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## ESG Measures That Matter: A Q&A With Deutsche Post DHL Group's CFO Melanie Kreis

by Michael Ramsey



**Melanie Kreis**  
**Chief Financial Officer, Deutsche Post DHL Group**

Melanie Kreis is the chief financial officer and a member of the management board at Deutsche Post DHL Group, the world's biggest logistics company. She has been with DHL since 2004, working her way to the top in finance, and has played a pivotal role in tracking progress of ESG goals. She holds master's degrees in business administration and physics.

Deutsche Post DHL Group is driving toward absolute net-zero emissions by 2050. How can a company that ships goods around the world meet that difficult goal? Melanie Kreis explains how she helped elevate the importance of that initiative and other social impact efforts by creating meaningful KPIs that will be linked to top management bonuses starting in 2022. Absolute carbon footprint, diversity, safety and employee engagement are among the considerations tied to 30% of the annual short-term incentive for senior leaders, including herself. This interview has been edited for length and clarity.

### **What has changed at DHL after making big sustainability commitments?**

We actually set ourselves our first sustainability targets way back in 2008, when we made a commitment to improve our CO2 efficiency. And at that time, we gave all of the goals for 2020. We weren't entirely sure how we would achieve those goals. But I think that was the first time we really focused the organization on a sustainability goal that had multiple implications. For example, if we commit to a hard target, how do we measure it?

So, we started more than a decade ago to capture CO2 emissions through our finance systems. Because obviously, if you have hard targets, you want to have the same level of confidence and accuracy like you're used to in your financial numbers. Also, if you want to do it across the globe — and we are operating in 220 countries and territories — you also need a way to capture it and somehow consolidate it on group levels.

About four years ago, when 2020 was approaching, we had actually achieved our efficiency goals ahead of the plan, and we started talking about the next time horizon. By then, it was already clear that the whole criticality of the global warming trajectory was even more severe than anticipated a decade ago and that we had to go for absolute net-zero targets. We made the commitment as the first logistics company that by 2050, we really wanted to achieve the green zero.

Today, our commitment to sustainability is a part of our holistic ESG roadmap and an integral part of our corporate strategy and culture, and we are now committed to an absolute reduction target. This is, of course, much more difficult to achieve if you are in a growing business, which we are fortunately in.

And we have also said that 2050 is so far away that we really need concrete interim targets for the next decade. So we have set ourselves a clear reduction commitment by 2030 based on intense debates because that is not a no-brainer. There are significant challenges to deliver on that target.

We know it is very aspirational, but we all felt — starting from the corporate board, but also with the broad group of subject matter expert colleagues who were involved in developing this initiative — that this was the right aspiration level.

### **Why do you think the commitment to the absolute CO2 reduction will move past the small pilot projects?**

One of the challenges we have also encountered multiple times is that technologies were available, but they were economically so unattractive that you could not sell it to your investors as a publicly listed company like us, spending so much extra money on green stuff.

This is now fundamentally changing. A very nice concrete example is so many years ago, we wanted to start decarbonizing our last-mile delivery, so we screened the market and talked to the large OEMs [original equipment manufacturers — in this case, automakers] about electric delivery vehicles. And there were no options out there because there was not enough demand. So the OEMs, not surprisingly, said to us, “If you commit to a very large number of vehicles, we will start building it for you, but if not, there’s no market.”

In the end, we started building our own electric delivery vehicles. For doing so, I received regular bashings from investors because it was,

of course, economically totally not attractive, and it was loss making and so on.

Now we are at a point where we have said we are going to phase out our internal production of electric delivery vehicles. We don’t need to be a car producer anymore because all the big OEMs have realized there is a market. We can now buy electric delivery vehicles externally, which makes more sense economically.

For us, the biggest problem in our CO2 footprint is aviation. Two-thirds of our CO2 emissions are from aviation. Our total CO2 emissions in 2020 were 33 million tons of CO2. That’s roughly the CO2 footprint of Denmark. And at the moment, there is no technological solution out there in terms of long-distance planes that can go with an alternative technology.

### **How important is creating compensation-based KPIs for hitting sustainability goals?**

The first important thing is to derive your focus topics in your sustainability agenda based on who you are, your industry and your company profile. And that has to be clearly linked to your group’s strategy.

For us, it’s relatively simple. We are the largest logistics company in the world, which is great, but this also results in a large CO2 footprint. Hence, we carry a huge responsibility. So clearly, we defined the absolute CO2 footprint reduction as one target because we are convinced market leaders need to act as role models to make a green transition happen.

You then have to translate those sustainability priorities into clear KPIs. In our case, we defined ESG KPIs such as absolute CO2 footprint reduction, employee engagement, lost time injury frequency rate (LTIFR) (health and safety), share of women in management (diversity) and coverage of mandatory compliance trainings. Those steering relevant KPIs also have to be linked to the strategy.

After defining suitable KPIs, you have to make sure to measure and capture those KPIs with quality. For me, the only logical choice is to do that with the financial systems. That way, you may also get your auditor on board, and make sure the auditor testifies that those KPIs are not fictitious numbers but have real substance with real processes behind them.

That's the foundation — because only then can you also get the credibility internally. If you want people's bonuses to be linked to the topics, people want to be sure there is a solid foundation and those numbers are grounded.

### **Did you create your own systems of measuring results in the finance department?**

Yes. The fundamental idea goes back to 2008, where we set our first CO2 efficiency goals. The idea was to leverage the finance system we use to consistently, and with high quality, capture KPIs across multiple countries and all the different business divisions. So we decided very early on that we have to establish a link to the way we capture financial and nonfinancial KPIs. We intended to use the same consolidation mechanism. And that was something at that time we had to build ourselves.

### **Why is it important that the top management, the board management or other C-level executives be measured by hitting these targets?**

We truly believe that as a company, the impact on those sustainability targets is as relevant, as good, as delivering on our financial targets. This thinking also needs to be reflected in management compensation. That is also something investors are increasingly demanding. We have agreed to change our corporate board compensation: 30% of our annual bonus as corporate board members is linked to ESG targets as of next year, with a 10% "E" component, 10% "S" component and 10% "G" component. I personally wouldn't be less motivated if that wasn't the case because I'm deeply convinced it's the right thing to do. But I think that has a very important signaling effect.

### **Do you have suggestions for leaders and other companies about how to track progress?**

If you're serious about something, you have to focus on it. Also, you have to look, review and discuss it regularly. Now we are aiming to integrate the whole nonfinancial reporting seamlessly into our financial reporting. With the monthly financial report to the corporate board, the ESG section is also in there. And we're getting ready for next year's target setting and budget season as part of our planning councils. There, we will talk about the EBIT and cash targets for the next year, but we will also discuss the nonfinancial targets. I think you have to try and really incorporate ESG into all your standard controlling, steering and budgeting processes.

### **Are there benefits to shifting to cleaner energy beyond just the ESG?**

In an ideal situation, a green solution should also be economically attractive. For example, one of the important elements for us in our aviation decarbonization strategy has been reflecting to get greener aircrafts. When you switch from an old 747 to a modern 777, you can improve the fuel efficiency by 18%. Of course, this is good for the environment, but you also save on kerosene costs.

So, those are the ideal situations whereby doing the right stuff on your sustainability agenda also creates a positive impact in your P&L. Currently in many cases, investing in sustainability is unfortunately a trade-off. And that is naturally the situation where organizations are struggling more. That is why it is so important to also have those targets on the nonfinancials — to find the right balance.

### **How do you align an entire company around sustainability?**

Like many things, it starts with the tone from the top. We now have communications from our CEO and the corporate board, and apart from talking about our financial targets, we always talk about our ESG aspirations. But I think it is also super important to do it in a positive way. You really have to position it as an opportunity to do the right stuff for the future of the planet and your company. It is a fantastic opportunity to create a competitive advantage in a market. Our customers are demanding sustainable logistics more and more. So look at the opportunity side of being an early mover here, not only at the extra work and the complexities it brings.

### **Do you have any advice about how to start approaching a real ESG effort?**

I have three pieces of advice. The first is to base your sustainability agenda and focus topics on who you are, to your specific company DNA. Building on this, make sure you define clear KPIs and give yourself clear, aspirational targets. But of course, you should also have an idea of how you want to get there. I'm not a big fan of saying, "Hey, in 2040, we will be net zero," while absolutely not having a clue how to do it. So, develop measures and track impact via your KPIs.

Third and lastly, position it from the top as an opportunity for a positive way to really get the organization fired up on ESG.

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