

SUSTAINABILITY, THE FUTURE OF ENERGY

Insights and recommendations for boards
inside and outside the industry



OVERVIEW

SAP and FitBoard hosted a panel discussion that brought together energy industry experts **Inese Dosē** and **Dr Ingo Luge**.

For the event, FitBoard's typical audience of executive and non-executive board members, founders and investors, business owners and their board advisors was expanded to include sustainability experts with the appetite to interact with our board-ready or board-level participants.

Four key themes emerged from the discussion.

1 Awareness of sustainability is high,
but skills are low



There are four vital questions
every board needs to ask today

2

3 Sustainability communications are
no longer optional



Boards need to use their influence
to break systemic blockage

4

1 Awareness of sustainability is high, but skills are low



To make progress, it is critical to address the disconnect between boards and sustainability experts. Whilst sustainability is clearly on every board's agenda this year, boards are still ill-equipped to discern what it means for them and their companies. Boards often have a lack of knowledge, and sustainability experts often lack credentials and skills to talk to boards. The net effect is the slow speed of transformation, patchy transformation, or change that does not address the real issues, specific to each business. To break out of this dilemma, boards must:

- **Accept questions that might not be at the level of granularity they usually operate in**
- **Recognize their own knowledge gaps and seek answers from sustainability experts, both internal and external**
- **Request knowledge sharing and study tours with sustainability experts that will be time consuming**
- **Hire sustainability communication consultants who can help clarify and sharpen the message**



There are four vital questions every board needs to ask today

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Sustainability transformation is no longer optional. To help, boards in and outside of the energy industry must ensure that their company has a rigorous process in place, from gap analysis to producing a roadmap for sustainable transformation, with clear KPIs. Companies need to look at their business holistically and integrate sustainability in all processes. The four questions boards must ask are:

- 1) **To what extent should the supervisory board get involved in the operational aspects of sustainability transformation?**
- 2) **How can the board help create a company-wide mindset of transformation?**
- 3) **How to energize middle management to buy into the process?**
- 4) **How will we mitigate the carbon emissions impact of our business?**

3

Sustainability communications are no longer optional



Investor movements are persuading businesses to change and investors are consulting ESG ratings, which are impacting valuations. Leaving financial services and public perception to tell your company's story is not enough. Sustainability reporting and especially emissions reporting are a vital part of showing that the company takes energy transition seriously. Without a change in public perception, the biggest players – those who need to change most – will find it hard to attract the talent needed at all levels of the company to drive the transition and maintain the motivation to change.



Boards need to use their influence to break systemic blockage

4

Governments and regulators are encouraging adoption of sustainability transformation. Yet, they also hinder change. How? Regulation and licensing rules have long timelines that ignore faster cycles of technology innovation. Boards must play a role in accelerating the process of synchronisation among all players. Change can be slow, erupt in fits and bursts, as societal and economic pressures intensify. Ultimately, it is in all interests that companies play a part in advancing systemic blockage by participating in industry-wide knowledge exchanges, through public-private partnerships and government consultations. This includes creating the incentives for private sector professionals to enter the public sector and vice versa, to help speed up knowledge exchange, break down barriers of prejudice and lack of understanding, so that we can move forward, between industry and government players in a more connected way. Fiduciary duties are only to our own companies? Think again! An overly myopic perspective threatens to be counterproductive to all.

SUSTAINABLE OPERATIONS – AN IMPERATIVE



Energy fuels your business operations and is therefore a cost. Yet its negative environmental footprint can impact your access to financial capital, insurance, clients and talent pool. Sustainability in your business is expected to address this issue; it brings resource efficiency and decreases dependence from external sources. The shift to sustainable operations becomes imperative. Governing and overseeing this transition in an ideal world should be the responsibility of the entire board.

INSEAD research reveals major stumbling blocks in driving sustainability transformation at board level. Boards lack experience and expertise while sustainability experts are short on credentials to enter the boardroom. Yet the complexity of the topic demands complementary skills sets. An interim structure is recommended to at least initiate the transformation.



Trends & challenges in the energy industry

Before the Russian-Ukrainian conflict, the balance between energy reliability, affordability and sustainability – known as the World Energy Trilemma – was already a high priority for governments. Its importance skyrocketed last year as the conflict escalated, highlighting the urgency of addressing all three elements simultaneously.



What is the role of energy in shifting to sustainability for businesses?

Energy fuels the business and is a cost position. Its environmental footprint impacts business valuation and access to cash and talents. Cutting your business reliance for energy from the external sources increases your security and cuts costs in a long run. Increasing the efficiency reduces the negative environmental impact and cuts costs even further. You now see how the Energy Trilemma directly impacts your business and why sustainability is instrumental. Wholesale prices of electricity and natural gas nearly quadrupled from their previous records in the second half of 2022, becoming a major concern for consumers and businesses. As a result of a warm winter in Europe, prices eased, and the energy crisis was milder than it could have been. Yet, its impact on the entire energy system will endure.



Energy transition and the move to sustainability

Governments have increased their support for electrification and decarbonisation. To combat the carbon footprint, electrification of heating and transportation are vital. This will trigger change e.g., a massive increase in demand for electricity and changes in its consumption patterns as well as reduced reliance on oil and natural gas. Wind and solar power generation climbs, decarbonising the grid. The knock-on effect includes scarcity of suitable land, skilled talent, and necessary raw materials.

Batteries, hydrogen, demand-side, biomass and other balancing sources will take the spotlight and will be needed to mitigate volatility caused by the combination of electrification with renewable electricity generation.

The transition of energy and the move to sustainability is expected to mitigate future price volatility and energy security. In an ideal world, governance and oversight of sustainability should be the responsibility of the entire board. Yet the speed of implementation is slowed by gaps in knowledge and expertise at the board level.



Sustainability – an agenda item for boards

One of the solutions proposed by [INSEAD](#) to initiate the transition is to create a temporary, multi-disciplinary committee while integrating sustainability practices into the board's agenda. It requires the least structural changes. Cultivating a sustainability mindset in current and future board directors can be achieved by investing time in education. One proven method in transformation and business development is understanding the concerns and wishes of internal and external stakeholders and developing sponsorships to help the business evolve aligned to their needs. The next important step to integrate sustainability lies in alignment with the business's ambition, strategy, culture, and external communication.





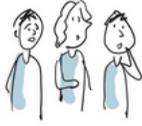
Inese Dose

SUSTAINABILITY and the future of energy



Dr. Ingo Luge

26 years in corporate. Now, supporting boards + Startups



People are worried

- War in Europe
- Energy crisis
- Climate change

GLOBAL PROBLEMS



but: National solutions are quicker

BIG COMPANIES

Renewable energies = Business opportunities

Companies are doubling their investment



GOVERNMENTS



Don't understand complexities

8 years

Wanna use new parts? Start from scratch!



Sustainability on the boards

MAIN ISSUES

Lack of expertise

credentials

Assess:

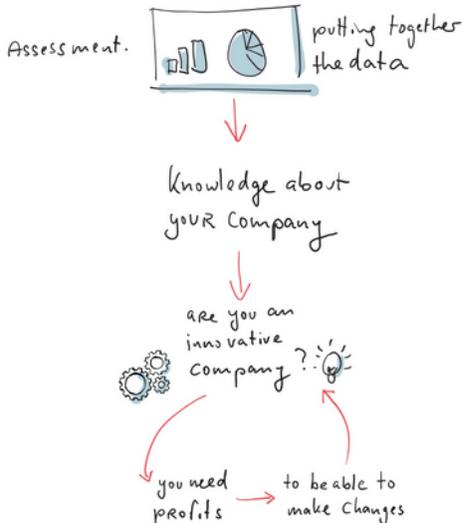


PROACTIVE STAKEHOLDER MANAGEMENT

can become a means for transformation

stakeholders: Suppliers, customers

Real world challenges



HIERARCHY



WHAT BOARDS CAN DO TO HELP

Four major questions have emerged that are meant to aid the transformation and increase its success. It is recommended that boards seek answers once the temporary multi-disciplinary committee is identified and has kicked-off.



To what extent should the supervisory board get involved in the operational details of the sustainability implementation?

The board needs to be aligned in their views and have a common understanding. It is critical to have a fair assessment of the ambition level in company culture, along with an assessment of reporting versus progress towards goals. The assessment needs to include to what extent sustainability should be incorporated into the strategy and how the supervisory board should drive it. For instance, at the strategy level, what else can be done in addition to assessing progress.



How does the company adopt a transformational mindset?

This may sound like a no-brainer since sustainability is associated with efficiency and lower operational costs. Yet investment and resource requirements call for an in-depth evaluation. It's important to connect the dots between the current situation and the vision. When assessing the current situation, consider the sense of urgency and pressure points today and in the mid-term from the key stakeholders. The vision should address these pressures while the gap between the two serves as a roadmap.



How to align middle management to the ambition and get their buy-in?

Team leads, line or people managers – your mid-level leaders are key to driving change or reaching goals. Research by management consultants Korn Ferry revealed that within Fortune 500 companies, 37% of middle management expect to reject important decisions, 32% do not understand the strategy well enough to implement it, and 6% will actively resist change. It therefore calls for an assessment of how aligned the middle management is to the strategy and sustainability ambition. Top management must be role models, defining the way forward, finding and nurturing ambassadors within the company to drive change. Effective communication will be key.



How to take action to reduce carbon emissions produced by the business?

It is the fiduciary duty of board members to act in good faith and steward the trust. It is incumbent upon them and their legal obligation to manage the risks of the entrusted business. Understanding the related financial impact is of utmost importance and surpasses any altruistic or philanthropic factors. The business needs to assess the current footprint, collect data, and appreciate the external pressures and risks stemming from business as usual. It will determine the urgency. It is important to understand clients' willingness to accept higher prices due to production becoming more sustainable. Is it possible to drive down the "green premium" (the additional cost of choosing a clean technology over one that emits more greenhouse gases)?

The formula for long term success is to embed sustainability in the core of business operations, make it part of the strategy and include KPIs for key personnel. Boards can drive real change by living the story of becoming more efficient and less dependent on external sources, cutting waste and energizing mid-level management.



Inese Dosē, Latvia

Experienced Board Member, formerly on the Board of Enefit, the subsidiary of Eesti Energia, a vertically integrated electricity producer and retailer in the Baltic States. Inese has over 10 years' experience in international consulting in the energy industry, including a tenure at PwC. She received an MBA in Global Energy from Warwick Business School and has a B.A. in Linguistics from Riga Technical University. Her expertise and areas of interest include ESG implementation and reporting as well as transition to Net Zero. She has a true passion for CleanTech and ClimateTech and is a strong advocate for female economic empowerment.

“Implementing and accurately communicating about your sustainability strategy within your business is increasingly becoming a prerequisite to access financial capital, insurance, and clients. The importance of closing the gap between talking and doing becomes evident. “Green premium” persists today yet is expected to decrease with technological evolution and as it scales.

Inese Dosē

Dr Ingo Luge, Germany

Investor in the energy sector and Supervisory Board member of thyssenkrupp AG and Dutch energy start-up Gradyent B.V. Former CEO of energy giant E.ON SE's German operations. Ingo has held various non-executive board roles for E.ON subsidiaries and charitable organizations, as well as the role of Honorary Consul for Sweden. He was Chairman of the company's sales arm (retail and B2B) for E.ON Energie Deutschland GmbH and a non-executive of the regional grid company Avacon AG., as well as a non-executive of various power generation subsidiaries from the global steering body of E.ON's power generation business to specific legal entities focusing on coal, hydro and nuclear power generation, as well as non-executive of E.ON Hungaria. He holds a law degree from the University of Munich, a Master's degree in Economics from the London School of Economics and a PhD in law from the University of Munich.



“If you assume the level below the board has understood the sustainability strategy, the rest of the world will too, it's not going to happen. This is one of those issues where you need to take deep care because it's not so obvious that there is something to be done for middle management.

Dr Ingo Luge



Impressum

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