've chosen to be.

**Richard:** I was reading the report last night and it was really interesting to see examples of how companies, first of all, need to identify what they want to be and how they want to be seen from an ESG perspective. And then how to have

that long-term goal aligned with medium and short-term strategies to get there whilst keeping the investors happy.

**Ganesh:** Yeah.

**Richard:** And I would imagine that's a huge part of the role of both of us, a cheerleader for ESG and advocate for ESG and a chair of the information of being able to monitor and measure how you are performing against those goals.

**Ganesh:** Yeah, absolutely. I mean, let me just bring this to life, right? With the recent engagement with the C F O, they are able to get or address a debt market with almost one to 2% lesser rates. which is huge given the volume of transactions we are talking about, if they have a better ESG rating, right? So when you talk about, it's very tangible. But again, this is quite an interesting topic because if you're looking at it to just get debt at a cheaper rate, then the North Star is different, isn't it? Because this is about, yes, you're getting rated highly in ESG, which means you're doing things right. Which is obviously an independent rating entity that's giving you those ratings and it's got a direct benefit to your company and it does the savings. But then this is where the shift goes to companies. That true purpose is I want, like Patagonia is a good example that we've referred in our report, right? Where the entire purpose, you know, these fall under the idealist bucket. The entire purpose is to make a planet safer. Now that is a very different conversation because then pretty much every stage of your organization, every contact your organization has to think about that Nordstar.

**Richard:** Yeah. And, everyone, well, first of all, people that are attracted to that type of company will come and work for you, but they're also monitored and measured against those goals. So if all of your KPIs are aligned to those, ESG goals and your financial goals, it, then they should both come together at the office of the C F O.

**Ganesh:** Yeah, exactly.

**Richard:** What, I mean, it seems like PWC are heavily involved in this area and you are obviously passionate about the topic. So what role is PWC playing in helping companies navigate ESG?

**Ganesh:** Look, obviously the roles change across a number of organizations, but you know, ideally we are working with the CFO, CEOs and including chief sustainability offices, firstly, to define that not star of an organization and then I tend to work with the CFOs and the CEOs to actually got the nod star. Now

how do I make this happen? So actually the execution of it and there's a very clear link between the execution and technology because, and in fact, data, because this technology and data will give a massive acceleration. And, you know, ability for an organization to execute faster. So really, the speed services that PWC provides to our clients is from strategy all the way to execution. And of course, we, given a multidisciplinary context, i.e. we can bring our ESG practice, we can bring our finance practice, we can bring our technology practice and a number of others, legal practice in a very, conjoined way to help our clients solve these important problems.

**Richard:** Okay, cool. You mentioned you work with the chief sustainability officer, and this is a relatively new role in most companies, but I believe that most companies are also bringing the role out and need a chief sustainability officer who in your experience, who are you seeing filling this role? Which area of the company is stepping in to be the chief sustainability officer and what are their responsibilities?

**Ganesh:** Yeah. Basically the two talent pools that companies are tapping to fill this role. One happens to be in finance and no suppresses there given finances traditional links towards data reporting and external relationships. But secondly also market. So lot of this is about engaging employees, customers, and broader stakeholders and shareholders. So, marketing talent pool is also being looked at from a chiefs and announced from a C S O perspective.

**Richard:** That's interesting. They bring really different skill sets to the table, so, I would imagine depending on who they pick, is based on how they want to position themselves as well, the company themselves.

**Ganesh:** Absolutely. I think IR of where they come from, what is clear is the capability that they need in that role. It's very different to where they've come from. So if you take the role of finance, if somebody's coming in from finance, you know, they've got to understand the power of storytelling. They've got to understand, which is not something that traditionally finance, tend to do.

**Richard:** and vice versa with the marketing, understanding the financial aspect of it.

**Ganesh:** Yeah, the reporting. So I think, that's why my trilemma pointed on skills, right? As we need new skills in order to crack this. It is not incremental increases of what we've done before this is about clearly understanding what do we need, what skills do we need? And actually there's very clear shortage of those skills, right? And then the market because everyone's trying to look at it

and there's only so much development you could do at a short stretch. So in fact, we are investing a lot in supporting firstly, our own staff in terms of upskilling, but also our clients in order to, ensure that they have the right skills to succeed themselves.

**Richard:** It seems like an area, if any students are listening to the call, an area which would be a good opportunity to coming out of college to move into. not as the chief sustainability officer, but moving up targeting to aim for that goal in the future.

**Ganesh:** Well, I would, yeah, I would highly recommend it. But also this is about a great opportunity for them to shape the world we are gonna in.

**Richard:** Yeah, yeah, exactly. You mentioned, the skillsets and the shortage of skills, but I have a follow on question from that, and it's more around the technology that's required. because many companies have identified, I mean, if you look at a company's website, they talk about, I'm gonna be carbon neutral by a certain date or I'm gonna, we're gonna play a large part in the circular economy and minimize waste. But in my opinion, many companies don't necessarily have the business systems in place to do that. How do you monitor and measure that. Because every transaction, every movement has a financial cost and an environmental cost. What are you seeing as far as business systems are concerned in helping to enable sustainability and ESG goals?

**Ganesh:** I think, you know, we are at the beginning of a trend here in terms of technology really accelerating that move towards, supporting ESG goals. But it is hard, right? Both for the tech companies as well to pivot that quickly. But I'm encouraged by the fact that every large technology company is now looking at this seriously. Technology has got two or three almost roles to play here, right? One clearly is about data itself. So the technology, as you mentioned, is a platform for recording transactions. But how can they report on those transactions from both a compliance perspective from a ESG, but also for the company's own sort of management, reporting perspective. I, how to say our CFO f know that they're heading in the right direction? I, of the compliance requirements, and that requires certain thought. Now technology itself can be a contributor of helping towards more sustainable goals. A good example of that would be sort of the move towards cloud. As you reduce or use less electricity and vice computing power. That in general contributes only a very small percentage of organization's sort of carbon footprint. Right? but there's a lot of, movement in that field, Richard, so for example, talking about Ariba, right? it's got loads of transactions running through it. I understand much more than, you know, a popular, website such as Amazon, right? On a daily basis. But how do

we track, who are we buying from? Who's an organization buying from? What sort of carbon footprint is that bleeding to? What is the transportation arrangements for the product to reach to a particular client, and where is the product actually going beyond this possibly the value chain of the organization? Again, very early stages, but if we can crack that, I think we'll be in a very, very different place.

**Richard:** And as a software vendor at SAP we are very focused on, , the zero waste, zero emissions and zero inequality, and driving that both within our organization and providing tools to help our customers do that. So as you say, it's a journey.

**Ganesh:** Yep. And you'll be therefore not surprised that, you know, , PWC and SAP have announced a strategic partnership in late December, , to co-innovate together to support our mutual clients on their ESG agenda. . So this is a great example of two big brands coming together to, help our mutual clients progress in this very critical area.

**Richard:** Right. We're coming towards the end and my last questions, but I, before I ask my very last question, are there any things that I should have asked you? Are there topics that we haven't touched on this discussion that you'd like to address now?

**Ganesh:** I think. Just the one factor on maturity, right? Our clients are under different maturity models. What we find is some of them have a minimum compliance strategy. Some of them have a fast follower strategy, and others have aspirations to be the industry leader. Now, , it is very critical that we don't jump into conclusions just because an organization picks one of the three that I've mentioned, right? Because it is about balancing act most organizations would love to have a much faster, much aggressive net zero ambition, but it also needs to be realistic. Sharing empathy with organizations, but also sharing empathy with people in the organizations is something that I hold quite close to my heart. You know, most times when I talk to CFOs, , the overarching emotion I walk away is one of empathy more than anything, , because it is a difficult spot. So I guess, you know, linked to ESG but perhaps broader is I would just suggest to be kind to each other as we are in this difficult complex world.

**Richard:** So my very last question that I ask to all participants, if you take into account ESG and sustainability, in your opinion, what is the future of ERP?

**Ganesh:** Like I mentioned before, the trend is moving towards an ESG centric resource planning. So therefore, the future of ERP is sustainable.

**Richard:** Great. Thank you very much. And Ganesh, thanks for a great conversation.

**Ganesh:** It's a real pleasure, Richard.

**Richard:** I'd love to have you on again sometime as the whole ESG topic progresses. And to see if we've the improvements that have been made and the progress that's been made. I'd like to thank everyone for listening to the today's podcast. Please mark us as a favorite and we can get regular updates and information about future episodes. But until next time, thank you for discussing the future of ERP.