

Short-Term Impacts of Climate Measures Are Vital, Schneider Says: BNEF Q&A

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The slew of companies pledging to reach net-zero emissions in 30 years is an important development, but these headlines should not detract from the importance of achieving more of an immediate impact, which means in the next 36 months, according to Schneider Electric.

“A pledge to be carbon neutral by 2050 is great, but the important question is what your roadmap is to deliver results and impact in the next three years, said Olivier Blum, chief strategy and sustainability officer at Schneider Electric. “The climate problem is now, it’s not in thirty years.”

Schneider Electric was among companies early to adopt emissions targets and to innovate in emissions reductions, and that now see regulators catching up with their early ideas. “Now it’s more and more a question of compliance as regulation catches up, but nothing prevents you from continuing to invest for the future,” Blum said.

Evaluations are now much more stringent compared with what could sometimes devolve into a public relations exercise with variable results. Scrutiny from investors has also intensified, Blum said. Meeting ever more demanding ESG criteria is now less of an option and more of a requirement. “In the past few years it has moved from a tick-box exercise to a very deep exercise, Blum said. “I am involved with investors who have questions, and we are facing very serious, very professional people. These investors are very qualified and will challenge your strategy.”

Schneider is also engaging with its suppliers and clients to help them reduce emissions. The company has a program to work with 1,000 of its largest suppliers to reduce their carbon emissions, cutting the

most intense emissions by 50% in five years. Last year it created a platform for Walmart suppliers, for example, which allows smaller companies to join forces to access power purchase agreements they would be too small to secure otherwise.



Olivier Blum, chief strategy and sustainability officer at Schneider Electric. (Source: Schneider Electric)

At the same time, companies in Schneider’s and other companies’ supply chain have become more open to acting on emissions. “The topic of CO2 is very important for suppliers. When you build a platform to help them reduce emissions, 90% of them raise their hands and want to participate.”

The following interview has been edited for sense and concision.

Q:

How does sustainability feed into strategy at Schneider Electric?

A:

If you look at the evolution of the company over the past 10 or so years, corporate social responsibility has always been very central for the company, because more than CSR, sustainability was a way of becoming more progressive. It goes beyond business, to help with always pushing the limit on how you engage your employees, how you can become more inclusive, how you can do a better job for the environment, how you look after the ecosystem. If you look at sustainable development, what we call ESG today, we measure our performance and we reward our leaders on this, it's being discussed by the board. It all seems quite obvious today because everyone is doing it, but Schneider has been doing this for 15 years.

Secondly, our mission is to be the digital partner of our customers for efficiency and sustainability. We have been focussed on energy management and industrial automation, basically with one objective, helping people make more of energy and resources, allowing them to be more efficient, more renewable and have a better impact on everything that is related to climate.

One year ago we decided to put everything under one roof at the Executive Committee level, because when you lead strategy and business initiatives around sustainability, they are very much connected to your ESG agenda. So, when it comes to sustainability, compared to many companies, we are not just trying to be a role model in the way we lead our own operations, we are also part of the solution around climate for many of our customers.

Q:

Schneider Electric reinforced its oversight of strategy and sustainability a year ago. You sit at this juncture. How is that going and how do you balance business and sustainability interests? What are the issues that keep you awake?

A:

For me there is no conflict. You might ask, considering Schneider is selling sustainability as part of its business, are they really serious on the ESG side

themselves or are they more interested in this as a business? But we are actually serious on the ESG side and this is why we have some awards in this field, such as being ranked the World's Most Sustainable Company by Corporate Knights in 2021. We are a role model of sorts, and we have credibility from working on this for 15 years.

When you look at the market, investors, customers, all large companies, have the climate and sustainability agenda on the table now, so you have to actually also be part of the solution with innovation and services that support others' sustainable transformation, which is what we do through our climate advisory services and EcoStruxure solutions, for example. I was in charge of human resources for Schneider for five years, and we did many surveys of people who had worked with us for less than one year to more than five, asking why they stayed at Schneider. And the answer was always sustainability.

For us, sustainability is like a company program, it is how you are progressive, how you are innovative, how you stretch your company to the next level of innovation.

We say sustainability is like a marathon, but with no finishing line. We continue to challenge ourselves, to be innovative, and ask how we have impact. Indeed, a pledge to be carbon neutral by 2050 is great, but the important question is what your roadmap is to deliver results and impact in the next three years. The climate problem is now, it's not in thirty years.

One sub-dimension, which is really important, is how I keep a balance between a global and local impact. Take diversity and inclusion, for example, the gender topic is a universal one. Yet the topic of ethnic diversity in the U.S. is very different to Europe or Asia. So you need also to have a very strong local dimension. And when you are a global company you tend to be too global. That keeps me awake at night.

Q:

Does it take 15 years to get where you are – or are there shortcuts?

A:

I don't know if it takes 15 years, but it takes some time. I'm not saying that other companies can't do the same, and I say this with a lot of humility, but if there's one thing that is very difficult to copy in business it is culture. You can copy product, you can copy the business model, you can copy a lot of things, but you cannot copy culture.

Creating a culture where your leadership, starting from the top down through all the levels, are passionate about doing the right thing, which is basically what you do in sustainability, is very important. You have to assemble a group of people that truly believe that you don't do that for your investors, you don't do that just to look good in your financial report, you do that because that is embedded in your DNA. It is that cultural dimension that is so often underestimated in ESG discussions, that for me is the foundation of everything that you can do to take the company to the next level.

The company needs to count on everyone. In a new program, we have decided to have a focus on decarbonizing our Scope-3 upstream, that is our supply chain. We have launched a massive program to create an ecosystem with our top 1,000 suppliers. I can only do that if my colleague who's running supply chain believes in it and invests in it. I'm not going to give him any budget for that. He's going to partner with me and put some of his operational budget into this. That is in our cultural dimension, and it's very hard to get there.

Q:

Turning to Schneider Electric's long-term sustainability goals. How do you measure success here? For example, you are aiming for 80% green revenue by 2025. But what is green revenue?

A:

Green revenue comes from everything that can make the planet greener, more sustainable, and that can help us meet goals of the Paris Agreement, basically. We have been working over two years to develop our own methodology, but we have been inspired by the work done in Europe, on the EU Taxonomy, which is still work in progress. So we tried to ensure that what

we were building is not too far from what was being done in Europe. We don't know the final definitions of the EU Taxonomy, but we hope they will be very close to ours.

Green revenue is generated from all the technologies that you can develop to improve energy efficiency and reduce CO2 emissions. When you look at the entire scope of Schneider Electric, some 72% of the company's revenue is green today – which includes everything that has a positive impact on the environment, efficiency, decarbonization, circularity, and so on. The EU taxonomy will be implemented next year, so when we have the final definition, we might have to make a re-statement. But more or less it is in line with what we have seen on this topic.

Q:

Another of your goals is for CO2 emissions avoided. But how do you do the accounting on that? We don't have a framework for this yet. Isn't that a problem?

A:

We started ten years ago with Scope-1 and 2 emissions, and in the past six or seven years we moved on to Scope 3. Accuracy seven or eight years ago was lower, but everything today is externally audited and you have some assumptions that are public. Once you have defined your carbon footprint, you can define your ambition for decarbonization that is in line with the 1.5 degree commitment. All of that has to be aligned with measures recommended by TCFD. So yes, it is not completely perfect, but the level of accuracy now compared with five years ago is maybe 75% higher. There is a lot less room for creativity now.

Q:

Investors are working on physical and transition risk, on ESG criteria, and they are trying to understand how best to measure all this. But there is still a lack of data for a lot of decisions. Is Schneider Electric struggling with this as well?

A:

Let's take an example. Scope 1 and 2 are fairly

regulated and clear. Scope 3 is getting better on the upstream side, with the suppliers. But let's look at what you can do downstream, with your customers. What can be measured today is emissions that are saved. You have an existing building, let's say, and you install Schneider Electric technology. How much energy efficiency do you add, and so how much CO2 emissions do you save? That is measurable.

Then you have avoided emissions. You are going to build something new tomorrow in a certain way. Now if you adopt some changes in the design of your building and with new software, you can avoid a huge amount of emissions. That's what people are starting to call Scope 4 emissions. This is not standardized. There are two things you can do, wait until the rules catch up, or you take your own assumptions, which are not perfect, and then when in a few years someone comes up with Scope 4, there we will be.

But when I say we like to be progressive, that is what we do – once the regulations come along you adapt. There is a lot of work on reporting, non-financial reporting. Fifteen years ago there was nothing like that and we started doing our own reports. Now it's more and more a question of compliance as regulation catches up, but nothing prevents you from continuing to invest for the future.

Q:
What are the challenges you face with your company's vast supply chain?

A:
When we started 15 years ago the topic was more around human rights. And we started to build an ecosystem of suppliers, because we wanted to check they complied with human rights. So we started to build that culture of working with an ecosystem of suppliers. Over the years, the question of climate change has become more important for those companies too, because they also have to declare their own Scope 1 and 2, and they have to comply with reporting rules.

At Schneider Electric, we have gone to suppliers we have been working with for years, and explained we

are going to build a program, we want to reduce our upstream emissions, and create an ecosystem to help them measure their energy and their efficiency and have access to all the solutions we can offer to our customers. Last year, with Walmart we created an ecosystem of suppliers for Walmart, giving them access to a platform where they can join forces for PPAs, for example. They are all very small and it would be very hard for them to do this individually. The topic of CO2 is very important for these suppliers. When you build a platform to help them reduce emissions 90% of them raise their hands and want to participate.

Q:
So you are offering sustainability services to your supply chain and your customers' supply chains.

A:
We have launched recently our Supply Chain Decarbonization Service for our customers and we have a commitment to reduce by half the CO2 emissions of our own most intensive suppliers. We had a big online event to launch this. As we speak, our suppliers are answering questions, then they will be asked for their emissions baseline, and we support those that need help. This is a five-year project to get to the 50% reduction. This will really be the year for getting everyone going. Some of the companies are large, but 80% of them are at the next level, so we will be working with them, and will start having an impact from the end of the year.

It is exciting because it is central for the boards, suppliers, customers, everyone. Five or ten years ago you had to push everyone, but now the doors are open.

Q:
Are carbon offsets an element in your toolbox for achieving your targets?

A:
We try to avoid them. We have set a target to be carbon neutral by 2025 in our own operations, and net zero by 2030. They are in our toolbox, but we would like to minimize their use. And we don't have a big

need – our CO2 emissions in Scope 1 and 2 are not big, so we can handle those. We may use them to become carbon neutral by 2025, but the objective is to do this without offsets. So it's more a tool for customers.

Q:

To what extent do investors and markets really care about sustainability? What is your experience?

A:

In the past few years it has moved from a tick-box exercise to a very deep exercise. In my job I am involved with investors who have questions, and we are facing very serious, very professional people. These investors are very qualified and will challenge your strategy. We have seen the level of attention go up. Now you have to explain the details. It's not 100%, but we have very competent people in front of us.

In the world of yesterday, there was little attention on this, and it was good to bring new ideas to differentiate yourself. But now with all this reporting, it is becoming more about compliance, which is great. It is also about ethics, and it's important to keep innovating.

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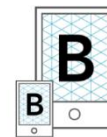
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