



The value of activating your ESG strategy

ESG voices podcast series

Musical intro

Announcer:

Hello and welcome to another episode of ESG voices! This podcast series sheds light on the opportunities and challenges within the environmental, social and governance space, through interviews with ESG specialists from KPMG and beyond. Throughout this series, we will discuss a broad range of global ESG issues, providing insights geared to a more sustainable future for everyone.

There is increasing pressure to embed ESG and sustainable practices throughout organizations and within their business models — and when tackling ESG issues, there is a broad range of approaches. But what is clear is that innovation and new ways of doing things are needed to create change that has real, lasting impact. To unlock hidden potential and encourage growth, businesses should consider authentic strategies that include their stakeholders along the way.

But what is an ESG strategy, how is it good for business, and why is it a critical step toward a better tomorrow? Today I am joined by Stine Lise Hattestad Bratsberg, Head of Strategy and Transformation in EMA region ESG Hub, KPMG in Norway and Benedicte Willumsen Grieg, Chief Strategy Officer, Konsberg Digital — an organization that's helping enable the green shift by digitizing industries across the globe. Stine and Benedicte welcome to the podcast, let's dive straight in.

Stine, can I come to you first? What does a good ESG strategy look like and why is it important for business?

Stine:

A good ESG Strategy is a strategy that is alive, alive throughout the whole organization and it's actually activated and also implemented throughout the whole organization. And that's where it comes the complicated part. But let's take it more strategically. So a strategy or ESG strategy defines the company's ambitions, the goals and the concrete KPIs. When it comes to how they tackle both environmental issues especially when it comes to climate

and biodiversity and nature, it comes to how they treat their own people and all the people throughout the whole value chain and the larger society that they operate within. So that is the total definition of a good ESG strategy. And it's one thing that is extremely important and it has to be embedded into the core of the business strategy. And when we talk about that, it is really important that it has alignment between the boardroom and the management and the same understanding of the ambitions, the goals and the KPIs. It sounds maybe, silly, to say that that is a challenge but sometimes that can be a challenge and why it is important it because if you do not have a plan or you do not know how to build your business in the way that you both take care of your own people, the society where you operate and the planet, to be honest, you might end up being totally left behind. And that's left behind the development within your sector or within your industry and you might be not relevant anymore, and to elaborate on that not relevant, that is for stakeholders like capital owners to get the right financial package that you probably need to develop your business is quite a different situation. It means investors. It means future talents, but also relevant when it comes to partnership, and that's where you can probably see the exponential growth going forward. By me the results for the needs that we have to fill, and you're not relevant and you're not part of it, and it also comes to the customers, and I can give you some examples later.

Announcer:

Thanks, Stine and how is an ESG strategy related to the overall business strategy?

Stine:

I could actually wish it wasn't a name, the ESG strategy, because it's a business strategy through an ESG lens that we need to see in the future and it has to be totally embedded because it has to be embedded in the decision you make when it comes to investments, when it comes to capability building and competence building within your company and is not possible to develop a business strategy, I think today, without totally taking care of those issues that we have just mentioned. Just to give you an example

if you want to be in, like let's take the country where we live in Norway, it is a huge change when it comes to cars. You know it's EV (electric) cars everywhere. Oil and gas companies with gasoline stations, more and more of them are closed or they have to change because they're not people rushing in there, being there for a couple of minutes, filling up the car and leaving again, it's totally changed the customer's behavior, and when the customer behaviors change, then you have to change your business and that's related to sustainability. It's definitely a climate issue. It's the climate and nature issue and if you don't manage to change your business before your consumers, your stakeholders, whether they're financial or other force you to change it, I am quite sure that you will lose speed, and you will also lose the possibility to grow your business fast.

Announcer:

And Stine, what are some of the challenges and opportunities businesses face when implementing an ESG strategy?

Stine:

I think some would say it's a lot, others would say it goes very easily but I think those who say it goes very easy to implement and activate ESG strategy, they are lying, because they did really need some work and it's not done over the night. But I think that to put into some of the most challenging issues probably is the dilemma because you have the dilemmas whether it's in short-term and long-term return on investments, that's always there, almost always there. And I think Benedicte that we will have on the call talking to us now for a couple of minutes. I think they in the leader group there have been a lot of those discussions, when do we need to do the changes that we have wanted to do to be part of the transformation and it is a transformation that is happening, and transformation means change. And when you have to change you have to also to figure out what are the capabilities and the competencies that we need to actually meet the requirements out there, and expectations out there. And I think it's one more challenge issue. It's the technology and it's the technology that really helps you to do the transformation in an efficient way. When it's the internal technology, when it comes to digitalization and the quality of the data that gives you the right metrics, the right possibility to follow your progress and measure and report. So that's one technology and the other technology is again, something probably that Benedicte will give us some more ideas around. It's the technology that brings the businesses that the whole world if I can put it that way forward with new efficient technologies. And I think just to give you an example again, I would say that we work with a ferry company. The ferry company no longer tries to move their ferries around on heavy fuel. So, should they go for hydrogen? Should they go for green ammonia? What is the best solution for the future? It's the thing within shipping, what is the best solution for the future? Are we 100% sure? No, we're not. And then, when it comes to the EV and the battery drive driven ferries, the captain on the ship needs different capabilities, different competence. And we also then see that the company is behind this needs other competence in the leader group and in the whole organization because

they're not only into ferry, they're also into battery and investment in battery infrastructure and development to meet the needs. So, it's like we see probably more and more challenges when it comes to partnership, the whole value chain and how to interact. You might call it challenges, but I would say it's huge opportunities for creating business value, and then back to being relevant, whether you are possible to be one of those partners, or you're not.

Announcer:

Thanks, Stine. Benedicte, I would like to come to you now. Can you tell us why successfully executing an ESG strategy is important to your business?

Benedicte:

I think building on what Stine has mentioned a lot is that there are a lot of challenges and risks connected to ESG. And attention to ESG is ever increasing and it's a really key interest for all our stakeholders. It goes for our owners, our investors, our clients and not least for our existing employees and also our new employees. So, I think for all of these stakeholders to really understand how KDI or Kongsberg Digital can contribute and make an impact within ESG is really key to us. I think especially on one side Kongsberg Digital is a true Industrial Software as a Service (SaaS) company. We have mainly software in our deliveries, and we have very little emissions from our own operations. However, we're also for historical reasons, all of our clients, or most of our clients is today within traditional energy and maritime which is not considered a very green industry. So, for us, it's really important to highlight that what we do for our customers is to make these brown industries better and how they operate today, but also at the same time recording our clients challenging our clients to work towards degree in transition, and to speed up the green transition. So, I think our ESG strategy covers everything from what's more internal looking, covering diversity, data security and cybersecurity and that's of course, really important to us — transparency in everything we do. That's kind of the basics and that's our responsibility and this is something we need to have in place. Where we believe as a software company, where we believe we really can make an impact on ESG is through our products and solutions towards our customers. So, we really believe that we can support both safer, smarter and greener operations for our customers. And that goes within these more brown industries of today, but given also the huge focus towards energy security. We believe that we are also positioned in the right place here but for the future, and we already have a lot of initiatives and activities ongoing in renewables, we will support and challenge our customers and clients towards both offshore wind and carbon capture is a really natural area for us where we already are present. Hydrogen batteries and really what we do is to build an industry agnostic software which we can apply to any heavy assets industry, and today most of our products is software that creates a more efficient solution for the operating face and unfortunately most of the renewable energy is not there yet. For many years or several years to come there will be a main activity, so the planning phase, and that's where we also try to venture.

So, we're actually invested in a company where we also look into acquisitions to position us more in the early phases of operations to make sure that we do not miss the train in the green transition and that we are positioned also to take the same leading position as we have in traditional energy today, also in renewable energies.

Stine:

I really agree with that point, Benedicte, because that shows that the question we had earlier about, is it really business relevant, and how can it be business-relevant? I think by just your title of being Chief of Strategy, but I know you're also Chief of Sustainability, but you just embed it into the strategy work you do, you show that these are huge investments. I mean, it's seriously huge decisions to make both from the boardroom and from the management, and you do that to be prepared and not for you to be prepared but for your clients, for all of your clients as well in the transformation that they stand in. And one thing I think is a little bit interesting that you maybe could tell a little bit more about Benedicte is the relationship between you and your clients because I feel it's getting more and more partnership than the client-seller if you can put it that way.

Benedicte:

Yeah, absolutely. And that's a very good point. We have some huge clients and we've worked really closely with them. We've been selected as their digital partner to really challenge and support them in both making the existing traditional energy face more efficient, smarter, safer, greener, for example, enhancing transparency and sharing a single source of truth or data ensuring efficiency, removing people from offshore to onshore just as examples. But we also do a lot of initiatives as their digital innovation partner towards carbon capture, even smart cities, offshore winds, and that's just a few of the activities we're doing with them. So, when our largest clients talk about us, they do talk about us as also their partner and digitalization partner, so that's important to us and also very interesting.

Stine:

And I think that is maybe one of the trends that we really see within sustainability and when we talk about ESG strategy or sustainability strategies, is that the value chain or the whole way of doing business is getting more and more merged. Because the challenge we're facing is just too large that one actor can solve it by themselves. So, we need to collaborate to find the best solutions and then at the end of the day, everybody would align on it, and hopefully you will have a lot of revenue, you know, just to gain more revenue instead of seeing all that we challenge just as hurdles or challenges, and see it more as opportunities.

Benedicte:

Yeah, very good point.

Announcer:

And, Benedicte, why is it critical to involve an organization's management, employees and external stakeholders during this process?

Benedicte:

That's also really key to us. It's really key especially, we have really focused on the internal impact of clarifying and embedding our sustainability, ambition and goals internally in the company. We are a company with more than 1000 employees, and most of them are quite young developers. So, they actually are quite high demanding and interested in ESG. Having a broader purpose, and that's linked to these broader challenges. So, they really need to understand how we are making an impact and how we're utilizing our position and utilizing our resources to actually make a good impact with our solutions and also it has been really important for us towards our owners. We're fully owned by a Kongsberg Group, which is a public company in Norway, and they also have ESG very high on their agenda. So, they're also pushing us in the right direction, well at the same time we have a completely different profile when it comes to what we do. We are a pure software company, which is quite different from them. And we're not less they're 200 and many years old, industrial company, while we're a startup and fast scaling. We have a different group of employees and also stakeholders. We've also actually announced that we are targeting an IPO to take Kongsberg Digital public, which also sets requirements of how we're able to communicate our impact when it comes to ESG and how we take our responsibility here seriously. And that goes all the way from ensuring we have proof points and good examples of how our solutions actually reduce fuel consumption, how they actually make a safer work environment for the people offshore and how we actually reduce emissions to also the reporting part of that, that we are able to be transparent of what we do and our activities. So, this is really key. But I think, especially, it goes towards that this is the transition. It's a transformation journey, that goes for us as a company, but not least for our clients and the underlying energy transition that we ought to take a key part in.

Stine:

And I think I would like to applaud the way that you have engaged the whole management group as well because I've been lucky to work with you on this, on this work here. And it has been so important that the management in your company really understands the goals, the KPIs, and how we can measure, because it's not that easy to measure what we are talking about. So how you have involved everybody in the way that you actually figure out what are the measuring that we can do, that we can do together with our clients and that we need to do by ourselves as you said earlier, I think that has been very concrete. And I think that is one of the success factors as well keeping less goals, less KPIs, but do it in a way that you actually can measure that you are moving in the right direction.

Benedicte:

Yeah, I fully agree and I think one of the success factors there is that we are completely aligned in the whole management team. And also the company, of the fact that we can make a difference. We are here to make a difference in the transition and our purpose is to make it

better tomorrow for business, people and society through our solutions, and really to change how people work. So, it is very closely linked to our ESG-strategy, so they go quite naturally hand-in-hand.

Announcer:

And finally, what is your recommendation to businesses who are struggling to implement a robust and meaningful ESG strategy?

Stine:

I can start Benedicte, and we can elaborate on this together. But I think it's really important that you try not to grasp over everything. So, be very concrete on what is really material for your business and where do you actually have the authority or are in the position to make changes? And where do you also have the impact to — I am not saying force — but at least stimulate others to be part of those changes? As you were mentioning right now, Benedicte, how important it is with this partnership. And I think if you manage to prioritize, then it's much easier to succeed with implementing your ESG-work or your sustainability goals and ambitions into your core business. And as you mentioned as well, Benedicte, transparency. I mean, you won't manage to reach all your goals, you won't manage to be the best at everything but transparency, I guess it's really important. I don't know what do you think?

Benedicte:

I fully agree and I think as I mentioned earlier as well, that one of the things that has been the success criteria for us is to try to connect our ESG-strategy with our purpose of the business. Focus on what is the problem we are actually trying to solve with our products, with our services and how we try to create value for our shareholders. And this I think is the only way to have a meaningful ESG-strategy in which will have broad support across both employees and management and other shareholders. I think that this wants to see that clear link and understand that clear link is what really motivates and gives direction.

Stine:

So, if we should give advice, would it be that businesses should look through their business strategy through an ESG lens because stakeholders actually have that as an expectation?

Benedicte:

Yeah, absolutely, but I think also there are different ways of making a difference. It's important to figure out where you can make the biggest difference, and identify where that is and how that matches, because in any business, it's a prioritization that will bring you forward. And if it doesn't make sense connected to the business strategy, it's difficult to have a sustainable support in the wider organization, and also to your shareholders. So, I think that that would be my recommendation to really spend time on figuring out how this relates to, to the purpose of your own business.

Stine:

I think that is summarizing it extremely well, I started with saying that what will be a successful business strategy, it's like, activating your strategy, and there's no way you can activate a strategy in a company, unless it's relevant for everybody in your company and your surroundings and stakeholders.

Announcer:

Stine, Benedicte, I appreciate you taking the time to speak with me today, you've given our listeners valuable insights on the importance of meaningful ESG strategies and critical considerations for businesses as they embark on this journey.

Join us again next time to hear more from leaders and innovators within ESG. You can also find our latest insights covering a range of ESG topics by visiting kpmg.com/ESG

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