

Schneider Electric: Linking Pay to ESG

Gaizka Ormazabal

The rapid spread of the COVID-19 pandemic was a source of anxiety not only for the risk it posed to public health but also for its adverse economic consequences. On March 20, 2020, the stock price of Schneider Electric plummeted to €69.72 from over €100 on February 19, 2020, the day of the last board meeting. Schneider's directors began to focus on responding to the challenges posed by the pandemic. One of the issues was determining whether they needed to rethink the company's compensation policy. Notably, the COVID-19 pandemic had exploded a few days after the firm introduced significant changes to its compensation schemes, which—in addition to financial indicators—included a variety of environmental, social, and governance (ESG) metrics.

Historical Background

In 1836, the Schneider brothers (Adolphe and Eugène) acquired mines and forges in Le Creusot, France, and set up Schneider et Cie—a steel manufacturing company focused on transportation equipment and machinery. The business shift to the energy sector took place when Schneider entered the emerging electricity market in 1891. They were also early to the internationalization process: after World War I, the firm's activity expanded to Germany and Eastern Europe via the European Industrial and Financial Union.

After World War II, the firm diversified its business across the construction, electricity, steel, and nuclear sectors. This was a strategic response to the catastrophic impact of the war and required an in-depth restructuring of the firm. However, toward the end of the 20th century, the firm decided to divest from steel manufacturing and focus primarily on electricity, consequently changing its name to "Schneider Electric." Strategic acquisitions played a key role in the transition. The acquisition of an interest in Merlin Gerin, one of the leaders in electrical distribution equipment, in 1975, was a breakthrough in this area. Additionally, the company acquired Lixel in 1999, thus developing its installation and control system capabilities.

This case was prepared by Professor Gaizka Ormazabal with the assistance of Dimitroula Tserkezi, research assistant. September 2022.

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This case was written with the support of the CCG (Center for Corporate Governance) and Grupo Santander Chair of Financial Institutions and Corporate Governance, IESE.

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Last edited: 2/9/22

In the early years of the 21st century, Schneider Electric continued to grow through acquisitions in new market sectors, including movement control, building automation, and security. APC, Merten, and TAC Security were prominent companies acquired by Schneider during this period.¹ Between 2005 and 2008, Schneider Electric acquired 56 companies for more than €10 billion. Its revenue reached €18.3 billion in 2008, reflecting an average annual growth rate of 12%.

Integrating Sustainability into Corporate Strategy

Following the 2007–2008 financial crisis, Schneider Electric's strategy was articulated along three interconnected dimensions: digitalization, internationalization, and sustainability.

With regards to digitalization, the company reinforced its position in the areas of software, critical power, and smart grid applications by focusing on energy management and automation as its core activities and targeting four markets, namely homes and buildings, data centers, infrastructure, and industry. In doing so, Schneider evolved from making components and equipment to providing a more integrated service. A key development of this approach was the "ONE company" program, which was presented in January 2009. In recent years, Schneider had accelerated its digital transformation by developing software solutions for its customers. With the new program, the company's objective was to become a "one solution provider" by producing customized solutions with strong energy efficiency benefits to address end-user needs. Another important development was the introduction of a common technological architecture to deal with end-user segmentation. The idea was to become a "one global company" by combining local operations into one simple way of doing business and boosting productivity.²

The second dimension of Schneider's strategy was internationalization. After its expansion across Europe in the first half of the 20th century, the company entered the Chinese market by establishing the Schneider Electric (China) Investment Company in 1995. In the 1990s and early 2000s, the firm also acquired companies in several non-European countries, including Canada, the USA, Australia, New Zealand, Japan, and Brazil. The process of internationalization accelerated dramatically over the following decade, and a series of acquisitions gave the group access to important emerging markets. For instance, in 2009, Schneider Electric acquired Conzerv Systems, the leader in the Indian market for technology and solutions related to energy audits and energy management.³ In 2010, the group incorporated Areva, a company with almost half of its distribution business in new economies.⁴ The company also strove to become a leader in new economies by using local R&D and marketing promotions to strengthen its presence in those markets.

The third key dimension of Schneider's strategy was sustainability. The firm anticipated that the rising need to reduce emissions would bring many challenges for its customers, such as an increased demand for electricity, new requirements for controlling and optimizing consumption and processes, and a call for customized solutions to deal with a multitude of power sources. Schneider's vision was to respond to these challenges by improving energy efficiency and reducing energy costs, which, the firm believed, could be done through digitization. The goal

¹ "Company Profile-History," Schneider Electric, <https://www.se.com/ww/en/about-us/company-profile/history/schneider-electric-history.jsp>

² "One Company Program: Towards a Global Leadership in Energy Management," Schneider Electric, <https://www.se.com/ww/en/assets/564/document/41931/one-company-program-en.pdf>

³ "Schneider Electric Takes a Leadership Position in the Field of Energy Efficiency in India with the Acquisition of Conzerv," Schneider Electric, https://www.se.com/ww/en/assets/564/document/59468/communique-conzerv_en.pdf

⁴ "Acquisition Project of Areva Distribution: Excellent Complementarity and Strong Industrial Rationale," Schneider Electric, https://www.se.com/ww/en/assets/564/document/49320/CP_Areva_Distribution_20091202_en.pdf



was to become its customers' digital partner for sustainability and efficiency. As illustrated in **Exhibit 1**, the improvements were to be articulated through the creation of automation technologies to optimize industrial processes.

Schneider's strategic approach to sustainability was based on three concepts: "An All-electric World" (i.e., electrification as a substitute for energy sources dependent on fossil fuels), "An All-digital World" (i.e., transformation of industrial and commercial activity through digitization), and "An All-local World" (i.e., development of renewable energy sources from local power facilities). To implement this strategy, Schneider Electric created a sustainability business division that would advise and guide customers toward living more sustainably. The firm also established a sustainability committee with a chief strategy and sustainability officer at the executive level and a human resources and CSR committee for governance at the board level.⁵

In regard to technology, Schneider's strategic approach relied heavily on innovation; the firm annually invested 5% of its revenue in research and development projects. A representative example of Schneider's efforts was its establishment of EcoStruxure™, a digitization platform to optimize energy, resources, manufacturing, and construction processes. The platform was based on the Internet of things and the ability of smart devices to perform native analytics for control decisions, and it involved the use of standard communication protocols. The technology could be applied to power purchase agreements (infrastructure and industry), building management systems (homes and buildings), and variable speed drives (data centers), among others. The company estimated that EcoStruxure™ helped clients reduce their carbon emissions by 20% on average.

Schneider's efforts to become greener were also exemplified by MySchneiderApp, a software application that helped customers aggregate and compare the carbon emissions data for their products, enabling them to estimate their carbon footprints. In addition, the firm created the ecological label Green Premium™ for its ecological products and services. At the end of 2019, almost 80% of Schneider's revenue came from Green Premium solutions.

Other technological innovations introduced by Schneider were aimed at helping customers move toward a circular economy. For example, EcoDesign Way™ facilitated the development of products that were easier to maintain, repair, update, and recycle. In France, Schneider launched the label "Schneider Electric Circular Certified" for products of varying origins—including unsold, reconditioned, refurbished, and end-of-market products and commercial returns—that were intended for craftsmen, electricians, and manufacturers. The firm also extended the label to products owned by its customers so that those products could be reused under certain safety conditions.

Schneider's approach to ESG also included a number of aspects related to stakeholders. Its top priorities were to promote gender equality, build ethical relationships with suppliers, reinforce collective trust, nurture long-term viability, and ensure compliance with local regulations. The firm also emphasized safety standards for its employees in order to minimize workplace accidents. From a social standpoint, Schneider set up vocational training programs for underprivileged people.

⁵ "2020 Integrated Report," Schneider Electric, <https://www.se.com/ww/en/assets/564/document/203418/integrated-report-2020.pdf>