

Interview with Daniel Schmid on “Sustainability and the Role of IT”

Daniel Schmid, 46, heads Sustainability Operations, driving SAP’s own sustainability performance aiming to transform SAP into a role model for a sustainable company. Schmid started his career in 1992 as a consultant at Kiefer & Veitinger, a company for CRM that was acquired by SAP in 1997. He became Consulting Director at SAP Labs Mannheim and then took over responsibility for SAP CRM Consulting. As Vice President, he managed the integration of SAP CRM Consulting into SAP Germany and continued to lead the Consulting Division CRM until 2004. From 2004 on Schmid held various senior management positions within SAP Consulting in the region Europe, Middle East and Africa. Mid 2008, Schmid started to work on a companywide board initiated sustainability project heading the work stream “Sustainable SAP.” In March 2009, the project was transformed into a line organization. Schmid holds a degree in industrial engineering from the University of Kaiserslautern, Germany.

DOI 10.1007/s12599-013-0287-z



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Published online: 2013-08-23

This article is also available in German in print and via <http://www.wirtschaftsinformatik.de>: Seidel S (2013) Interview mit Daniel Schmid zum Thema „Nachhaltigkeit und die Rolle von IT“. WIRTSCHAFTSINFORMATIK. doi: 10.1007/s11576-013-0381-3.

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BISE: Mr. Schmid, what is the first thing that comes to your mind when you think about sustainability?

Schmid: Sustainability is a driver for innovation. It requires you to do things differently and to develop new solutions. Efficiency alone – although important – is not enough.

BISE: How does SAP define sustainability?

Schmid: SAP defines sustainability in a business environment. Sustainability requires us to consider environmental, social, and economic aspects at the same time. If you are able to manage the risks and the opportunities holistically, it will lead to increased business success in turn.

BISE: Why does an IT solution provider, such as SAP, strive for sustainability?

Schmid: To us (SAP, editor’s note), sustainability is not a buzzword. To us, it is a real need and a megatrend where we want to set standards. It is also an expectation of our various stakeholders: Our customers expect us to help them with their sustainability efforts through our solutions. At the same time, they expect us to make our own operations more sustainable and to act as a role model for a sustainable company. When we were founded in 1972, the focus was to optimize human, financial, and material resources, that is, to help our customers become more efficient through our IT systems. Optimization has thus always been well-anchored in our DNA. Of course, this is not enough, and we need to innovate and come up with new solutions, for instance, related to lifecycle management. Similarly, our employees request that we become sustainable – in our annual people survey, 91 % said that SAP needs to pursue sustainability. Finally, investors increasingly judge the future success of a company like SAP not only in

terms of financials, but they also look at the non-financials, for instance, how engaged our employees and how satisfied our customers are. One percent increase or decrease in the employee retention rate can result in a financial impact of about 60 million Euros on our operating result.

BISE: How do you measure the success of the sustainability transformation? How do you report on it?

Schmid: We do not have a separate sustainability report anymore, but sustainability reporting is integrated in our web-based annual report (www.sapintegratedreport.com) where you can find all relevant facts from an economic as well as a social and environmental viewpoint. If sustainability is anchored in your business strategy, product portfolio, and internal policies you are able to report on it in an integrated way. In terms of social sustainability, we look at indicators such as employee engagement, retention rate, women in management, business health culture, or the impact we have via our technology donations and our volunteering activities in the community. In terms of environmental sustainability, the number one topic is greenhouse gas emissions. Of course, as a software and service provider, we are not perceived as being too environmentally intensive. However, we provide sustainability solutions to customers – and to do this in a credible way, we need to define targets for ourselves, measure them, and learn from our activities. Being in the IT business, there are of course further aspects that we need to consider, such as the energy consumption of our data centers or the degree to which we use renewable energy.

BISE: What are the risks and opportunities of embarking on a sustainability transformation?

Schmid: For us, embarking on a sustainability transformation means to meet the market expectations, to be an attractive employer, to foster creativity and innovation, and to generate revenue through the solutions that help our customers become more sustainable. The main risk is that if you do not embed sustainability thinking and sustainability-related criteria into your own IT portfolio as a provider, then you risk being out of business. We see a strong trend that our customers ask us about our strategy and our performance indicators in the context of sustainability. We are a supplier and our customers evaluate their

own supply chain in terms of sustainability – if we do not meet their standards, we might be out of business. Moreover, meeting the expectations of the existing workforce contributes to higher retention rates as well as to being attractive to new employees. Prospective employees increasingly look at whether an organization is socially and ecologically responsible before deciding whether or not to work for them.

BISE: What were the major lessons learned during the sustainability transformation?

Schmid: First, understand the real business impact – that is, understand how sustainability and business are connected. Second, you need to strive for a sustainability strategy; however, the best way is to have an integrated sustainable corporate strategy instead of two separate strategies. Third, innovate differently, that is, change from a pure efficiency viewpoint to real transformation. Fourth, engage your employees. We have 65,000 employees, and we have to engage them in their day-to-day operations, in their business processes, in their decisions – we have to anchor sustainability in their thinking. Fifth – and this relates back to the business impact – deliver value to your customers. Extend your portfolio with new solutions or embed sustainability in your existing portfolio. Our vision at SAP is: Help the world run better and improve people's lives. I know that these are strong words, but this is what we are striving for. We have understood that with approximately 240,000 customers worldwide we can have a huge impact through our solutions.

BISE: What do you think were the major structural changes in order to get the vision incorporated and implemented?

Schmid: We interviewed more than 100 customers on all continents and across different industries in order to learn from them and to know their expectations towards SAP. From these interviews, we derived our own organizational sustainability setup. First, we needed a matrix organization as opposed to one big department in order to avoid that people would say: "Ohh, I do not care about sustainability – that is Department XYZ, they are taking care." We have to reach 65,000 people. Second, we have created the position of a Chief Sustainability Officer (CSO), Dr. Peter Graf, reporting to both our CEOs, and I became the Head of Sustainability Operations, a line organization with a reporting line to

the head of Global Finance Infrastructure and the CSO. While our CSO ensures that we follow the overall transformation path, we knew from the very first day on that the responsible people need to be in the respective lines of business. In order to ensure the success of the transformation, we asked the employees whether they wanted to play an active role and become a "sustainability champion." After 24 hours, we had to close the list, because we had more than 250 respondents. Our idea was to have 100 champions in the biggest locations worldwide who engage with their colleagues and their respective departments, using 10 % of their time to act as multipliers.

BISE: What was the role of IT in the context of the transformation?

Schmid: There are two aspects. First, IT needs energy, so you need to run your IT infrastructure in the best possible way, for instance, through virtualizing your servers in data centers, using power management software on de-central devices, or changing user behavior. But more than this, IT is a great enabler for business processes to become more efficient and can thus lead to a great positive environmental impact in terms of reduced energy consumption and emissions. In addition, IT is a big enabler as it creates transparency – you know where you are, you feel bold enough to define targets on that basis and to report on them externally, and to break those targets down on an annual or even quarterly basis. Another example is dematerialization or virtualization – using video conferencing and other tools for connectivity is an intelligent alternative to using the airplane. Of course, from time to time you need to be at the customer's site, but you also have the option to work remotely. Virtualization is also important when you look at other resources, for instance, paper consumption.

BISE: To what extent do you think did IT enable the organizational changes, for instance, the implementation of the champions network?

Schmid: Without IT these changes would not have been successful. If you look at our integrated report, you can find global data that you can break down to regional levels and local levels. For instance, the champions need data for their buildings or for their respective locations. We provide dashboards where they can see how they perform, with what measures they can reduce negative impacts,

and how this can be communicated to their colleagues.

BISE: What are the main products of SAP in the context of sustainability?

Schmid: First, there are dedicated sustainability solutions, for instance, for energy and resource management, operational risk management, or product safety and stewardship. Second, sustainability is being embedded in our suite and our supply chain solutions. Danone, for example, are able to see the carbon footprint of their 35,000 stock keeping units with our solutions on a monthly basis. They are now working on the water footprint and this enables them to identify inefficiencies across their entire value chain.

BISE: What do you think are the relationships between providing sustainability products to SAP's customers and to becoming sustainable internally?

Schmid: We strive to combine both – being an enabler and an exemplar. Only if sustainability is really anchored in your core business and if you become a role model as a company, you will make a difference, and only then it is more than a silo approach. Sustainability needs to be embedded in your portfolio so you can help other companies transform, become more efficient, and become more sustainable. This becomes a great driver for the internal transformation. Our customers want to exchange experiences with us. They are not only interested in the software solutions, but also in how we drive that transformation. It is absolutely logical for anyone at SAP to use SAP systems – SAP runs SAP. That helps SAP to become very effective and efficient – and that translates into a better footprint.

BISE: What were the major enablers and barriers to implementing sustainability?

Schmid: I think there were a lot of positive circumstances. First, we had the full commitment from the executive board. Second, our own employees wanted SAP to transform towards a role model of a sustainable company. Barriers to changing behaviors – we have found them particularly in middle management as managers have to consider a lot of priorities and topics in their day-to-day operations and business decisions. Successfully driving change and transformation needs various elements: It is important to have role models, create awareness, provide training, and to have the right incentive systems in place to overcome potential conflicts in targets set.

BISE: How has the transformation been perceived internally and externally?

Schmid: I was quite proud recently when I was in Frankfurt at the big ceremony event of RobecoSAM where we received again the award for being the leader in the software sector and being in the gold class when it comes to sustainability performance. RobecoSAM provides corporate sustainability assessment and does the rating for the Dow Jones Sustainability Index. This success makes us proud but also encourages us to continue this journey. As indicated, the sustainability topic is now perceived positively by 91 % of employees as compared to 77 % in 2009. Similarly, 68 % have answered that they actively contribute to achieving sustainability as compared to 47 % in 2009. So there is a positive trend, but of course, there is still a lot of work for us.

BISE: What role can the BISE community play in the education of students to make them fit for sustainability? What are relevant hard and soft skills?

Schmid: First, it is important that the industry engages with students. I believe that we, as industry practitioners, can learn a lot from their thinking and from how they see the challenges of the world. So the students can be a strong driver for innovation. Second, it is important that the universities provide curricula and case studies that confront students with business challenges and problems, so they have to come up with ideas on how to solve problems holistically considering social, economic, and ecologic factors. Students must learn how to decide where to invest money – the greatest benefits are where the three dimensions overlap.

BISE: What do you think is the role that the scientific BISE community can play in order to support the industry in becoming more sustainable?

Schmid: It would be great to see that you embed a holistic view in your research that considers social, economic, and ecologic dimensions. It is also important that you always consider the short, mid-, and long-term impact of your topics, and then identify where you should invest best. And this is again where you have the greatest overlap of the three dimensions – the “triple win.”

BISE: What are the next steps for SAP?

Schmid: Continue to innovate, continue to integrate sustainability in our thinking, and engage 65,000 people.

BISE: Thank you very much for the interview!