



## COMMENT

From **Markus-Alexander Kötzle**, IBIS Prof. Thome

# Greenwashing keeps you dirty

*Dr. Markus-Alexander Kötzle is risk & compliance manager and development manager for ESG analyses at IBIS Prof. Thome AG. In sustainability reporting, he sees the challenges for companies primarily in the quality of their data.*

„Tu Gutes und rede darüber“ (literally translated: „Do good and talk about it“) – the title of the work published by Georg-Volkmar Zedtwitz-Arnim – is often associated with the sustainability reports published by companies.

**D**oes this mean that only good things should be talked about and bad things should be hidden? Is „good“ actually good and how should it be talked about at all? Is what is good for me also good for someone else? And with who do I actually talk about it?

Such questions, a lack of standards, insufficient legal requirements, changing consumer needs and peer pressure provide explanatory approaches, which is why the topic of „sustainability“ is sometimes approached in a rather fluffy manner and tempts companies – consciously or unconsciously – to engage in „greenwashing“. However, close to the Potemkin village and far from being resilient, it can be assumed that such sustainability reports are at the end of the line and greenwashing is no longer an option.

Starting from the 2024 financial year, the European Commission envisions a gradual expansion of corporate obligations to report on the handling of sustainability in the annual financial statements (criteria: > 250 employees or total balance sheet total > € 20 million or sales > € 40 million or capital market orientation). A large number of companies will be affected by the reporting requirement for the first time. These companies will have to determine and publish non-financial key figures in order to create transparency and thus also enable comparability with other companies. This sustainability initiative by law should lead to the sustainability report also becoming more sustainable or its paper finally worth by applying an international standard. In

addition, the contents of the report – analogous to the annual financial statements – must then be certified by external auditors.

### Everyone talks about sustainability...

... but do they all really mean the same thing? The terminological definition of a long-term effect or the principle that the consumption of resources must be lower than the respective regeneration possibility, which is also represented by common dictionaries, is undisputed.

Corporate Social Responsibility (CSR) is concerned with embedding sustainability in corporate actions and values in order to ensure corporate responsibility for society. Although these efforts tend to be ideological and qualitative in nature, the ESG approach is suitable for the actual analysis of sustainability, because it takes the view along the dimensions of environmental, social and governance in order to make non-financial indicators quantitatively tangible (in the sense of measurable, controllable and comparable) while taking standards into account. However, mistakes in dealing with sustainability then very well have a financial impact (not least, it is also about the reputation of the company). The treatment in risk management also absolutely requires the (monetary) quantification of ESG risks.

### For risks and side effects

The collection, analysis and preparation of data is challenging, because the values determined must then also be valid and reliable in order to meet the required diligence of a prudent and conscientious manager (consider also the keyword „adequate information“ in the sense of the Business Judgement Rule according to Section 93 AktG (German Stock Corporation Act)). The legislator sees the burden of proof for this



on the manager (Section 93 (2) Sentence 2 AktG): If, for example, a company was to be granted better interest conditions – due to a positive ESG rating – and it subsequently emerged that the information used to determine the key figures was incorrect (i.e. „non-adequate“), this could result in personal liability risks for the managing director. Finally, the „matter for the boss“ can also be manifested in terms of compliance requirements, because the diligence of a prudent and conscientious business manager also requires that regulatory obligations (e.g. on ESG reporting) be met.

Consequently, a central challenge is to identify data relevant for ESG reporting (or, if necessary, to collect it systematically in the first place) and to prepare it for the determination of key figures. Breaking down silos is not an unknown problem (at least not in the cross-sectional disciplines of risk management, knowledge management, marketing, etc.).

Manually created documents can hardly provide reliable support for the preparation of meaningful and transparent sustainability reports, because in addition to handling a large number of different data sources, geolocational or temporal (partial) aggregations are also required to determine key figures (e.g. „How many tons of waste are generated in your operations per year and what is the composition of the waste?“ (cf. GRI Disclosure 306-3) or „How many tons of CO<sub>2</sub> does your company consume through business travel by vehicle type/travel country?“ (cf. GHG Protocol Category 6: Business Travel)). Although tools for calculating emissions are also provided for practical implementation (e.g. <https://ghgprotocol.org/calculation-tools>), their actual use in practice – due to the manual processing activities that have to be carried out on a regular basis – is subjective, time-consuming, slow, error-prone, and thus risky and expensive.

In order to be able to determine reliable ESG key figures (in the sense of „adequate information“), a business analysis of relevant data sources is required. These include the logistics processes in an ERP system. Ultimately, however, this also presupposes that the data required to determine the key figures is available in the system.

### Sustainability report at the push of a button

While greenwashing approaches correspond to a „sustainable at the push of a button“, the charming idea is to actually be able to produce resilient sustainability reports (at least as far as possible) at the push of a button.

A promising approach is the retrograde analysis of enterprise resource planning systems using rule-based test steps. This makes it possible to identify key areas of use and deficits that are reflected in master data, functions, and business processes.

Companies can make use of this method for sustainability reporting by enriching the ERP system with ESG data and analyzing it in a rule-based manner with regard to defined ESG requirements. The rules are based on recognized standards (e.g. the regulations of the European Commission, which will be mandatory in the future; the requirements of the International Sustainability Standards Board (ISSB), indicators of the Global Reporting Initiative (GRI), etc.) and show on the basis of the system data how the company is positioned with regard to the respective requirements. At the same time, such a usage analysis transparently reveals whether the data required for the analysis is actually maintained in the system or which data still needs to be maintained in order to determine meaningful sustainability indicators based on it. The advantage for companies is obvious, because instead of subjective surveys, the higher data quality creates reliable facts that allow valid decisions to be made: Based on the meaningful ESG key figures determined, measures can then be defined to help improve the current sustainability situation. By regularly repeating such an analysis, changes can be detected over time.

It is conceivable that this procedure will also be used in auditing, with the auditor carrying out a retrograde analysis to determine sustainability indicators and comparing these with the indicators determined by the company. This creates a reliable basis for the audit certificate along the respective standard, which relieves the auditor (also in terms of effort reduction; think of the massive increase in the number of companies subject to reporting requirements). At the same time, however, the standardized process also reduces the amount of work that would have to be done by companies if data had to be procured and prepared manually. In this way, the EU regulatory mania felt by some can certainly help to move companies toward becoming more sustainable, because it will probably not be possible to get around the requirements in the long term.

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# Who knows, nothing must believe!

Marie von Ebner-Eschenbach

