

DSM

Setting business goals and
evidence-based targets
that deliver change



DSM

Setting business goals and evidence-based targets that deliver change

Quotes attributable to Sjoerd Dijkstra, Global Lead Strategic Marketing, DSM Resins and Functional Materials.

Action: specific sub-targets

In March 2019, the global science-based company Royal DSM released a new set of climate targets in line with the Science-Based Targets initiative. The targets, the first of their kind for a European company working in its sector, commits the company to reduce its direct carbon emissions by 30 per cent in absolute terms by 2030 (compared to 2016).

To achieve its new targets, DSM has set a multi-layered strategy. In the first instance, it committed to increase its purchase of renewable electricity from current levels of 41 per cent to 75 per cent of its total power demand by 2030. On top of this, it introduced an internal carbon price of €50 per ton of CO₂ to further guide its decision-making. Finally, it set itself the ambitious target of a 28 per cent reduction in its indirect (Scope 3) emissions by the end of the decade.

Challenge: ensuring targets are clear, comparable and actionable

Climate modelling continues to entail many unknowns and technical complexities, making target-setting difficult even for the most conscientious company. The plethora of factors that need to be taken into account, especially in an organisation's wider value chain, mean 'off-the-shelf' approaches are of limited use. The basis of decision-making is often complicated by having only partial visibility of the relevant emissions data as well as inconsistency in carbon footprinting methodologies. A final challenge is landing on a target that is felt to be actionable by those parties required to engage in its implementation.

"Just measuring your carbon footprint is difficult, especially when you talk about scope 3 emissions. It all comes down to the origin of the raw materials and comparing that against fossil-fuel based materials, for instance. At the moment, with a commodity like petroleum, the origin of the crude oil is not taken into account, while in the end it very much differs if it originates from conventional or unconventional oils. That affects the final answer you come up with."

"It's important to set specific numbers to targets, and we need to collaborate as an industry as there are still so many unknowns and so many factors behind it that need to be taken into account."

Solution: science-based, business division-specific

DSM opted to follow the methodology set by the Science Based Targets initiative (SBTI). This offers a robust methodology for companies to track back from a final goal of limiting temperature rises to 1.5°C above pre-industrial levels by 2050. This is the figure around which the scientific consensus now rests. It also provides the basis for key public policies on climate, such as the Paris Agreement of 2015. The SBTI approach is based around helping companies set meaningful interim targets that assist them to progress towards their final goal. This explains the various 2030 objectives that DSM has set. Although the company has chosen not to set a public net zero or other target for 2050, this longer-term horizon plays intrinsically into its current set of targets.

With the same desire to work in a rigorous fashion towards a demarcated goal, DSM assigned each of its business divisions with climate targets that align with the overall 2030 goals for its direct emissions. By taking dramatic emission-reducing measures within its own four walls, the company hopes to be able to set a model to its suppliers of what meaningful climate action looks like. Doing so will also earn the company 'a seat at the table' regarding wider policy discussions, the company hopes. To meet the capital outlay required for building out its renewable energy capacity and investing in other climate mitigation moves, DSM organised a €1 billion revolving credit facility with its long-term banking partners. The facility links the interest rates owed by DSM to its success at reducing its emissions, providing it with a financial incentive to complete and even exceed its 2030 targets.

"What is in our control is our own portfolio of assets, activities and products. So that's where we've got to start if we are to begin influencing the wider ecosystem in which we operate."

"Setting meaningful targets for the individual business-unit level – and not just the corporate level – is a vital step towards creating an organisational culture that prioritizes climate as well as one in which people feel empowered to start taking action themselves."

"If all our business units get targets and will meet them, then we overachieve the corporate targets."

Connecting value chain with targets

With a global supply base and an international sales network worth around €10 billion per year, DSM has an extensive supplier and customer base with which to engage. As in most other industries, initial efforts to kick off conversations around climate action are more 'push' than 'pull'. Notable exceptions exist. In electronics giant Apple and retailers such as Kingfisher or IKEA, for instance, DSM counts three sizeable corporations in the same ecosystem that are closely aligned to its climate goals and anxious to move forwards together on decarbonisation. Given this dynamic, DSM has given in-depth training to its sales force around its climate targets, thus empowering them to hold informed conversations with customers on the topic. To support this engagement process, the company runs a supplier and customer-support programme called CO2REDUCE. Finding the

sweet spot between pro-climate and other key criteria, such as cost and performance, remains an ongoing challenge in gaining buy-in for its targets within its value chain.

“We have amazing products, which is why a company like Apple buys from us, but the fact that we have ambitious science-based carbon targets that align with their targets certainly feeds into their decision criteria when choosing suppliers.”

Future: targets as catalysts for innovation

One of the main functions of climate targets is as a spur to innovation. They bring into sharp relief the distance between where companies are now and where they need to be in the future. Once this salient penny drops, a realistic response is to urgently ask how business processes and products can either be radically revamped or replaced by low carbon alternatives. In DSM's resins business, for example, the company is developing a series of plant-based products through its in-house innovation unit (known as 'Discovery'). The carbon footprint of these bio-alternatives is up to one-third lower than traditional solvent-borne paint resins. Being transparent about its innovation process and the science behind it will, over time, present opportunities for innovation tie-ups with suppliers and other key players.

“Climate innovations that provide high performance without sacrificing margins is where we need to collaborate together to compete.”

“Increasingly, we're finding that having very clear targets and a similarly clear implementation strategy leads suppliers to come to us and say, 'Hey, we can help you with this' or, 'We have this low-carbon material that could be interesting for you'.”

<https://www.dsm.com/corporate/sustainability.html>