

Archetypes in the Sustainability Debate: Board Responses to Sustainability Challenges & Opportunities

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Boards and Sustainability

- “Get the Board of Directors on Board”
 - 1 of 8 evidence-based factors to drive business sustainability
 - Research by BCG with 60,000 respondents, 118 countries

“Corporate Sustainability at a Crossroads,” *MIT Sloan Management Review*
Research Report, May 2017
- “Make sustainability a priority for the board”
 - 1 of 6 potential “stumbling blocks”

CB Bhattacharya & Paul Polman, “Sustainability Lessons from the Front Lines,” *MIT Sloan Management Review*, 2017
- Similar messages from both sustainability-focused organizations (e.g., CERES, UN Global Compact) and governance-focused organizations (e.g., NACD)

CEOs Believe Sustainability is Important

The UN Global Compact-Accenture Strategy CEO Study 2016

Milestones of Progress

In the midst of disruption and uncertainty, CEOs see **milestones of progress** creating a new opportunity for radical change



89%
say commitment to sustainability is translating into real impact in their industry



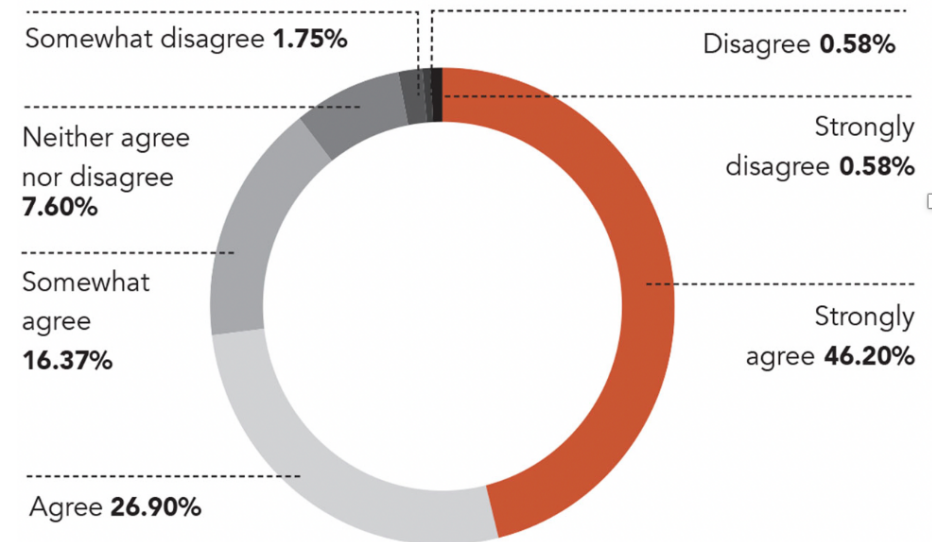
90%
feel a personal responsibility to ensure their company has a clear purpose and role in society



N = 1,000 CEOs, 150 countries, 30 sectors

Boards Believe Sustainability is Important (Board Agenda 2018)

- Three-quarters agree that ignoring sustainability will affect their company's ability to create value in the long term



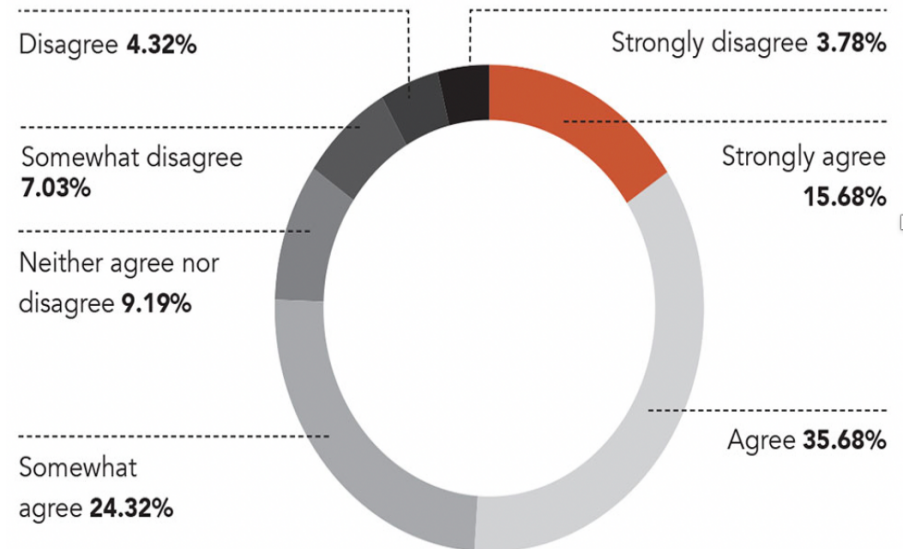
Question: Do you agree that ignoring sustainability will affect your company's ability to create value in the long term? (N = 234)

But Board Attention to Sustainability is Limited...

- CERES 2018 survey (N = 600 large US firms)
 - 31% have board oversight of sustainability
- BCG 2014 research (N = 2500 global executives)
 - 86 % agree there should be a strong role for the board on sustainability
 - 42% report that their boards have a strong role

Board Beliefs Don't Translate into Action on Sustainability

- Only half agree that the sustainability principles and intentions of their organisation are delivered by effective business policies and objectives



Question: Do you agree that the sustainability principles and intentions of your organisation are delivered by effective business policies and objectives?

(Board Agenda 2018 Survey) (N = 234)

Gap Between Aspirations and Means of Delivery (Board Agenda 2018)

- One-third of companies required sustainability expertise or mindset in appointing non-executive board members or recruiting executive members of the board
- Half said their companies had the right information and measures in place for them to understand its position, ambition and progress with regards to sustainability
- Half don't have a head of sustainability
- Less than 30% of companies have a head of sustainability who reports to either the board (either directly or via the CEO)
- Only 17% of boards have a dedicated sustainability committee

Our View

Lack of board attention to sustainability is short-sighted

- Inherent importance of sustainability
- As a matter of good governance
 - Role of board directors to enhance long-term value and mitigate risks

Why the Lack of Board Attention to Sustainability?

- Prior research findings on common obstacles to board attention to sustainability:
 - Misunderstanding of fiduciary duty of directors
 - Short-termism
 - Focus on shareholder value maximization
 - Belief that investors do not care
 - Uncertainty about financial implications of sustainability
 - Lack of expertise
- Board Agenda 2018 survey points to the right aspirations

Research with Board NEDs

- Qualitative research using semi-structured interviews
- Convenience sample of 25 experienced non-executive directors, representing 50 companies
- Wide range of industries, including several household names
- Mostly European multinationals, some US, most are listed, a few family owned
- All directors are European, seven are women, all aged 55+



“The Deniers”



“The Superficial”



“The Hard-Headed”



“The Complacent”



“The True Believers”

Board Sustainability Archetypes

“The Deniers”



Sustainability is a fad that will go away

“The True Believers”



Sustainability is fundamental good governance and long term value creation

“The Hardheaded”



Sustainability is one factor (among many) affecting the business

“The Complacent”



We have good practices in place already

“The Superficial”



We're decent folk doing our bit

Some of our suggestions on how to respond...

“The Deniers”

- Careful timing.
- With concrete concepts – cost-reduction, business opportunity, risk exposure.
- One-on-one initially.
- Patience and perseverance.

“The Hardheaded”

- No grand speeches—sustainability as good management.
- Stay close to existing practice and look initially for low hanging fruit.
- Incorporate within existing board committees (especially as strategic risk factor).
- Aspire to be “best in class”.

“The Superficial”

- Play to their good intentions.
- Make positive suggestions closely aligned with the business.
- Create board sustainability committee to focus on turning good intentions into good actions

“The Complacent”

- Acknowledge past successes while pointing to shortcomings of current practices.
- Emphasis on best practice and more strategic approach.
- Include sustainability expertise in board/CEO recruitment criteria

“The True Believers”

- Sustain sustainability, by keeping it in the DNA and on the agenda.
- Act consistently and always with a view to the long-term.
- Seek out uncomfortable realities and business opponents.
- Keep asking questions.

Three Ideas to Leave You With

- Lack of board attention to sustainability is short-sighted if only as a matter of good governance
 - Why the gap between aspirations and performance?
- Board sustainability archetypes point to “mindset” challenges
 - Right people, right mindset?
- Even with the right mindset, there are other challenges:
 - Corporate purpose
 - Information and relevant expertise
 - Board organization
 - Complexity/intractability of some sustainability problems

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