Getting the **Board of Directors** on board to drive **sustainable transformation**

What is holding boards back from taking responsibility for sustainability issues?

What role should the board of directors play in the sustainable transformation of a company?

How can this body actively encourage sustainable performance?

After surveying a number of executives to identify their most significant obstacles to sustainable transition, a common theme emerged for further examination: the board of directors.

While it's the responsibility of the board of directors to ensure the sustainability of a company's performance in a world of limited resources, this study diagnoses the obstacles encountered by this body in pursuing sustainable transformation and identifies tangible opportunities for reinvention without risk of symbolic gestures that lack concrete action, which could be construed as greenwashing.

4 LESSONS AT A GLANCE

An ambiguous relationship with time

The role of the board of directors is to set the company's direction, determine its strategic objectives and oversee their delivery. As such, it's also, logically, the guardian of sustainable performance. However, when faced with the choice between the boldness required for legitimate sustainable transformation and short-term wins, it's easier and more likely that they choose the comfort of the short term. *"In my opinion, the board of directors plays almost no role in ensuring sustainable performance."*

An issue of composition

Ensuring that the full range of skills and interests of a company's stakeholders is represented in decision-making processes is key to meeting the immensely complex challenge of environmental performance. Only through the inclusion of diverse profiles and perspectives will this body be able to address the subject in a holistic way. *"I feel that the board of directors is the place where the challenge must be exercised. But there is no challenge in unity: you need alternate points of view. And that's what's terribly lacking in some boards."*

A lack of literacy

ABC

The first observation made by those interviewed was that a lack of understanding of environmental issues and the urgency around them means that the transformation of a company's business model is perceived as a short-term cost rather than a longer-term investment. Further training and education, whether in-house, through exchanges with peers or external experts, remains essential. *"It seems like everyone has mastered this language, but actually no, not everyone has the same level of literacy."* Additionally, the tools needed to make the case for the necessary link between performance and transformation are lacking.

A system with little incentive

More broadly, the way in which the board of directors is organized doesn't directly encourage directors to take individual responsibility for sustainable transformation. By aligning environmental performance objectives with directors' KPIs and remuneration, alongside work with CSR committees, and the way in which the board interacts with a company's other stakeholders, the incentive to act on this issue will be far more present. *"CSR committees are often neither pro-active nor advocates of CSR issues when decisions are made by the board of directors."*

FOREWORD

Some key definitions to set the context

The history of the board of directors

This is a body that can take many forms and as such we felt it was important to return to a basic definition, the mission of this body, before diving into the learnings from this survey.

Board of Directors
n.m. : *a collegial body of individuals or legal entities that has a right of review over an institution (in this case, a private company), which may take the form of a control over strategy, supervision of the implementation of activities, or an orientation or reorientation of the institution's terms of reference.*
(Herrick Mouafo, 2014)

The board of directors has not always had "legal recognition in French corporations, and thus the diversity of governance practices was significant."[1]

Until the middle of the 20th century, the role of this institution was left to the discretion of the partners, who laid out the methods of organization and operation of a company in its articles of association.

At that time, the development of joint-stock companies and the dispersion of ownership among a large number of shareholders led to the separation of ownership and control of the company[2]. Given that managers could henceforth make decisions for which the shareholders bore the consequences (positive or negative), the board of directors became an essential body for defending the interests of those who held the company's capital.

[1] Joly, H (.2012). *Une histoire du conseil d'administration*. Revue française de gouvernance d'entreprise, 11, pp.87-105.
[2] Berle, A. A., & Means, G. C. (1933). *The Modern Corporation and Private Property.* Columbia Law Review, 33(3), 557.

A key issue:
The competing interests of time

Depending on the legal form and governance choices of the business corporation, the board of directors may have different forms of power. Regardless, it’s always responsible for determining the strategic orientations of the company. Harlow Person, an American economist and professor of management, noted: ***“The more the future is involved in a company, the more administrative it becomes,”***

and that ***“the manager lives in the future, perceives the trends of events and plans what is to come.”***[1]

The board of directors therefore seems at first glance to be the right body to take up a challenge that is by definition oriented towards the long term: that of the sustainable transformation of an organization’s economic model.

And yet, it is sometimes a lack of concern for the long term among the representatives of a company's shareholders that stalls progress: ***“when the shareholders orient the company towards short-term profit, the transition is blocked because the changes and investments the transition requires, necessitate considering for performance over the long term,”*** says one of the interviewees.

So much so that today, the role played ***in practice*** by boards of directors seems to be widely questioned.

A body under scrutiny

"Most sustainable transformation initiatives die at board level."
- An executive

"This is a very, very big topic. The role of the board of directors in sustainable transformation is absolutely crucial and today it's pretty much the primary blockage."
- An executive

"In my opinion, the board of directors plays almost no role in ensuring sustainable performance."
- An executive

"Sometimes the board of directors is just a cash register and execution happens at the executive level."
- A director

👀 The board confronting its challenges

About 70% of directors say they are moderately or not at all effective at integrating ESG into corporate strategy and governance.[1]

This is a sample of perspectives from those interviewed when asked about the role of the board of directors in addressing environmental transition issues.

The primary question of this survey was therefore as follows:

How can we evolve this body so that it lives up to its responsibilities?

[1] BCG-INSEAD *Board ESG Pulse Check*, 2022

Summary

"The board's role is to define the company's sustainability aspirations."

Sonia Tatar

MYTHS AND REALITIES

The regulations concerning the role of boards of directors in sustainable transformation

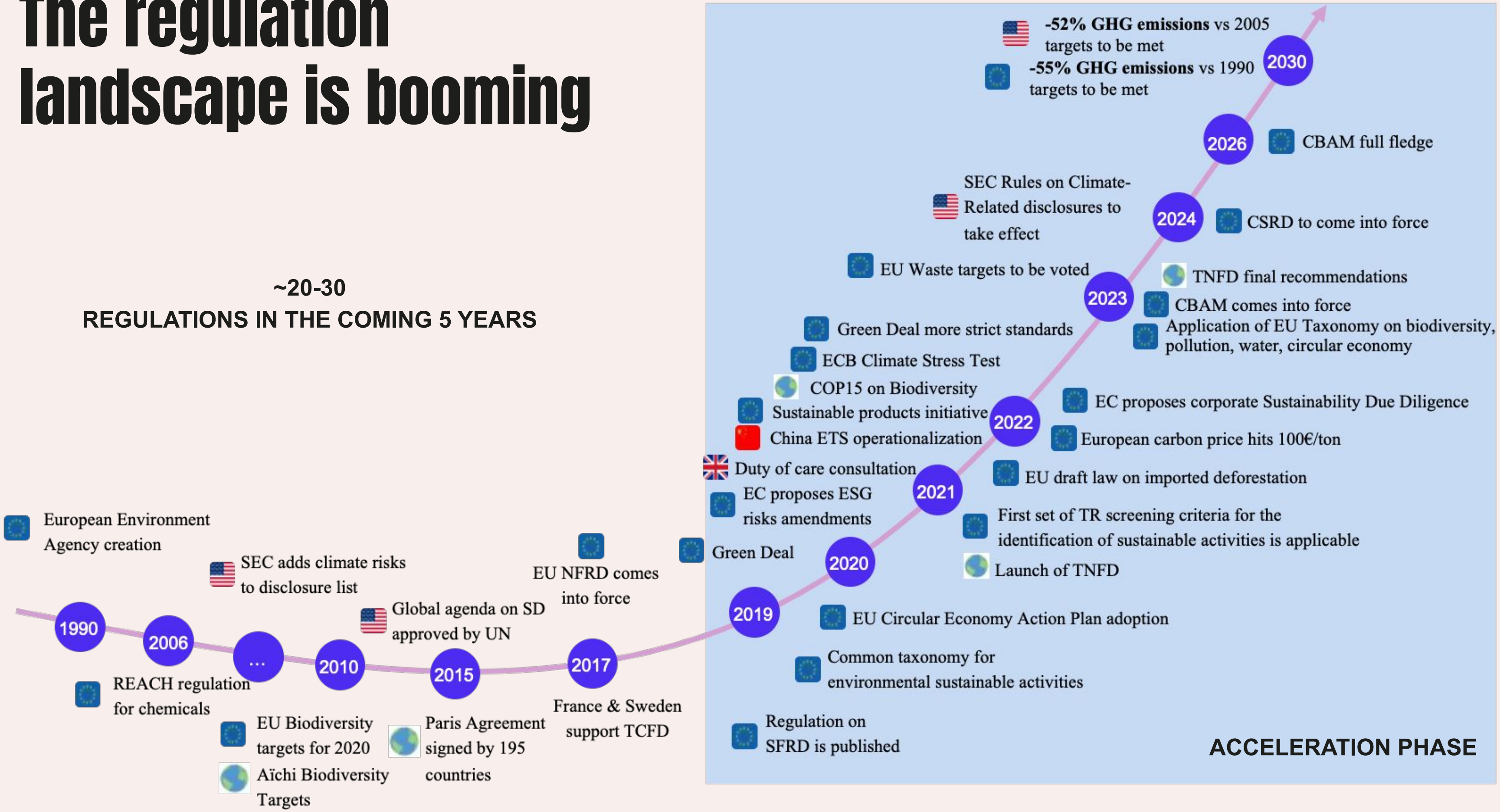
CSR: a subject becoming progressively more important under the latest regulations

As with the representation of women on company boards of directors, CSR practices are no longer optional under the latest regulations. From the New Regulations Act in 2001 to the Non-Financial Performance Reporting Act in 2017, the topic has slowly made its way into annual reporting requirements, moving from a small insert to a good portion of the basis of universal registration documents.

"What is clear is that boards, whether out of conviction or obligation, are increasingly taking up the topic."
- A director

The regulation landscape is booming

~20-30
REGULATIONS IN THE COMING 5 YEARS



However the regulations don’t go far enough

“The topic is often approached from what I would call a 'check the box' angle more than a deep reinvention of the business model.”
- an executive

“Many recognize the importance of sustainability, but the issue is still approached as a "hygiene factor," i.e., as a compliance exercise, as opposed to truly creating value for companies, for different stakeholders and for the planet.”
- Sonia Tatar

👀 A lack of actual sanctions

In France, the declaration of non-financial performance is not subject to any regulatory sanctions, meaning that CSR is still mostly considered as a communication obligation with which one must comply rather than as a strategic business issue.

“When we realize that there has been malpractice, we come looking for you as a member of the audit committee. When we realize that the carbon trajectory has not been followed, we don't come looking for you.”
- A director

In the end, environmental issues are **considered more of a "compliance" issue than a real business model transformation issue.**

Which begs the question – what other means are available
that could enable boards to meet
the business challenges of sustainable transformation?

THE KEY CHALLENGES

The primary levers to reinvent boards of directors

1.

From individual struggle to shared responsibility

Standardize the directors' accountability on the subject

2.

From shareholders to the whole company

Change the way interests are represented on the board

3.

From a "cost" to "necessity" mindset

Build on understanding and buy-in to change behavior

Challenge n°1

FROM INDIVIDUAL STRUGGLE TO SHARED RESPONSIBILITY

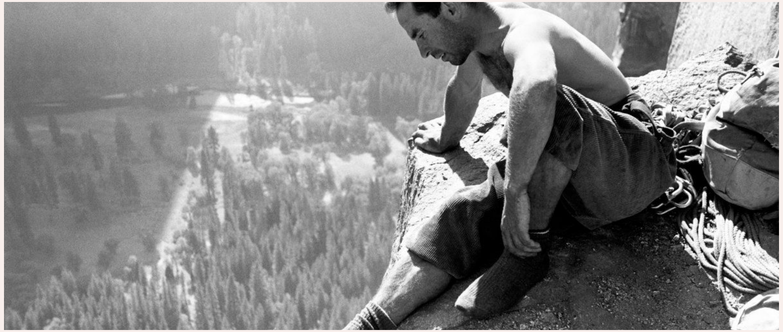
Standardize the director's accountability on the subject

1 observation: There are committed leaders... but the incentives for action are few.

According to our interviewees, that the approach to environmental footprint is from a "reporting" rather than a strategic perspective is not so much due to a lack of committed and willing leaders on the executive side, but rather a lack of accountability on the board side.

“If as a CEO you say the board isn't engaged enough, you haven't done enough to push the issue.”
- an executive

“Directors are bureaucrats rather than entrepreneurs.”
- a director



Yvon Chouinard

Finally, **the system that governs the board is not conducive to executing a business pivot** bold enough to deliver sustainable business model transformation.

"These matters still rely heavily on executive courage. The individual responsibility of directors remains a key factor because most have been trained to work toward maximizing certainty, but there is no reward for moving toward uncertainty."
- an executive

The bottleneck: A systemic issue

"By construction, the executive is always nervous in front of their board: they don't want to be blamed for a costly transformation, especially in a phase when the economy is turning around and specifically in a context where the system does not reward the virtuous."
- A director

Modern Times, Charlie Chaplin

In publicly limited companies, if the directors are, on paper, **"individually or jointly answerable to the company or to third parties for transgressions of the legislative or regulatory provisions applicable to publicly limited companies, for violations of the articles of association or for faults committed in their management,"** the first obstacle to taking up the challenge of the limits of the natural world for the boards of directors: this is a political body still too dependent on the goodwill of the individuals who compose it.

How can we ensure the responsibility of directors at a systemic level?

How can we ensure that sustainable transformation is *not only* a matter of individual conviction but *also* a strategic imperative?

3 levers

"It's no longer an activist issue, it needs to be everyone's issue."
- Vincent Fauvet

Putting the topic at the heart of consideration

Transparency to ensure a higher standard

Realigning the objective with the reward

Lever n°1: Putting the topic at the heart of consideration

👀 Several modalities

CSR can be integrated into pre-existing committees, such as the mandatory audit committee, but this does not allow the subject to be explored in depth. **Boards can also take the initiative to appoint specialized committees**, in addition to the audit committee. These committees must be composed of at least three members of the board, the chairman being an ex-officio member, and have the power to invite to their meetings any person whose presence is deemed necessary. **The configuration of these committees are variable, ranging from a single committee to address all ESG subjects, to several groups divided into sub-themes**.

Specialized committees dedicated to CSR have multiplied in recent years and are signs of a growing desire to include environmental performance in company governance practices. In 2015, only 25% of SBF 120 (French stock market index) boards of directors had a CSR committee. In 2021, that rate sat at 64.2%, 17 points ahead of the British FTSE 100 index.[1] ***"[Having a CSR committee] helps to set things up, it's a way to have a systematic record, which is good for getting administrators used to the subject. By starting from this little place apart we can grow the company's commitments,"*** explains one administrator.

Nevertheless, **their impact remains mixed** according to the panel of interviewees, notably because these committees treat the subject of environmental performance "separately" and not as an anchor for all subjects.

[1] Institut français des administrateurs (IFA) et Ethic & Boards

Lever n°1 : Putting the topic at the heart of consideration

"These CSR committees are often neither pro-active nor advocates for CSR issues when there are decisions to be made by the board of directors," says one executive.

Thus, the CSR committee as it is currently shaped does not allow for any change in strategic direction. This makes it **more of a task force that helps inform decisions than a decision-making body**. Nevertheless, there are adjustments that could enable it to have more impact.

The limitations of this body are ultimately similar to those that have been observed at the executive level with regard to CSR departments: the subjects they address can be difficult topics in which to engage the rest of the directors. *"I am against CSR departments in companies. It should be core business: everyone has to do it. And it's the same for CSR committees,"* explains one director. **The challenge: to turn these committees into Trojan horses that are proactive enough to make the subject a non-negotiable and therefore gradually become indispensable.**

👀 Maintaining the advantages of a dedicated committee

- **Empower it to work closely with the company's executive** to make recommendations to the directors anchored in operational issues.
- **Staff it with those capable of linking** environmental issues to sectoral problems.
- **Engage directly with the Chairman** of the board, who is responsible for setting the agenda, in order to push the subject from the very top.

Lever n°2: Transparency to ensure a higher standard

Another lever to encourage the generalized assumption of responsibility by directors is also a subject of debate: the level of transparency in governance and of the actions of the governing body, which are often perceived as opaque, driving accountability through greater visibility the company's various stakeholders.

"We're moving toward more and more transparency, that's the way the story goes."
- A director

Nevertheless, it seems important to those interviewed that transparency be **positioned at the right level to preserve a fundamental characteristic of the board of directors**: that of a body that must be able to host the debate of ideas and the confrontation of points of view in order to reach an informed consensus.

"I know some people have a strategy of total transparency: meetings are recorded for internal use. That may be a bit much."
- An administrator

"These are political bodies, so politics must be allowed to happen. Censorship through total transparency is not a way to encourage honest debate about the future of the company."
- A director

Lever n°2 : Transparency to ensure a higher standard

What is certain is that there are many things to rethink around the quality and authenticity of the information transmitted to the **shareholders, who are increasingly watchful,** and to the company's stakeholders, in order **to rebuild trust in the board of directors and its decisions.**

"We need to be much more transparent about the reality of the company's efforts on its environmental commitments."
- An executive

"We organize ESG roadshows once a year — one-on-one meetings with our top 10 of our investors — as well as themed days for all our shareholders."
- A CSR chief of staff

👀 Reengaging shareholders through information

Contrary to what is commonly thought, the financialization of organizations is less a consequence of a "strong" shareholder base than of its disengagement.[1] A shareholder base that is said to be "weak" in the exercise of power, disinterested in the life of the company and its prospects, and that considers the company only as a source of dividends from which it can disengage over and over again, will not lean in favor of the same orientations as a shareholder base that is actively involved in the life of the organization, concerned about its durability and the sustainability of its choices. This is why moments such as the General Assembly are fundamental: *"for me, transparency is played out at the level of the General Assembly. It must play its role."*

[1] Gomez, P. (2021). *La Gouvernance d'entreprise.* QUE SAIS-JE.

Lever n°3 : Realigning the objective with the reward

The third lever identified by those interviewed was to ensure that the assumption of responsibility by directors on environmental issues was systematically linked to their compensation.

"It could be a good idea, incentives. In France, you have a fixed salary. In the United States, you have a fixed salary and shares, which is good for representing the interests of shareholders. There should be a variable indexed to environmental performance."
- an executive

👀 Rewarding the long term

Linking the compensation of executive managers to objectives that **favor the long-term**[1] objectives and/or a longer horizon will better incentivize these leaders to prioritize the sustainable transition of the economic model. Identifying other forms of incentives beyond stock option dividends, which by their very nature are oriented towards profitability with a one-year time horizon, such as **a variable indexed to environmental performance** could be a way forward. In the international landscape, some companies link performance fees partly or totally to sustainable performance.

Another form of reward is based more on authority than remuneration, whereby directors act on the interests of the shareholders that they represent: **the proportioning of voting rights according to the longevity of the shares**, to reward trust and create the conditions necessary for bolder, long-term transformations.

[1] Lamarque, E. (2011). *Gouvernance et prise de décision : les questions qui dérangent.* Eyrolles.

Lever n°3 : Realigning the objective with the reward

Nevertheless, this approach is far from being unanimously accepted by our panel of interviewees:

"In my opinion, director compensation issues remain anecdotal, so it [changes] may not make things happen"
- an executive

Additionally, there is concern that changes would lead to some complexity in compensation models:

"The director must see the company as a whole. So if you index compensation on environmental performance, you also have to do it on inclusion, societal commitments, etc. And you don't get away with it."
- an administrator

Challenge n°2

FROM SHAREHOLDERS TO THE WHOLE COMPANY

Change the way interests are represented on the board

1 assessment :
A collegial body hindered in its capacity to debate

Having discussed the mechanisms and operating modes that govern this body, which are fundamental elements, **let's now turn our attention to its composition, which is equally — if not more — crucial**. Indeed, the composition of the board of directors is even more important for environmental performance than the specialized committees: that is, selecting the right profiles of directors is more impactful than creating an organism dedicated to CSR within the board.

Why are the characteristics of its members so important? Because the board of directors is a forum for debate:

"In a council, the decision is collegial: there is an enrichment when everyone contributes to the debate. The collegiality of the decision."
- a director

"I feel that the board of directors is the place in which challenge should be exercised. But no challenge in unity: you need alternate points of view. And that's what's terribly lacking on some boards."
- an executive

This debate is all the more important considering the challenges of sustainable transformation are far from obvious.

The bottleneck: a composition issue

Indeed, several research studies have demonstrated that diversifying the stakeholders on a board of directors allows the organization to acquire critical resources. More recent work also shows that **this greater variety of viewpoints makes the board more sensitive to CSR issues, and helps the company to better address these issues.**[1]

However, if today the merits of a gender diverse board composition seems more widely acknowledged than in the past (though there is still a long way to go), diversity extends beyond gender, and representation of multiple profiles and viewpoints is still not a given for many boards of directors.

👀 Boards lacking diversity

This sentiment, as reported by the panel of interviewees, is shared by all directors.

46% of directors say they are concerned, and 11% extremely concerned, that the lack of diversity of viewpoints within boards may prevent the emergence of judicious discussions, even though a majority of directors agree that such discussions are essential in view of a company's role addressing societal issues.[2]

But how much diversity should be implemented?

[1] Bear, S. E., Rahman, N., & Post, C. (2010). *The Impact of Board Diversity and Gender Composition on Corporate Social Responsibility and Firm Reputation*. Journal of Business Ethics, 97(2), 207-221.

[2] KPMG (2022). *Diversité au sein des conseils d'administration. Quels enjeux et opportunités ?*

3 levers

“A director is accountable to the shareholders. That's the ultimate responsibility of a director. We don't have anyone who is fundamentally accountable to the company.”
- A director

Diversification of interests

The complementarity of skills

A dialogue open to all voices

Lever n°1: Diversification of interests

The diversity of interests within boards of directors is present across multiple levels. For example, it can cover the relationship between stakeholders and the company (customer, partner, service provider, employee, shareholder, etc.) or to the social characteristics of its members (age, gender, origin, socio-professional category, etc.). Let's start with the first example.

Everyone has a seat at the table

The notion of representing all company stakeholders at the discussion table reoccurred frequently in our exchanges. **Shareholders are represented by definition, but there is appetite for the representation of customers and employees**. The latter in particular *"are not represented in sufficient numbers and often have difficulty making themselves heard because they are not sufficiently prepared to express themselves in a relevant manner,"* says a manager.

👀 Employees represented around the world

In Scandinavian countries, employees are well-represented on boards of directors (⅓ **of the members** in companies with more than 35 employees in Denmark, and in companies between 50 and 200 employees for Norway) and **their presence is evaluated as a real lever for transformation**.

Moreover, a European study comparing the attitude of the two categories of directors [employees and shareholders] showed that employee representatives are more inclined to take into account the interests of shareholders (and not only those of employees), but also the interests of the environment and the local community.

[1] European Trade Union Institute (2016). *Worker Participation*

Lever n°1: Diversification of interests

There is another stakeholder still to be addressed: *"the planet"* as one of the interviewees said. *"We need a chief society officer"* to quote another. Recently, **the British cosmetics company Faith In Nature has appointed two directors to represent nature** on its board. The role is being filled by a pair from two conservation groups.

The less unanimous question of social characteristics

The question of age arose repeatedly in our discussions, at a time when young people hold their elders responsible for the depletion of the planet's resources. And in fact, the average age of a director of the SBF120 is 58.7 years. This would suggest that, more often than not, boards in France don't represent a diverse range of ages, and thus the question of integrating other generations — or at least their points of view — onto the boards of directors arises.

Interestingly, administrators under age 50 question their role in shaping the post-pandemic world more frequently than their elders.[1] Moreover, ***"a lot of leaders got started as a result of conversations with their children. It's a lead that's interesting,"*** says one administrator.

The manner of youth integration is undeniably up for debate: ***"Being a director is a job. We look to them for their experience and skills, and that comes with time. If you don't have a company to save the climate, you won't have met the challenge,"*** says another.

On the other hand, there seems to be more consensus on consulting youth when addressing challenging topics. ***"We need to involve them more in the specialized committees, we need a form of radicalism,"*** advises another administrator.

[1] *UBS Investor Watch*, 2021

Lever n°2: The complementarity of skills

But the element that seems most urgent for inclusion on boards of directors is the **diversity of skills**, particularly in addressing the eminently complex subject of sustainability of performance.

And yet...
A study by Columbia University estimates that **directors with expertise in climate issues amounts to only 8% of all board representatives**. In France, where climate competencies are better represented on the boards of larger organizations than the national average, it's because these boards are composed of independent directors (69% of directors were independent in CAC40 companies in 2021 while 52% of SMIs had no independent director in 2014).

In OECD countries, organizations' independent directors are more likely to be corporate subjects than directors representing the company's shareholders and executives.[1] The simple fact of increasing their representation makes it possible to reduce the presence of biases such as those that may be present in directors who hold capital.

[1] Crifo, P., Escrig-Olmedo, E., & Mottis, N. (2019). *Corporate Governance as a Key Driver of Corporate Sustainability in France : The Role of Board Members and Investor Relations*. Journal of Business Ethics, 159(4), 1127-1146.

Lever n°2: The complementarity of skills

But what makes an external director who helps advance environmental performance topics? “*They are rare birds,*” explains one director. *“They are personalities who are both committed and understand the company's business, its supply chain, its value issues...”*

They can have an expert role that brings a new topic, puts new issues on the table and perhaps covers management blind spots. *“Their role is to plant a seed in the head of the executive, and that seems like a subtle matter to operate.”*

[1] Jorgensen, H. B. (2022). *Stewards of the Future : A Guide for Competent Boards*. Barlow Publishing.

Lever n°3: A dialogue open to all voices

Representing a diverse range of interests on boards of directors is nothing if we do not create the conditions for constructive dialogue.

Issue n°1: The balance of influence in a political body

As we saw earlier, the board of directors is an eminently political body, a place for debate. And as in any political body, it is the scene of power plays. If care is not taken to ensure that all directors have a voice, there is a risk that some voices will be, by default, suppressed. This is often the case with employee directors, who are not trained in the exercise, or with external directors anxious to renew their mandate. ***"The length of a term of office necessarily creates a bias in posture and decisions,"*** explains one director. ***"We should not exceed the possibility of serving two mandates,"*** adds another.

Issue n°2: Facilitating discussions

"We try to keep the conversation loose, but we need more methodology on facilitating discussions." Diversity within the board can generate coordination difficulties and require more time in discussions.[1] ***"Not easy to get brains that have very different worldviews to converge. You make the assumption that you put them together and it's going to work out. But you need facilitation skills,"*** explains Fanny Potier-Koninckx. Facilitation is all the more important in ensuring that everyone has a voice.

[1] Huse, M. (2007). *Boards, Governance and Value Creation: The Human Side of Corporate Governance*. Cambridge: Cambridge University Press

Challenge n°3

FROM A "COST" TO “NECESSITY” MINDSET

Build understanding and buy-in to change behavior

1 assessment :
An obvious reason to pivot and a willingness to do so

The correlation between financial and environmental performance has been broadly demonstrated across economics and management sciences.

Results from the period 1995-2003 showed that companies with better eco-efficiency scores generate better profitability. A 2016 study[1] noted an average economic performance gap of about 13% between French companies that implement CSR practices and those that do not. The scientific literature has since largely demonstrated that CSR investment is a powerful lever of innovation for companies, itself a vector of value creation and transformation for the company.

[1] realized by France Stratégie, the General Commission for Strategy and Foresight attached to the Prime Minister's office, in collaboration with the University of Paris-Ouest Nanterre and the École Polytechnique

[2] Thomson-Reuters (2015). Research Data, Available on the Internet at http://financial.thomsonreuters.com/.

👀The environmental performance

Environmental performance is defined in three dimensions: reduction of environmental emissions, product innovation and reduction of resource consumption.[2]

Paying attention to the environmental performance of the company as a board member is thus far from being contradictory with representing the interests of shareholders.

And yet...

The bottleneck: a knowledge issue

The observation may seem trivial, but it is nonetheless worth making: aside from the independent directors recruited for their expertise on environmental issues, the level of knowledge required to grasp the complex subject of environmental transition and its effects on the profitability model is far from what could be considered sufficient.

“People have to learn to speak the same language and that's very difficult. It seems like everyone has mastered this language, but actually no, not everyone has the same level of literacy.”
- An administrator

“Regulations change quickly, the subject matter is complex: boards are still learning about it.”
- A director

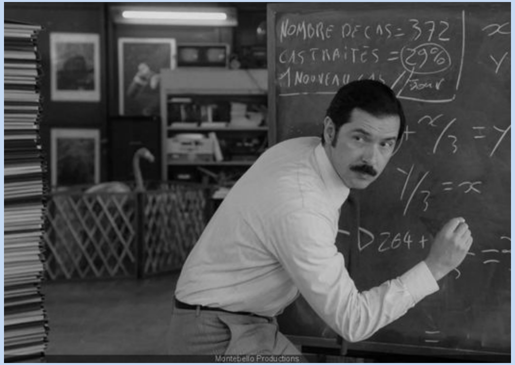
Despite the growing recognition of the importance of this topic by company directors, the lack of literacy — both on environmental issues in the broadest sense and on the footprint of the company being managed — poses a significant obstacle.

As a result, **sustainable transformation is still perceived as risky, seen as a short-term cost rather than a long-term investment essential** to ensuring sustainable performance.

How can companies address this?

2 levers, 1 opportunity

Ongoing upskilling and training



The financial/non-financial correlation

The heightened expectations of investors

Lever n°1 : Ongoing upskilling and training

"Since directors often represent older profiles, they have not been trained in environmental issues during their university studies," explains one director. To overcome this lack of knowledge, two means can be deployed.

Training of the board of directors

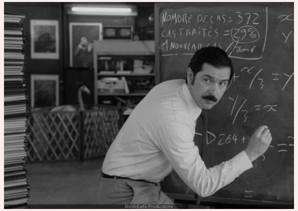
This could entail a formal training course delivered by a third-party organization, or the implementation of continuous internal learning systems: *"We have a climate referral director who has a role in training the board on climate: he is the one who initiates the training courses, but he is also in charge of giving briefings on the scientific advances."*

Exchange among peers

Another observation: the feeling of a certain isolation of directors and the need to exchange more with peers beyond colleagues and fellow directors ion strategies to address environmental issues within boards and committees.

"Often what gets me going in my thinking is discussions with other directors. But we don't develop it enough."
- A director

"Promoting responsible governance that creates sustainable value by looking after the common good is possible with a community of peers – committed directors, who think together about the issues, train each other, share best practices, and are a force for proposal. This is the mission of the IFA – Institut Français des Administrateurs."
- Denis Terrien



Lever n°2 : The financial/non-financial correlation

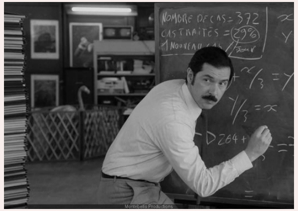
"I believe that in order to make directors see reason, they need to understand that without transformation, their ability to perform is hampered. The company is not there to manage the world, it's there to generate performance. And that's what they need to hear."
- An administrator

To strike a chord with directors it's essential that the information communicated to them does not separate the company's financial performance from its environmental performance, but rather that it demonstrates their interconnection and, furthermore, that the company's sustainable transformation is at the very heart of value creation.

"Directors need to understand that by understanding sustainability issues correctly, their business and financial performance will be superior to that of the competition, because it allows them to differentiate themselves with respect to consumers and to get a head start on regulations," one investor explains. *"Sometimes, it even protects them from market situations such as we are experiencing today with the energy crisis. By making the transition, we remove uncertainties and risks, and finally we anticipate an evolution in demand."*

It is this demonstration of the interdependence of the economic and environmental dimensions that will enable shareholders to better arbitrate on the strategic choices they will have to make in the future.

Several tools exist to support this.



Lever n°2 : The financial/non-financial correlation

Stress tests

"To raise awareness of the business risks and opportunities associated with climate change, we use stress tests to understand the reactions of value chains."

Environmental diagnosis

A lack of understanding of the company's footprint and its most polluting business activities can make CSR debates within the board of directors disconnected and may lead to less impactful strategic priorities.

Merged accounting

"We must try to merge non-financial accounting with financial accounting to make a single entity", said Bris Rocher. And yet, this is where the problem lies and where the exercise becomes more complex. *"My investors can't really see why we would lose money if we didn't transform. They want facts and I have a hard time modeling them, I don't have the metrics. I would need a dashboard that shows how much value a transformation strategy can create for the business."*

👀 Standardization of reporting standards

Today, the heterogeneity of the methods used to measure the sustainable performance of companies means information capable of quickly distinguishing the good from the bad is not readily available. Harmonizing reporting standards would enable a greater understanding of the performance and the reputation of companies across all areas, a measure that would draw the attention of the board of directors and influence their decision-making.

An opportunity : The heightened expectations of investors

"Things are moving"
This was a feeling shared repeatedly over the course of this survey. Too slowly, perhaps. But undeniably so. And Covid has had a lot to do with it: 60% of investors are more interested in sustainable investing than they were before the pandemic.[1]

One of the reasons for this progress? The stakeholder we might have least expected: investors.

"We condition our participation on certain objectives that are important to us, and often more to us than the company," one of them told us. Perhaps more aware of the risks that a lack of transformation would represent, investors are now also pushing for bolder pivots, encouraged by the new regulations.

👀European taxonomy

The classification of economic activities which deliver a positive impact on the environment intends to direct investment towards so-called "green" activities. The European Commission has commissioned a group of experts to establish criteria for selecting activities that contribute "substantially" to "climate change mitigation and adaptation" from among 67 sectors. Companies with more than 500 employees must now indicate the proportion of their turnover, investment and expenditure that corresponds to sustainable activities.

[1] *UBS Investor Watch*, 2021

Conclusion

Repositioning an economic model within planetary boundaries reshapes the role and responsibilities of directors in an unprecedented way.

Currently perceived as a barrier to progress on sustainable business transformation, directors have the power and the means to contribute to making the economy more virtuous while guaranteeing the economic viability of the company they administer. Indeed, they have a far more important role to play than just the "cash register" of regulatory compliance.

Provided that...

... **the right operating methods** are put in place to center the subject within the transformation of the economic model
... **a collective rich in expertise** and diverse in points of view is convened to address these complex issues
... **we create the conditions** for a constructive debate and a bold consensus
... **we develop the management support tools** that allow us to make the most impactful decisions

Under these conditions, directors will be the flag-bearers and instigators of the medium- and long-term transition. Under these conditions, boards will be able to go beyond the stage of non-financial communication to make environmental performance a strategic transformation project of primary importance.

METHODOLOGY

Bibliographic references and panel of interviewees

Methodology

1. Literature review

The scientific literature on governance in the face of environmental challenges is rich, so we dived into the management science work already done on the subject.

2. Individual interviews

25 interviews of 30 to 45 minutes with those who interact with boards of directors (including presidents and the directors who compose them, the general management they appoint and control, the institutions that supervise them, etc.)

This survey is not intended to be an academic authority, but we hope it will inspire current and future directors.

Behind this survey:


Rose Ollivier


Thomas Poulain-Batlle


Marion Leblon

<u>Note</u> : The actors solicited to contribute to this study work primarily in large organizations. It should therefore be noted that for smaller structures, where the board of directors is not always the body where things are done and decided, some of the findings may not be directly applicable. Some board structures and roles will tend more towards influencing than taking decisions. These additional considerations should be kept in mind when comparing the findings of this study with the realities experienced by each company.

The list
of interviews

The 25 interview panel

Bertrand Badre
Managing partner & founder @Blue Like an Orange Sustainable Capital

Philippe Blondiaux
Global Chief Financial Officer @Chanel

Sandrine Conseiller
Former CEO & Board member @Aigle

Pascal Demurger
Managing Director @MAIF Group

Vincent Fauvet
President @Investir&+, member of the board of management @Association Familiale Mulliez

Antoine Fievet
President @Bel Group and @Citeo

Maria del Carmen Humblot-Ferrero
Managing Director & Partner @BCG

Emery Jacquillat
President Executive Director @Camif

Denis Machuel
CEO @The Adecco Group

Xavier Ouvrard
President and CEO @Babilou Family

Marcello Palazzi
co-Founder @B Lab Europe

Alexandra Palt
Chief Corporate Responsibility Officer @L'Oréal

Eloïc Peyrache
Dean @HEC Paris

Brune Poirson
Chief Sustainability Officer @Accor

Fanny Potier-Koninckx
Associate Director & Partner @BCG

Sonia Tatar
Research Director @INSEAD, member of the supervisory board @Nasdaq Center for Board Excellence

Denis Terrien
CEO @Salesforce EMEA South and Central, President @Institut Français des Administrateurs

Et d'autres exécutifs RSE, des investisseurs, des experts...

Note to the reader: *a significant number of the interviewees came from the executive branch, which allowed us to have a critical external view, but which also taints our analysis.*

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THANK YOU for reading!

Please feel free to connect with us. We would be happy to work further with you on these topics.

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Behind this survey, 3 partner organizations,
consulting firms committed to sustainable transformation:

Quantis

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