Schneider Electric calls on companies to view sustainability as a strategic imperative, not a compliance issue

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Introduction

Schneider Electric is a multinational energy company based in France, employing more than 130,000 people in 100 countries. Its purpose is "to empower all to make the most of our energy and resources, bridging progress and sustainability for all". The company sees electricity as the best and most efficient vector for decarbonization, when combined with a circular economy approach. It views the digitalization of energy technologies as the key to driving sustainability and efficiency.

The company has been issuing disclosures on sustainability for the past 15 years and has developed its own set of company-specific metrics, centred on the externally assured Schneider Sustainability Impact (SSI) scorecard. The SSI comprises six long-term commitments: Climate, Resources, Trust, Equal, Generations and Local. Between them, these commitments feature 12 five-year targets, towards which the company reports its progress every quarter.

Within this context, the company sees the Forum's Stakeholder Capitalism Metrics as an "extremely valuable" contribution to the debate on the need to drive convergence between existing ESG standard-setters towards a common global standard.

For this case study, we interviewed Frédéric Pinglot, Group Sustainability Performance Director.

> **The Stakeholder Capitalism Metrics have made an extremely valuable contribution to the debate at a time when ESG became mainstream and many stakeholders realized both the value of sustainability but also the lack of common ground, comparability or baseline for reporting.**
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> Frédéric Pinglot, Group Sustainability Performance Director, Schneider Electric

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Key takeaways

- To achieve its commitment to reduce Scope 3 emissions by 25% by 2030 (vs. 2021), Schneider Electric has asked its thousand heaviest-emitting suppliers to cut the carbon intensity of their own operations in half by 2025.

- At programme launch, two-thirds of the company's suppliers could not report their carbon footprint, but are now benefiting from Schneider's expertise in calculating emissions and developing strategies to track and reduce them. In that way, the company's suppliers also become customers, thereby strengthening partnerships within the supply chain.

- While Schneider has targets for diversity and inclusion based on gender, (dis)ability and age, it is illegal in France to gather data on ethnicity. So the company has had to find local solutions to address ethnic diversity, which vary by country.

- In 2020, the company was the first to publish its end-to-end biodiversity footprint using the "global biodiversity score" tool developed by CDC Biodiversité. The Forum's metric on land use and ecological sensitivity contributed to Schneider's new approach to biodiversity, as it adapted its reporting and asked all sites to set specific biodiversity action plans.

- Schneider's main advice for peers starting their ESG reporting journey is this: sustainability is not about reporting or compliance or philanthropy. It is a strategic issue you need to address to make your company resilient and enable it to thrive in the market of the future.

- The company believes the Forum's metrics have made a strong contribution to the ESG debate at a time when convergence of different regulators and standard-setters around a common global standard is vitally important.

- While Schneider shares the EU's vision of "double materiality", the company is concerned that the draft EU sustainability standards are too complicated and will result in companies spending more time writing compliance reports than striving to make the planet a better place.

Rationale for reporting: ensure Schneider and its suppliers are on track to deliver the goals of the Paris Agreement

Schneider Electric's 12 five-year targets under its SSI programme include social metrics – such as diversity and inclusion, impact on local communities, and encouraging suppliers to provide decent work to employees – as well as environmental metrics relating to packaging and emissions.

The company has ambitious targets to reduce its greenhouse gas emissions, which are aligned with the new net-zero standard of the SBTi. On Scopes 1 and 2, it aims to achieve net zero as a group by 2030, through cutting its emissions by 90% (compared to 2017 levels) and offsetting the remaining 10% through high-integrity carbon offsets provided by the Livelihoods Carbon Fund.

With regard to Scope 3 emissions, Schneider Electric has committed to reducing its supply-chain emissions by 25% by 2030 (compared to 2021 levels). To achieve this, the company has given its suppliers an ambitious target of reducing their own carbon intensity by 50% by 2025. "The vast majority of our industrial emissions are within our supply chain," says Pinglot, adding: "So for us to meet our external goals in relation to the Paris Agreement, it's absolutely critical to address the emissions of our suppliers."

For Pinglot, it's vital that not only Schneider Electric but also its suppliers are rigorous in tracking and reporting progress towards these goals. "As long as you don't measure, you can't manage," he says. Pinglot highlighted that Schneider has specific expertise to share with its value chain, in terms of calculating climate footprints, developing corporate strategies for a low-carbon transition, providing energy-efficient digital solutions such as smart metering, and tracking progress.

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> Frédéric Pinglot

Challenges with reporting ethnicity

Requests have been on the rise from investors and ratings agencies for ethnicity data on Schneider Electric's workforce. This is "especially because of social unrest in the US," says Pinglot. "But in France," he says, "it's against the constitution to discriminate among people based on their race or ethnicity." Although Schneider embraces a strategy to boost the representation of women, people with disabilities, and both younger and older employees, "to have a system where you identify whether a person is Black, Hispanic or white is unimaginable for a French company", according to Pinglot.

> **Within France, you're able to measure most indicators of diversity, such as disabilities, gender or age, but not race or ethnicity. The topic of ethnicity is one we need to manage locally because of the sensitivity around this in certain geographies.**
>
> Frédéric Pinglot

However, the first of the core Forum metrics under the People pillar is diversity and inclusion, which – based on a GRI metric – requires companies to report the "percentage of employees per employee category, by age group, gender and other indicators of diversity (e.g. ethnicity)". Given the high expectations regarding this type of metric, especially in the US, Schneider had to find ways to work around the ethnicity issue. Their approach has been to localize it and encourage country presidents to drive their own agendas on ethnic diversity and inclusion. So in the US, for example, the company reports against its specific commitments to increase hiring of Black professionals to 23%, while in Australia the company reports on its target to increase fivefold its supplier spend with Indigenous-owned companies.

Challenges with reporting biodiversity

In 2020, the company was the first to publish its end-to-end biodiversity footprint using the "global biodiversity score" tool developed by CDC Biodiversité. However, the company was still challenged by the Forum's core metric under the theme of nature loss (land use and ecological sensitivity), which requires companies to "report the number and area of sites owned, leased or managed in or adjacent to protected areas and/or key biodiversity areas". This data was not something that the company had measured historically. The Forum's metric helped prompt the company to rethink the topic of biodiversity, adapt its reporting and ask all sites to set specific biodiversity action plans.

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Solutions: Schneider's expert support to help suppliers decarbonize cuts Scope 3 emissions and builds partnerships

Schneider Electric's first step in decarbonizing its supply chain was to identify the top 1,000 carbon emitters among its 50,000-plus supplier companies. It then sent formal letters to all the selected companies, asking them to commit to Schneider's programme to halve the carbon intensity of their operations by 2025.

Schneider followed up the letters with a survey to assess the maturity of each supplier on its carbon journey. "It turned out that two-thirds of our suppliers did not even know their carbon footprint," says Pinglot. "That meant we first had to train the suppliers to measure their footprint and then to define a strategy and help find concrete solutions to reduce that footprint," he adds. Now, two years into the process, two-thirds of their suppliers have calculated their carbon footprint and one-third have set climate targets. "But it's still insufficient, so we are putting in a lot of effort to train them," says Pinglot.

The programme, known as the Zero Carbon Project, has attracted considerable interest from Schneider's investors. "They've been very passionate about it, because it's very ambitious," says Pinglot, adding: "The impact that Schneider is having is huge, because we are taking suppliers that didn't look at CO_2 on a journey to align with the Paris Agreement." Pinglot sees this process as creating a virtuous circle. Schneider is able to ask suppliers to make their own efforts, as well as help them because of its expertise on climate. As a result, the company is building partnerships with its supply-chain companies so that they become both suppliers and customers.

> **We don't just ask our suppliers to make their own efforts, we help them through our expertise on climate. This enables us to build partnerships with our supply-chain companies in which they are both suppliers and customers.**
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> Frédéric Pinglot

Impact, learning and advice

Pinglot has two top tips for peer companies and ESG reporting practitioners:

1. **Sustainability is strategic.** Don't make the mistake of thinking sustainability is just about reporting. "Companies are deploying sustainability programmes not for compliance but because it makes sense for the resilience of the

company." For example, if you don't take action on diversity, you will damage your consumer reputation, your attractiveness to talent and your capacity to innovate. "Sustainability is not about philanthropy, it's not about compliance, it's a strategic issue that you need to address if you want to be resilient and thrive in the market of the future."

2. **Take baby steps.** Don't try to build a huge, very ambitious programme right away. Develop measurable metrics specific to your company, because that will enable you to get people within the company on board.

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Added value of the Forum's Stakeholder Capitalism Metrics

In Pinglot's view, the Stakeholder Capitalism Metrics have made "an extremely valuable contribution to the debate at a time when ESG became mainstream and many stakeholders realized both the value of sustainability but also the lack of common ground". He is convinced the Forum's metrics have contributed to the process of aligning standard-setters, with the IFRS Foundation working on its global sustainability reporting standard and the EU updating its Corporate Sustainability Reporting Directive.

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However, Pinglot makes an urgent plea for all standard-setters to align around a common set of metrics. The minimum that the EU, the US SEC and the IFRS Foundation must do is to agree on the climate metrics that are common between them, including definitions of what should be reported and how, he says. "Otherwise, it's going to create duplication in reporting and divergence, not comparability." He adds: "What we want is a worldwide, large-scale adoption of this reporting, so that we can get the data from our suppliers, because they will know which standard to follow." Without such comparability, future consumers and employees will not be able to make decisions based on the sustainability of a company's products, services or operations.

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Schneider's vision is closest to the European one, says Pinglot. "We believe it's important to address sustainability through a double materiality lens, which means not only looking at the financial impacts for the company but also the impacts the company may have on people and ecosystems. Both of these pieces of information are critical in order to determine how sustainable a company is," he says.

While Schneider shares the double materiality vision of EFRAG – which embraces all environmental, social and governance topics together, and addresses all stakeholders in the value chain – Pinglot was concerned that the current draft EU sustainability standards are too complicated and ambitious. "One of the big risks I see, especially with what the EU has proposed, is that the expectations are so large that companies are just going to feel a huge burden, which is the worst that can happen to ESG. Companies will spend more time writing compliance reports than striving to make the planet a better place where people can live fulfilled lives."