

SUSTAINABILITY ON THE AGENDA OF LATIN AMERICAN C-LEVEL EXECUTIVES

CEOs and other C-Level Executives in the region analyze progress of the sustainability agenda in their markets, its business impact and future trends.



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INTRODUCTION

Today we are witnessing increasingly extreme changes in our environment. It has become painfully clear that we must strike a sustainable balance between human activity and the world we live in, or we will face irreversible environmental degradation. At the same time, it is urgent for us to provide our people with equal opportunities and sustainable working conditions as we develop new business models in the circular economy. Within this context, Latin American business leaders are stressing the pivotal role that sustainability currently plays - and will continue to play - as an enduring driver of change in their organizations.

SAP has sponsored a study aimed at describing the progress being made in the sustainability agendas of Latin America's business sector. Carrying out the study were CIO Research, a leading market research company specializing in C-Level surveys in Latin America, and SEEKMENT, a top-notch firm working in data analytics and CEO surveys of American and European companies.

During October and November of 2020, more than 450 senior executives at key midsize and large companies in Argentina, Brazil, Colombia and Mexico participated in the study, sharing their experiences and insights on the impact of sustainability on their businesses, progress in implementing sustainability strategies and their investment plans for 2021.

Although results differed from country to country and with regard to the type of company surveyed (for example, manufacturers versus service providers), certain trends emerged that provide a clear picture of the role sustainability plays in regional organizations, its progress and prospects for the near future.

Here are some of the key findings:

AN EXPANDING SUSTAINABILITY AGENDA



- Sustainability agendas at the Latin American organizations surveyed showed signs of continuous growth, applying both new and previously used concepts. Sixty percent of survey respondents indicated that their companies had a strong affinity for topics such as gender equality, the circular economy, climate change and planning for a workforce of the future.
- Gender equality is mentioned by most companies (60%) as the main topic on their sustainability agendas, while employment and workforce training rank second (54%). However, for executives at manufacturing companies, the circular economy ranks second in this segment.
- Sustainability is a cross-enterprise - or multidisciplinary - issue, no longer considered a stand-alone "program." Rather, it is viewed as a way of approaching business. In the study, it appears as a discipline that cuts across all industries and positions. A solid 45% of executives say their companies have a sustainability strategy in place, and 22% say they are working on implementation.
- However, ownership of the sustainability agenda does not reside in a single specific corporate department. Twenty-eight percent of respondents said the office of the CEO and the CFO are responsible for managing sustainability, while 26% named the office of Corporate Social Responsibility and 11% the Sustainability department.

THE CORPORATE SUSTAINABILITY REPORT, A KEY INSTRUMENT BUS STILL UNDER DEVELOPMENT



- All the enterprises that participated in the survey described a Sustainability Report as a valuable tool. Forty-one percent of the of companies said that they were already using this type of report to consolidate their efforts in sustainability and share their specific actions and results.
- But in cases where firms are already generating sustainability reports, there were significant differences in how companies measured results, and not all reports included hard indicators.
- Organizations view technology as pillar for sustainability management. Forty percent of respondents said they are using IT to promote their sustainability strategy and obtain concrete performance indicators.

SUSTAINABILITY IS PROFITABLE



- For many companies, the divide between sustainability and profitability seems to have been bridged. Sixty percent of respondents reported that sustainability drives profitability. However, 29% said it is “not profitable.”
- The idea that sustainability strategies are profitable is not the only benefit that gets attention from businesses. Sustainability adds value beyond a company’s financial results. Many respondents said that effective sustainability programs have a positive impact on an organization’s reputation, increases a brand’s goodwill and attracts and retains talent, among other benefits.

CUSTOMERS, EMPLOYEES AND THE VALUE CHAIN; DRIVERS OF CHANGE

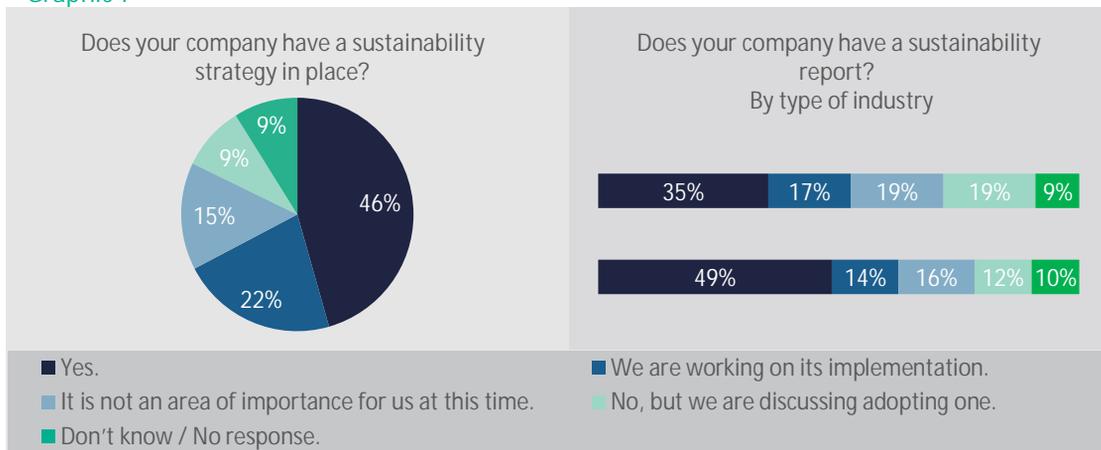


- Customers, employees and suppliers play a prominent role in a company’s sustainability agenda. According to responses from CEOs and other high-level executives, a company’s sustainability strategy can influence sales as well its employer brand.
- A company’s sustainability efforts can impact the entire value chain when stakeholders generate healthy pressure to implement measures that positively affect the environment and local or regional communities.
- These points partially explain why 28% of CEOs said they plan to increase resources to develop their sustainability strategies in 2021, and another 25% expect to maintain the same level of investment in this area, in spite of the negative economic impact caused by the COVID-19 pandemic in their geographical regions.

SUSTAINABILITY IN THE CORPORATE LANDSCAPE

The Dow Jones Sustainability Index¹, introduced in 1999, is the longest-standing global benchmark of sustainability performance. Since its introduction, sustainability has advanced slowly, gathering momentum in recent years. For example, in [2020](#) there was a 19% increase in the number of corporations participating in the study that serves as the basis for this index. This trend is indicative of the increased significance of sustainability topics in corporate agendas. However, there is still a wide range of related issues that need to be addressed.

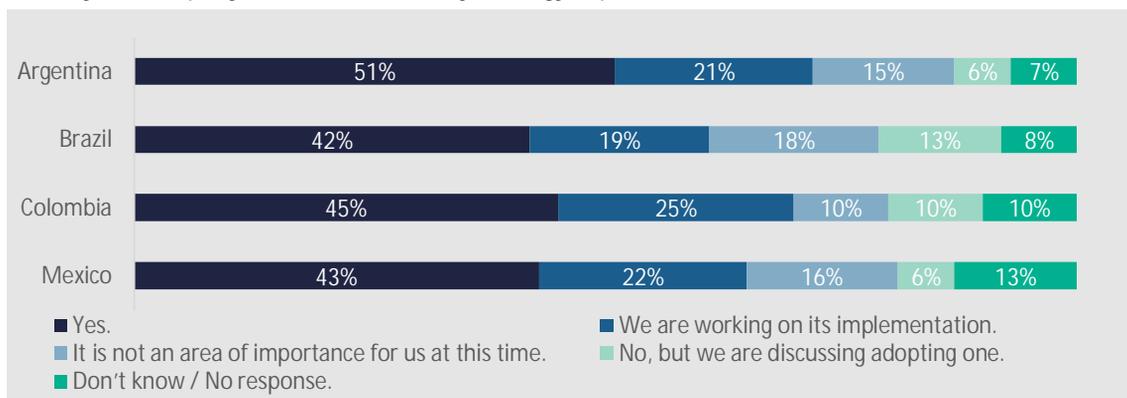
Graphic 1



Of the 45% of companies that have a sustainability strategy, companies in the manufacturing segment have devoted more attention to sustainability (49%), in comparison to the service sector (35%).

Graphic 2

Does your company have a sustainability strategy in place?

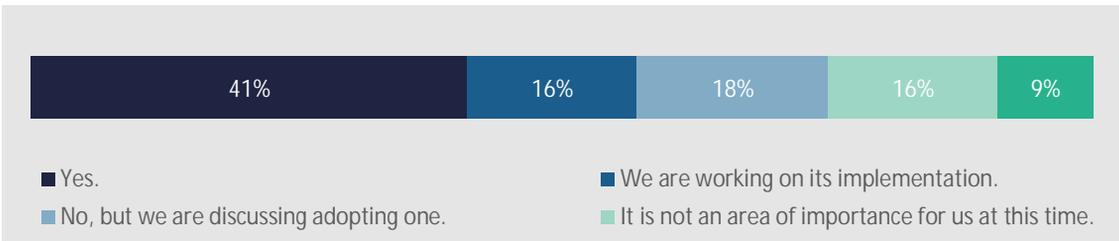


Based on the above country responses, the survey indicates that sustainability strategies are slightly more advanced in Argentina. In contrast, a higher percentage of Brazilian and Colombian executives (13% and 10% respectively) do not view a sustainability strategy as a key focus.

To determine if real progress is being made in Latin America, it will be necessary to monitor how these tendencies evolve in years to come for: 1) organizations that are now deploying sustainability strategies and, 2) those that are considering adopting a plan in the near future.

Graphic 3

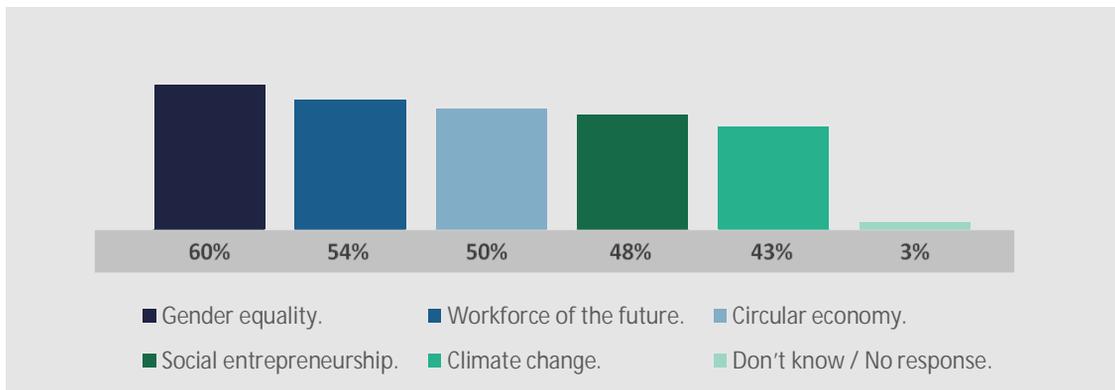
Does your company have a sustainability report?



Of the 45% of Latin American firms that said they have a sustainability strategy, a slightly smaller percentage (41%) indicated they generated a periodic report to measure results of their sustainability efforts.

Graphic 4

Which are the sustainability pillars that are most important to your organization?
Weighted ranking



The five priority topics on the sustainability agenda for the majority of companies surveyed in the region were: gender equality, the workforce of the future, circular economy, social entrepreneurship and climate change.

According to recent reports, the salary gap between men and women in Latin America may be as high as 22% for individuals performing the same job². In addition, the number of women serving in CEO positions or on boards of directors, on average, does not exceed 30% throughout the region³.

Before COVID-19, the International Labor Organization (ILO) predicted a decline in overall employment numbers throughout the region for 2020. However, the pandemic increased employability for highly skilled workers. This development gives executives a good reason to prioritize development of work forces for the future. Ensuring that a company has an optimally-trained workforce is critical for any strategic transformation initiative.

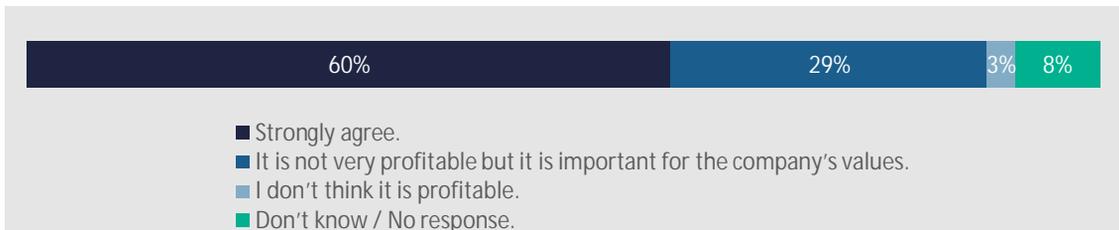
In addition, comparing the benefits of circular economies vis-à-vis linear economies has shown the business community that circular economies can produce clear and concrete returns on investment, savings and associated profits, as well as helping to improve corporate sustainability in a profitable way.

THE ROLE OF THE STAKEHOLDERS

Sustainability is no longer viewed as a stand-alone area or program. For many, it has become a way to focus on running a business, that is, an approach to business. The survey shows this concept cuts across all industries and executive positions.

Graphic 5

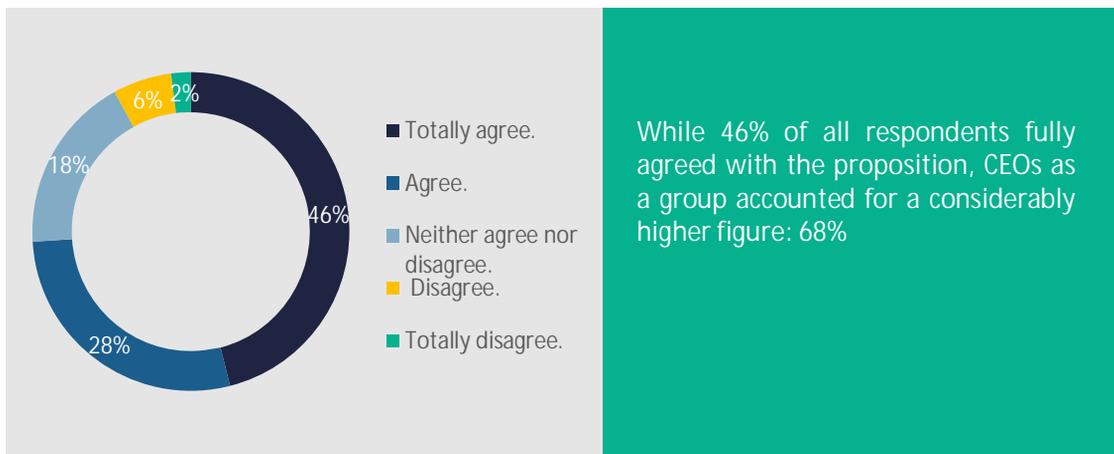
Do you believe that sustainability is profitable for your company?



Sixty percent of respondents asserted that sustainability is profitable. Twenty-nine percent indicated it is not very profitable but still is important in terms of corporate values. Undecided respondents represented only 8% and those saying that sustainability is not profitable accounted for an even lower figure, 3%.

Graphic 6

A sustainability strategy provides companies with a competitive advantage when customers choose their products or services. Do you agree?



The complete sample shows that 46% of CEOs and other high-level executives fully agree that a sustainability strategy provides companies with a competitive advantage, while 68% of CEOs as a separate group were in full agreement.

Graphic 7

How important do you believe that is for your customers that your company...

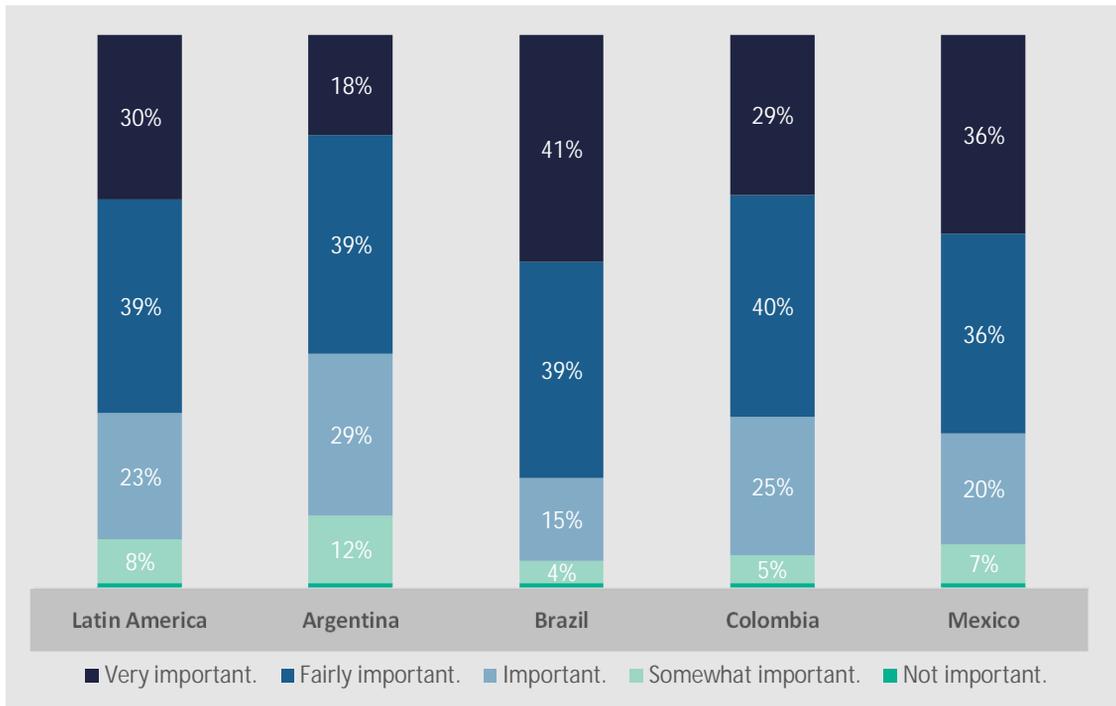


Forty-six percent of C-level executives agreed that sustainability practices matter to their customers, viewing sustainability as more important than financial soundness, being an industry leader or having strong compliance policies.

The value and importance of sustainability have also taken root in the financial world⁴. Currently, along with their financial audits, companies have started to include environmental or social sustainability agenda variables in making risk assessments and preparing final reports⁵.

Graphic 8

How important is your company's sustainability strategy for your employees?

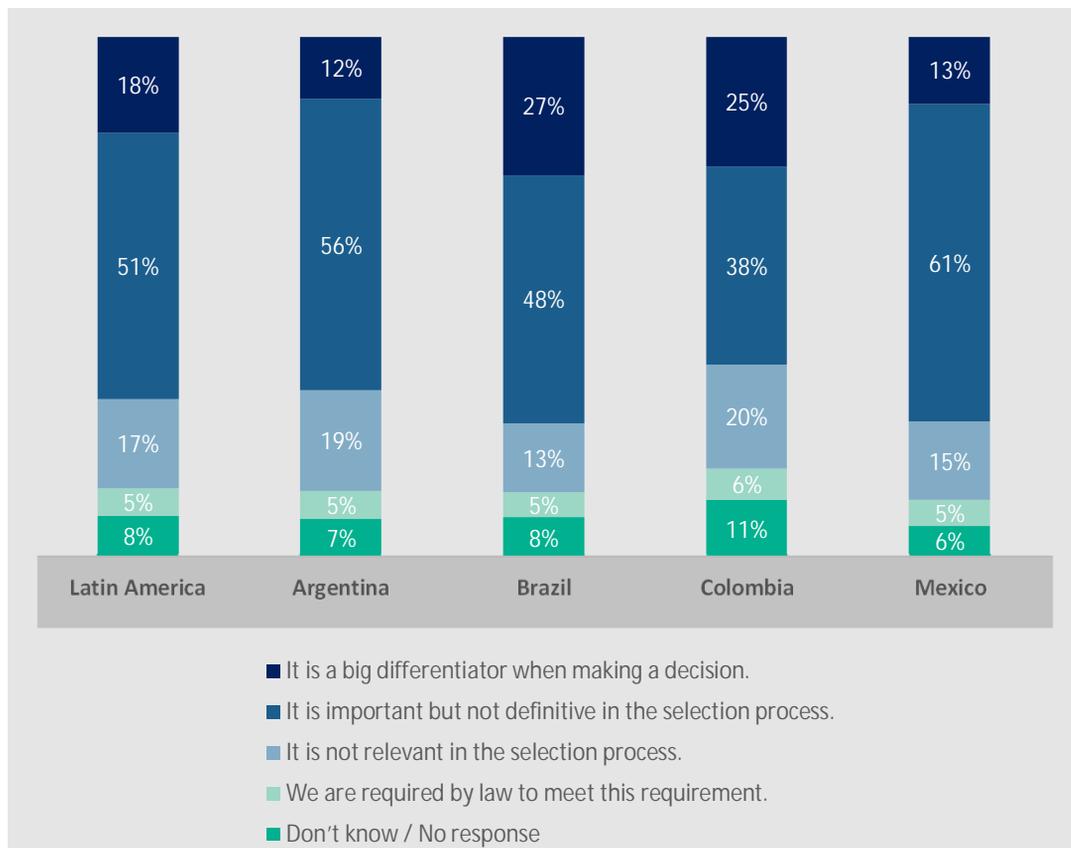


Sustainability clearly goes beyond customers. As the previous graphic demonstrates, employees also have a relevant voice in the sustainability conversation. And while the importance of sustainability for employees varies from country to country, a high percentage in all the samples rate it between "Fairly important" and "Very important." Brazil stands out, with 41% of executives viewing sustainability as "Very important" for their employees, exceeding the average for the region. Argentina sits at the lower end of the spectrum, with only 18% choosing the "Very important" category.

Executives' perceptions on this issue are correct and in line with future projections. According to data from The Millennial Impact Report, "millennials" - or members of Generation Y born between 1981 and 1996 - will make up 75% of the workforce by 2025. They strongly endorse sustainability issues, and 64% of respondents in a survey said that they would only work for companies that have sustainable practices⁶.

Graphic 9

To what extent does your company take into account the sustainability efforts of its suppliers?



As we can see, there is some progress. Nineteen percent of respondents said that sustainable practices are a major differentiator when it comes to choosing suppliers. However, for the majority of surveyed companies (51%), sustainability is not yet a decisive factor in supplier selection. Brazil and Colombia stand out with the highest percentages: 27% and 25% respectively. Argentina (12%) and Mexico (13%) are the lowest.

Sustainability actions have gained strength along the value chain since all stakeholders have been exerting healthy pressure on the need to implement concrete measures that positively impact communities and the environment. During the World Economic Forum (WEF) at Davos in 2020, the concept of making supply chains more sustainable was viewed as a great opportunity for change. A year later, at the 2021 edition of the WEF, a new report said that eight major supply chains are responsible for more than 50% of global carbon dioxide emissions, and that their total de-carbonization would only add between 1% and 4% to final consumer costs⁷.

SUSTAINABILITY, INVESTMENTS AND TECHNOLOGY

While Latin American companies have made progress in implementing sustainable strategies, there are still a vast number of opportunities ahead that must be developed to truly establish sustainability as a practice.

When asked which department in their companies leads the sustainability strategy, 11% of participating executives indicated they have a sustainability department, which represents significant progress.

Graphic 10

Which area in your company manages the cost center for sustainability initiatives?

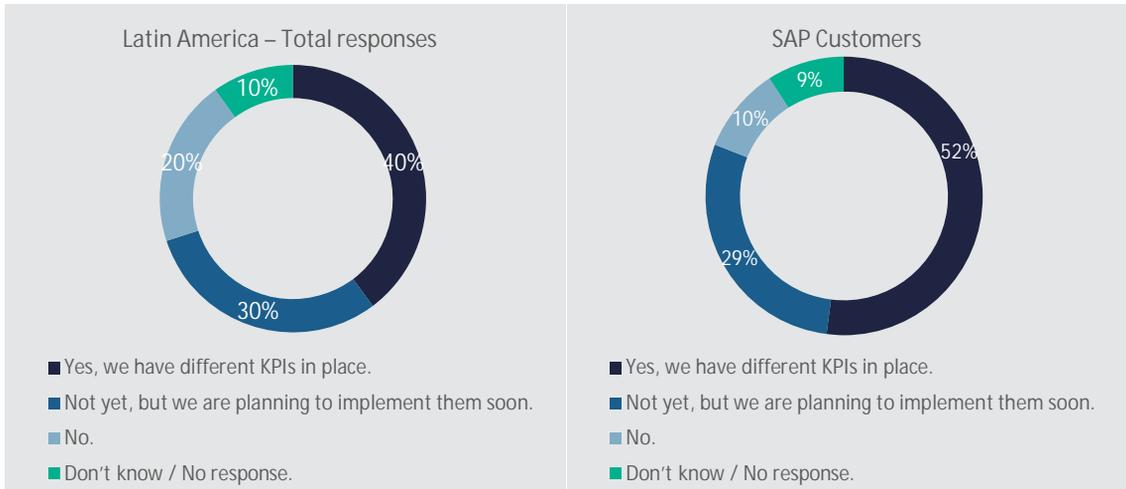


Still, 26% of companies lead sustainability efforts from their Corporate Social Responsibility (CSR) area, followed by Finance (16%) and the CEO's office (12%). The fact that two key offices together represent 28% of sustainability cost management reflects the priority senior executives are assigning this issue, placing it under their control.

The high number of responses under "Other areas" (35%) also indicates that many companies still have not assigned their sustainability initiatives to a specific department.

Graphic 11

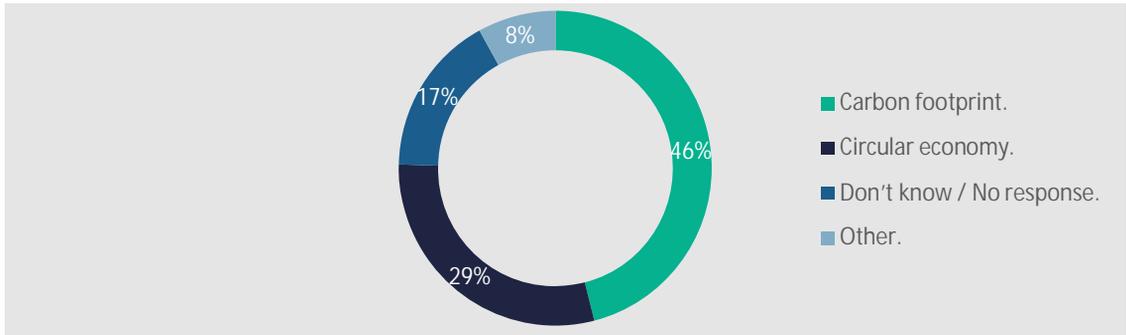
Does your company have KPIs to measure its sustainability efforts?



Forty percent of all companies surveyed stated they have KPIs in place to measure their sustainability efforts. The study was able to identify which of those companies are SAP customers. Within the SAP group, 52% reported having KPIs in place.

Graphic 12

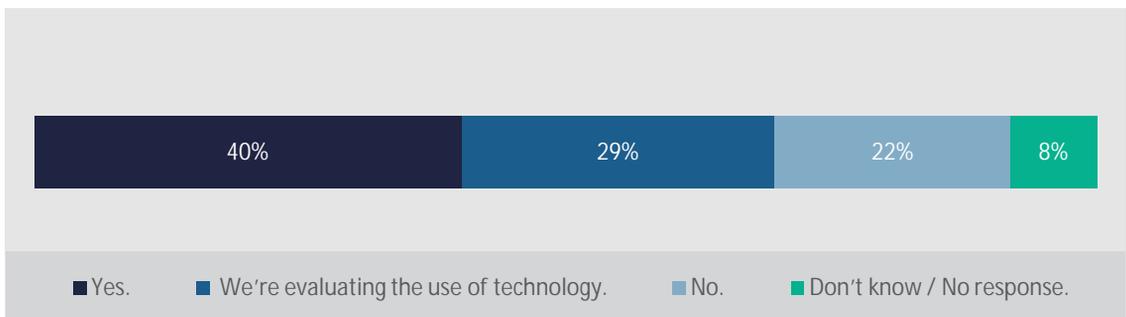
The KPIs to measure sustainability are focused on...



The main KPIs for measuring sustainability efforts refer to the company's carbon footprint and the circular economy.

Graphic 13

Does your organization use technology solutions to drive its sustainability strategy?



Technology is key to managing KPIs, as indicated by 40% of respondents. These firms have IT solutions in place to help them carry out their sustainable strategies.

Graphic 14

Over the next several months, regarding your plans to invest in sustainability strategies, your company...



Despite the economic impact of the pandemic, investing in sustainability remains a key consideration. In the survey of C-level executives carried out in late October and mid-November 2020 for this report, 24% of companies in the region said they plan to increase their investments in sustainability in 2021, while 28% plan to keep the same level of investment as in 2020. However, the degree of uncertainty is high: 28% did not respond, and 20% replied that their investment in sustainability efforts will be lower or none.

OUTLOOK

As sustainability policies continue to evolve, the agenda will be impacted by diverse elements. Indicators show that some actions are at their inception, and their development will require time and financial resources that are not always available. What does the future hold?



Specialization

As with any emerging topic, the process of building a specialized department to develop a sustainability strategy within a company will take time. The number of organizations that have a sustainability department is expected to increase in the near future, following past patterns set by the steady growth of divisions devoted to key areas like innovation, human resources and communications.



Standards and KPIs

KPI monitoring and the application of international benchmarks will be essential to make sustainability reports more accurate and relevant. Companies need to work together to advance sustainability along their value chains, improve their performance and hold themselves accountable for their business conduct. Technology will be a vital enabler in reporting progress and fine-tuning goals.



Value Chain and beyond

The path forward is clear: The number of regional companies adding sustainable strategies to their DNA is expanding, and value chains will evolve as these strategies are implemented. For supply chains, being sustainable will no longer be an option. It will be a business imperative if businesses in the chain are to compete in the corporate world. For most organizations, it will be business-as-usual to work with suppliers meeting the requirements of a sustainable agenda, thus accelerating the mainstreaming of sustainability.



Investments

Despite the effect of the pandemic - or perhaps because of it - some companies in the region have decided to maintain or increase their sustainability investments this year. In order to encourage others to follow, these investments and resources must yield tangible and effective results. Technology will be an essential driver to measure return on investment and the impact that a sustainability strategy may have on the business environment.



The Impact of Millennials

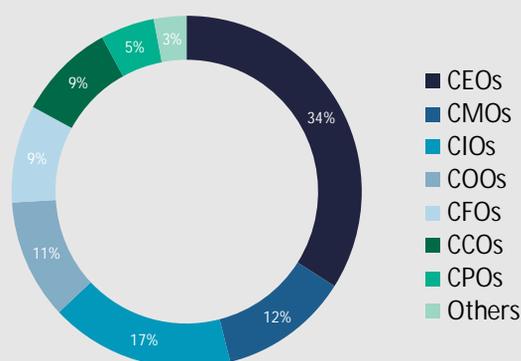
Individuals born between 1981 and 1996 are expected make up 75% of the workforce by 2025. To be successful in the future, companies should focus on the needs, preferences, and trends of this group. This generation sees great value in corporate efforts to pursue sustainability, and this will be a decisive criterion when buying a product, using a service, or looking for a job.

METHODOLOGY

The results of the study presented in this document are based on a survey carried out in late October and mid-November 2020 in Argentina, Brazil, Colombia, and Mexico. Interviews were conducted with 455 CEOs and other C-level executives from large and midsized companies.

Who are the participants of the study?

- The majority of executives interviewed are CEOs (34%) followed by CIOs (17%)
- We have segmented the sample into manufacturers (47%) and service providers (53%)
- Amongst manufacturers the following industries are represented: Oil & Gas, Mining, Pharma, Agriculture, Automotive, Construction and Consumer Goods
- Amongst service providers we find financial services, retail, healthcare, travel & leisure, telecommunications



EXTERNAL REFERENCES

1. The Dow Jones Sustainability™ World Index comprises the global leaders in sustainability as identified by Robeco-SAM. It represents the top 10% of the 2,500 largest companies in the S&P Global BMI based on long-term economic, environmental and social criteria. Source: [Dow Jones Sustainability Indices – Annual Review 2020 :: News :: ChemistryViews](#)
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4. PwC: Non-financial risks, a growing threat for banks (Los riesgos no financieros, una amenaza creciente para la banca 2018) Source: <https://ideas.pwc.es>
5. Source: Harvard Business Review: [A More Sustainable Supply Chain](#), by Verónica H. Villena and Dennis A. Gioia, May 2020
6. Source: The Millennial Impact Report: <http://www.themillennialimpact.com/>
7. Source: http://www3.weforum.org/docs/WEF_Net_Zero_Challenge_The_Supply_Chain_Opportunity_2021.pdf