

Cloud ERP solutions with advanced cash management, data analytics, inventory management, and reporting capabilities can improve an organization's sustainability and environmental, social, and governance initiatives — and outperform on-premises systems.

Cloud ERP Helps Organizations Meet Sustainability and ESG Goals

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Sustainability Drives Business Value

Businesses are increasingly focused on sustainability initiatives and environmental, social, and governance (ESG) issues. These two areas, sustainability and ESG, have become an important part of the total enterprise value of a company. Recent IDC research has shown a strong link between sustainable operations and an organization's value that has only grown stronger in recent years: 74% of surveyed groups reported that they considered ESG to be "very important" to the enterprise value of their organization in 2021, up from 48% in 2020. This indicates a growing trend of using nonfinancial performance measures like sustainability and ESG to determine organizational value and provide transformational impact on the business.

The integration of sustainability and ESG initiatives gives an organization a purpose-driven business strategy. In addition, employees can stand behind their own personal purpose and be part of the organizational change. By aligning an organization's purpose to employee values, an organization may also find that recruiting top talent becomes easier. Sustainability and ESG efforts also provide an opportunity for new revenue streams such as renewable power and reverse logistics programs.

Although most sectors stand to benefit from these initiatives, according to IDC's 2021 *Worldwide ESG Business Services Buyer Value Survey* of 1,000 respondents, the financial services, extractive and mineral processing, and transportation industries have some of the largest opportunities to profit. Senior-level respondents across these three industries, plus business and professional services, infrastructure, and government, noted that their sustainability and ESG goals are therefore scrutinized more often. Organizations in these industries have not only recognized the value sustainability and ESG initiatives have in terms of market share but they also recognize their ability to hold that value over time.

Sustainability and ESG also present huge opportunities for organizations to strengthen their operations and supply chains. In areas such as diversity spend, carbon emissions, corporate social responsibility, governance, risk, and compliance, organizations that may be exposed to vulnerabilities are not fulfilling their sustainability and ESG goals. Suppliers' performance and metrics on sustainability and ESG initiatives are vital parts of an organization's source selection, but in many cases, they are not tracked by the buying organization. This is a missed opportunity in value creation and realization for the buying organization and its operations, as well as for the supplier organizations and their

AT A GLANCE

KEY STAT

According to IDC:

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overall goals and objectives. This missed opportunity is one of the simplest and easiest to remedy. The buying organization can implement key performance indicators (KPIs) with its supply base to focus on sustainability and ESG and capture the information in their technology systems. In fact, IDC's 2022 *Global Sustainable Strategies and Technologies Survey* finds that software providers are considered an important implementation partner in advancing the organization's sustainability journey.

IDC finds finance, operations, procurement, and other business functions are collaborating to focus on sustainability and ESG initiatives such as:

- » **Reducing carbon emissions.** Organizations are putting a stake in the ground, so to speak, to ensure the baseline is understood, with plans to move forward and make further reductions over time.
- » **Reviewing water usage within facilities.** This includes measuring the consumption of water throughout a facility, including waste removal, manufacturing, and the use of pumped-in water. Some organizations are taking this review even further by considering the collection and reuse of natural water (rain, snow), installing basic and water-efficient technologies, and using efficient landscaping techniques and practices.
- » **Integrating financial, sustainability, and diversity and inclusion (D&I) reporting.** Tracking and reporting on KPIs that monitor carbon footprint, ethical sourcing, and diversity and inclusion are significant to real-time data tracking. Organizations need a holistic view of the data so there is a single version of the truth.
- » **Partnering with sustainable suppliers.** Many organizations work closely with their suppliers on common goals, from purchase product functionality to sustainable manufacturing to improved packaging, bringing more collaboration and performance criteria to their supply base, as well as to their own KPIs.
- » **Reducing overall waste.** Manufacturers are working hard to reduce the waste created by their facilities including improving scrap rates, recycling scrap, and becoming more efficient in their use of water, electricity, and fuels.
- » **Introducing smart facility programs.** The addition of smart hand towel holders, soap dispensers, air conditioning/heating sensors by area and rooms, and even recycling and real garbage containers is keeping organizations focused on sustainability overall.
- » **Minimizing environmental impact.** By efficiently managing the repair, recycling, and retirement of materials and products, often called reverse logistics, organizations are creating more value in the circular economy.

Sustainability can help organizations generate efficiencies, have a positive impact on people and the environment, and achieve positive financial returns. But leaders must be ready to reevaluate the entire structure of their business — people, process and, most importantly, technology — as they move forward to become more environmentally friendly.

Cloud Technology and Sustainable Buying Decisions

Organizations are increasingly making technology spending decisions based on sustainability-driven business goals. This trend affects buying decisions in different ways: Depending on the technology, decision makers might consider the sustainability of the technology itself (e.g., the carbon footprint) or its sustainability-related functionality (the ability to help buyers tackle sustainability issues) — or both.

Switching to a cloud software provider that runs its IT infrastructure in more sustainable ways than its competitors can help end users indirectly improve their own carbon footprint. Cloud infrastructure is more energy efficient than on-premises systems and reduces carbon emissions. Since organizations need to roll up their sustainability and ESG initiatives and their KPIs across the organization as a whole, including operations, manufacturing, and their supply base, the movement from on-premises to cloud technology can also impact overall initiatives and goals. Organizations that do not consider sustainability and ESG goals within their technology buying decisions are ignoring societal and employee values, as well as the overall business value that can be achieved.

Sustainable Benefits Achieved with Cloud ERP

IDC predicts by 2024, 45% of organizations worldwide will consider sustainability considerations to be "very important" for their technology buying decisions. Technology solutions will be able to solve more complex sustainability issues and have functionalities that help address material ESG topics.

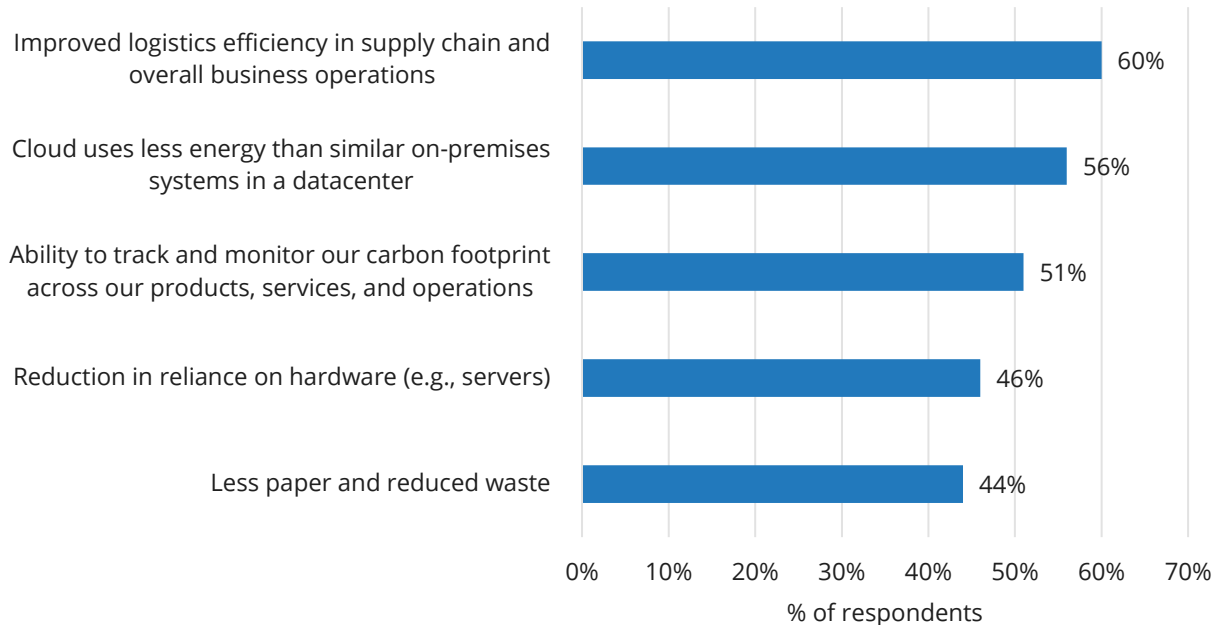
Organizations that are reporting on their sustainability and ESG initiatives are developing frameworks within their technology to bring more visibility to their efforts. In addition, organizational KPIs are helping to support more reporting capabilities within their operational systems like ERP, human capital management (HCM), and procurement and supply chain management. In addition, technology buyers are becoming more deliberate about their technology spending, seeking solutions that can not only help solve business issues but can address sustainability issues as well.

In a recent study of Oracle customers conducted by IDC, 60% of organizations cited sustainability and perspectives on climate change as a major factor in the deployment of cloud ERP solutions. This finding was consistent across regions, with 60% of organizations in North America, 62% in EMEA, and 55% in APAC identifying sustainability and climate change as major factors for deploying cloud ERP.

The IDC study identified the biggest impacts of cloud ERP solutions, as depicted in Figure 1.

FIGURE 1: **Biggest Impacts of Cloud ERP on Sustainability Efforts**

Q What was/will be the impact of cloud ERP on your organization's path toward sustainability?



n = 1,514

Source: IDC, 2022

The benefits respondents cited in the survey are now part of the overall benefits that most sustainable organizations are coming to expect when they select an ERP system. In fact, many of these benefits are also the reason organizations are now moving to cloud ERP systems.

Changing Regulations Require Cloud and Innovation

Selecting platforms that are more sustainable, eco-friendly, and energy efficient is becoming a major factor for technology decisions for millennials and Generation Z. IDC's 2021 *Worldwide ESG Business Services Buyer Value Survey* finds that members of these two generations are the most focused on spending with organizations that are socially and environmentally sustainable.

New regulatory requirements are coming forward from the United Nations Sustainable Development Goals as well as from countries around the world that call for increasing standards for sustainable organizations and governments. There is a general increase in standards boards for sustainability, and IDC expects this trend to continue.

As sustainability issues continue to gain prominence, organizations increasingly recognize the need to select vendors with cloud products when they evaluate their technology solutions. Organizations select cloud products with sustainability and ESG goals in mind; as such, vendors focused on continuous innovation can provide ongoing support of sustainability goals with their product updates. From a cloud ERP perspective, continuous innovation helps organizations manage, understand, and monitor sustainability and ESG practices over time.

Considering Oracle

Oracle is working toward the United Nations Sustainable Development Goals, including Responsible Consumption and Production, Affordable and Clean Energy, and Climate Action. Oracle recognizes that sustainability is good business. And Oracle is also focused on clean cloud, such that Oracle already operates an energy-efficient and circular cloud. As a next step, the company has set a goal to achieve 100% renewable energy use at all of its next-generation Oracle Cloud datacenters by 2025.

Challenges with Cloud ERP and Sustainability

Sustainability goals are just starting to bubble to the surface for organizations globally, such that the opportunities are still being uncovered regarding reducing carbon footprint, waste generation, water usage, and energy consumption. But organizations must be willing to reevaluate the bigger picture of their overall goals and start to make the necessary trade-off decisions for a better environment.

One of the main challenges is that organizations must be willing to step back and understand that their decision on an ERP solution deployment model has multiple aspects to it. Many sustainability goals can be met if their ERP is moved to the public cloud.

It is also important to note that some organizations have invested heavily in their on-premises ERP systems, slowing down the movement to cloud ERP. Non-investment into cloud ERP will only slow down the business in a digital world where innovation is key; continued reliance on cumbersome, complex, and antiquated business processes in legacy systems is a recipe for disaster. As organizations start to understand that movement to cloud ERP is required in the digital economy, the legacy stances begin to fall away.

Cloud ERP: An Operational Leap to the Future

Organizations moving into the digital world are making the leap with cloud ERP. Cloud ERP is enabling organizations to derive more value by providing real-time decision making, advanced analytics, anytime/anywhere access, clear and concise insights into operations and decisions, and reporting capabilities that include ESG and sustainability metrics.

"Oracle Cloud ERP provides us the ability to show less datacenter usage, while allowing [departments] to report better energy usage."

— Head of finance at a financial services organization

About the Analyst



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Mickey North Rizza is group vice president for IDC's Enterprise Software and leads a team of analysts covering Enterprise Applications & Strategies, Financial Applications, Employee Experience, EAM and Smart Facilities, HCM, Talent Management, and Digital Commerce research practices. This team of analysts is responsible for IDC's coverage of the next generation of enterprise applications including ERP, financial applications, human capital management, employee experience, talent acquisitions and strategies, procurement, supply chain automation, enterprise asset management and smart facilities, professional services automation, and related project-based solutions software and the digital commerce business applications and network.

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