



Frischer Wind für mehr Nachhaltigkeit – die Rolle der Aufsichtsräte

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Egon Zehnder

Prof. Dr. Michael Wolff

- Full Professor for Management & Corporate Control at the University of Göttingen
- Research focus is on various corporate governance issues (e.g. composition of boards, institutional investors)
- Research results regularly pickup by the media (e.g. Börsenzeitung, Der Spiegel, Financial Times, Handelsblatt, ZDF)
- Practical projects on boards topics with several partners (e.g. BCG, EgonZehnder, Hermes Equity EOS)
- Co-Founder of European Center for Board Efficiency

Dr. Carsten Wundrack

- Egon Zehnder
 - Executive Search, Board Consulting, Leadership Advisory
 - Global Partnership
- Carsten leads Industrial Practice D/A/CH and Chemical Practice Europe
- Focuses on complex and international CEO successions programs and the development of leaders and top teams
- Works with Boards to help them being more effective
- Is inspired by advising German companies on their journey towards modernization, “green economy” and a higher degree of diversity and agility

- Why should sustainability play a greater role for boards and their composition?
- What impact do boards have on the sustainability performance of companies?
- How do sustainability and leadership play together in boards?

We can not only read about the increasing importance of sustainability aspects, ...

EOS at Federated Hermes is a leading stewardship service provider. Our engagement activities *enable long-term institutional investors to be more active owners of their assets, through dialogue with companies on environmental, social and governance issues*. We believe this is essential to build a global financial system that delivers improved long-term returns for investors, as well as better, more sustainable outcomes for society.



Die größten Hebel, eine nachhaltige Entwicklung mitzugestalten finden sich im Anlagebereich, dem Kerngeschäft der DekaBank. Hier möchten wir zum einen unseren Kunden nachhaltige Investmentprodukte anzubieten. *Zum anderen verfolgen wir das Ziel auf unsere Geschäftspartner derart einzuwirken, dass negative Einflüsse auf Umwelt und Gesellschaft möglichst minimiert werden.* Die Beachtung nachhaltiger Aspekte ist mittlerweile eine feste Orientierungsgröße im Asset Management geworden.



Consistent with these shareholder rights, we believe BlackRock has a responsibility to monitor and provide feedback to companies, in our role as stewards of our clients' investments. **BlackRock Investment Stewardship ("BIS") does this through engagement with management teams and/or board members on material business issues including environmental, social, and governance ("ESG") matters and, for those clients who have given us authority, through voting proxies in the best long-term economic interests of our clients.** We also participate in the public debate to shape global norms and industry standards with the goal of a policy framework consistent with our clients' interests as long-term shareholders.

BLACKROCK

...but also measure it on the capital market

Lower sustainability performance/high need for business model transformation leads to ...

Higher cost of debt

* Source : Chava, Management Science, 2014

Lower valuation in times of higher uncertainty

* Source : Jia & Lil Journal of Corporate Finance, 2020

Negative market reactions to public pressure

* Source : Ramelli et al, Journal of Corporate Finance, 2021

Lower short- and long-term returns

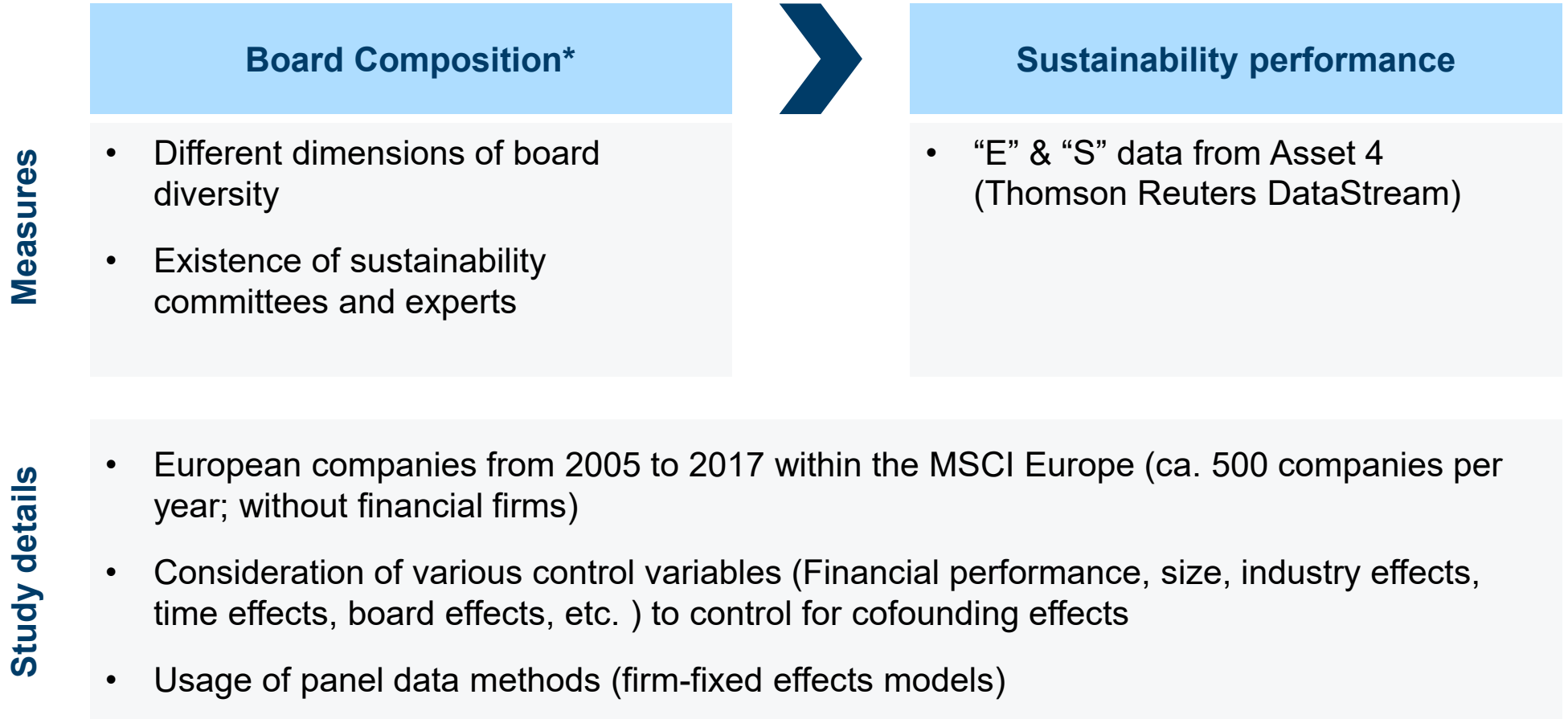
* Source : Cordeiro et al, Journal of Business Ethics, 2014

How can the supervisory board drive the change to a better sustainability performance?

Agenda

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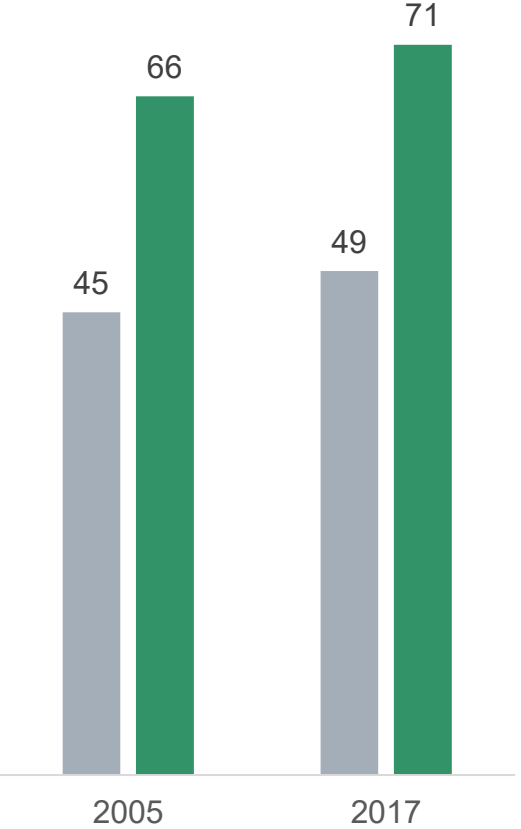
In our study, we analyze the impact of board compositions on the sustainability performance



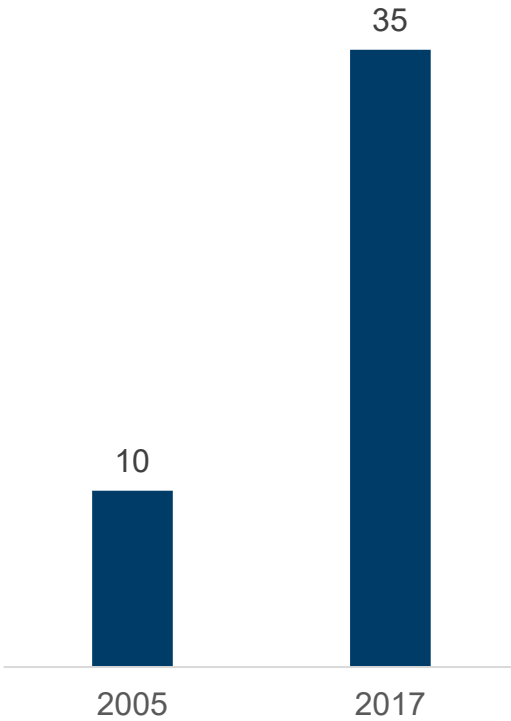
*The study principally looked at supervisory board or, in the case of companies with a one tier system, the non-executive directors

Some descriptive results (1/2)

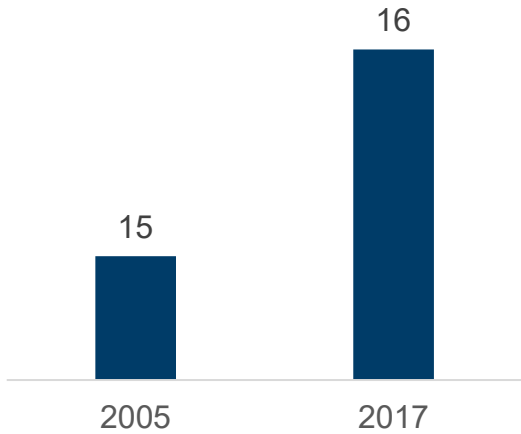
Average minimum & maximum age (in years)



Proportion of Women (in %)



Average maximum board tenure (in years)

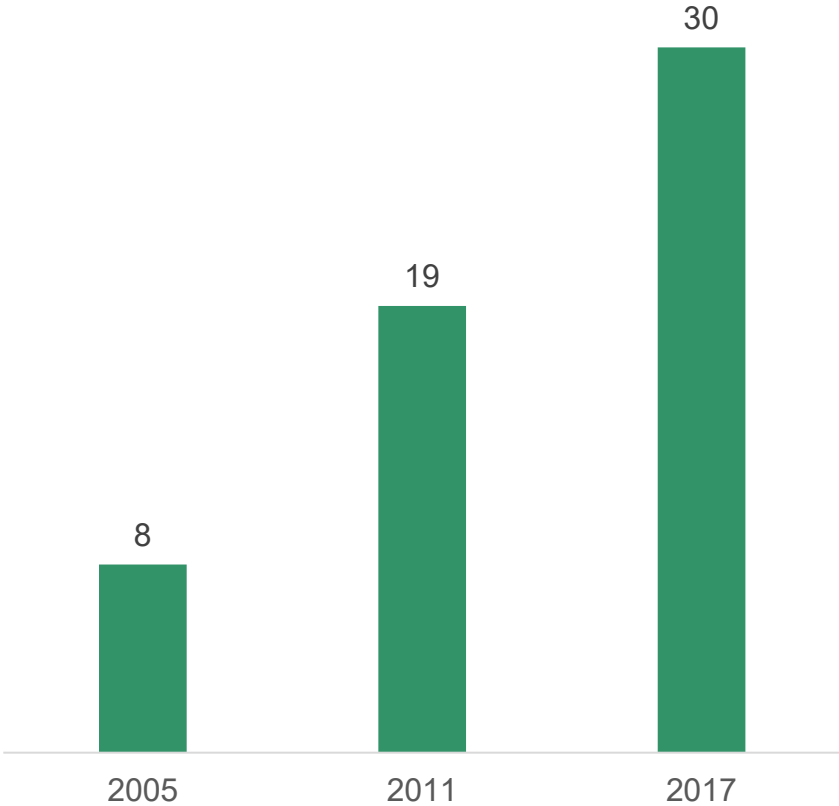


Source: University of Göttingen (2021)

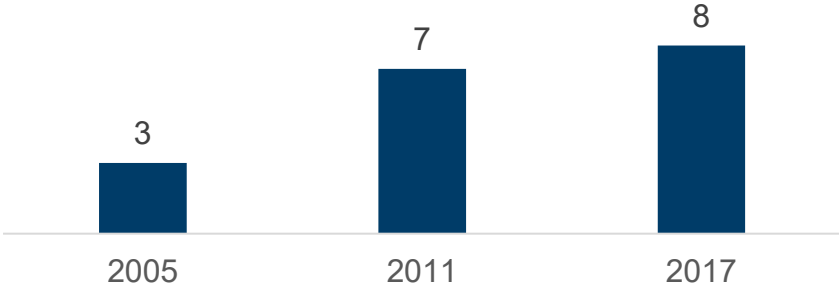


Some descriptive results (2/2)

Proportion of companies with sustainability committees (in%)



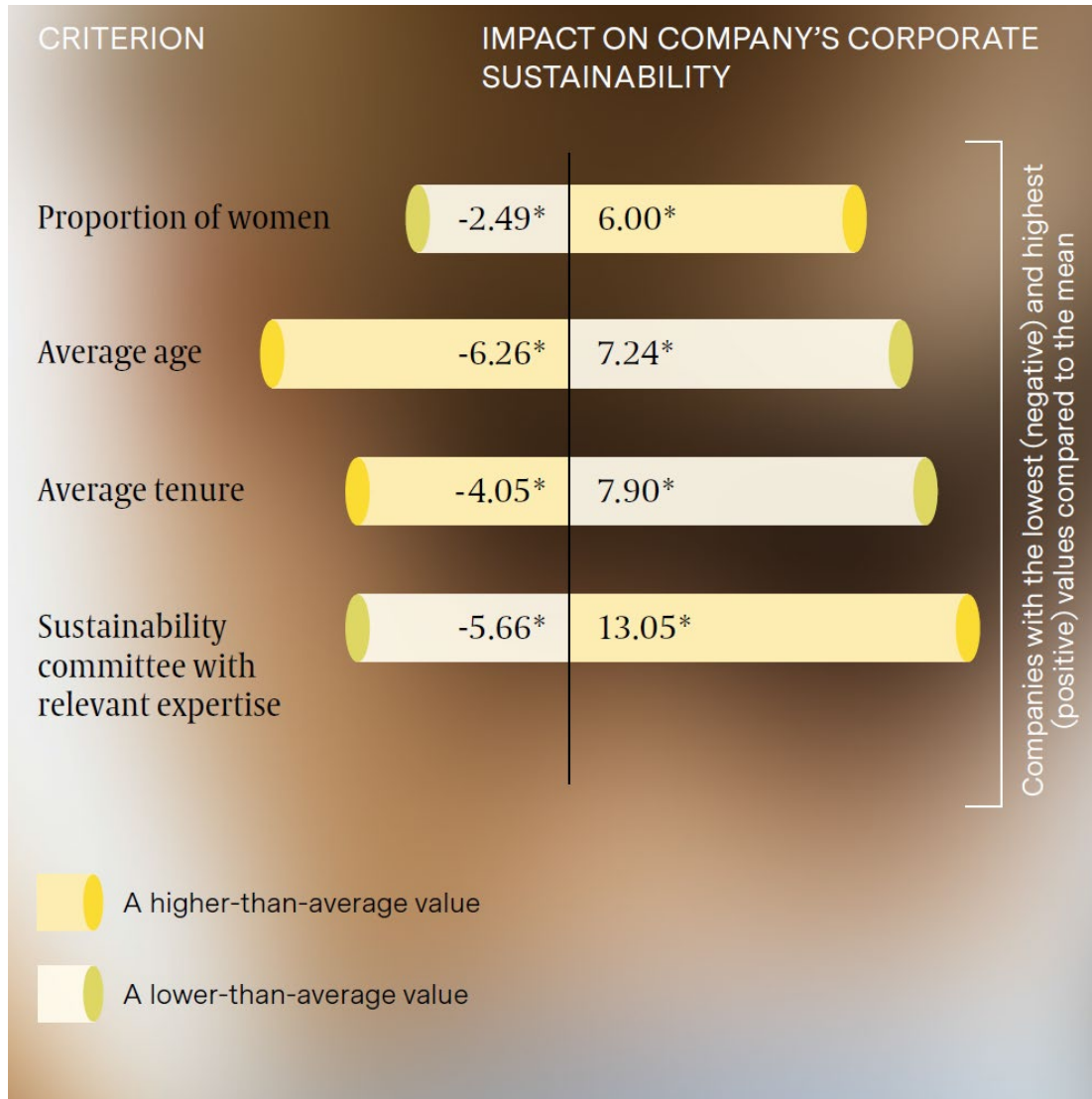
Proportion of companies with sustainability experts on board (in %)



Source: University of Göttingen (2021)



Impact on a company's corporate sustainability performance



- Analyses based on multivariate regressions with firm-fixed effects
- Considerations of several potential co-founding influential factors
- Graph arrows the change in corporate sustainability in percentage points

Source: University of Göttingen (2021)

Classical (critical) questions to empirical studies

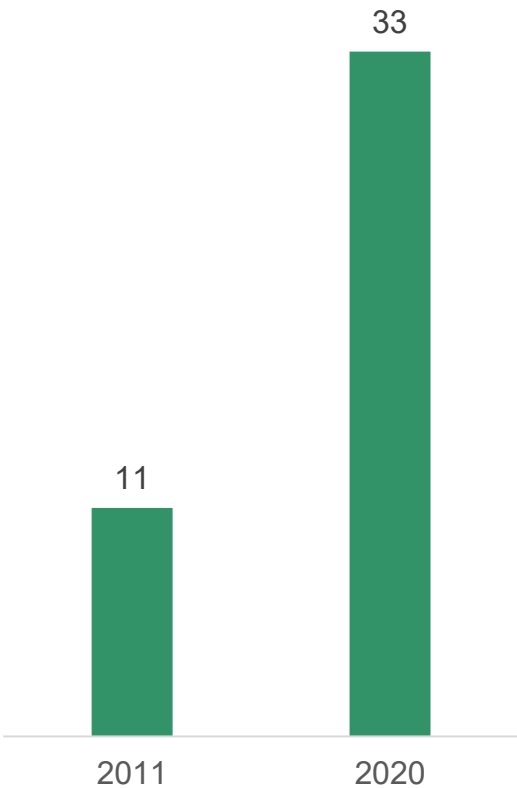
Isn't the data too old to be able to make statements for today?

Couldn't the results be the other way around?

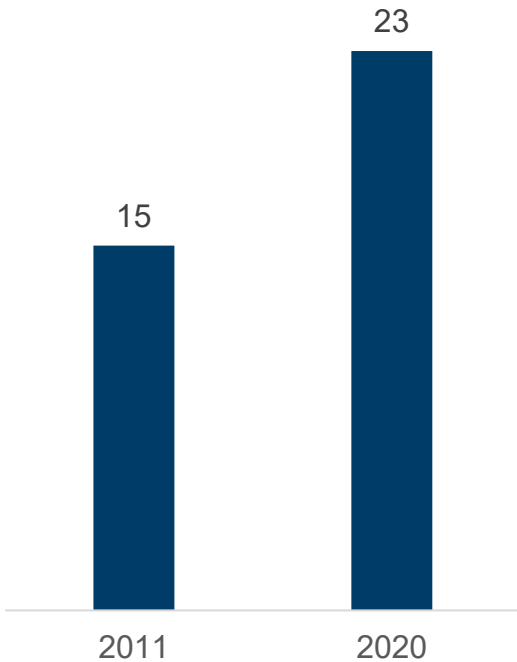
Are the results really transferable to German companies?

Some data for German supervisory board members

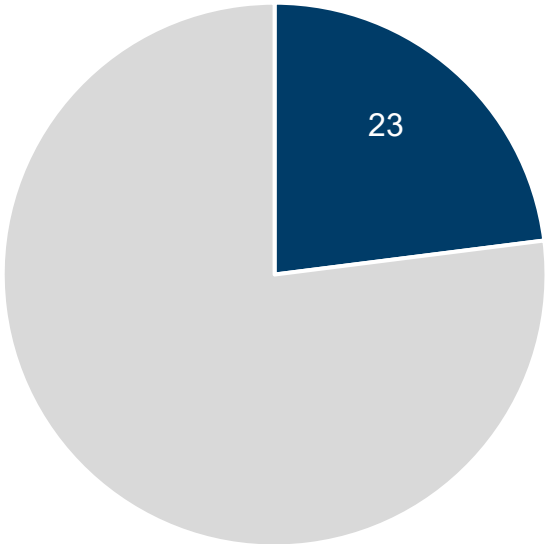
Proportion of women within DAX companies
(in %)



Proportion of supervisory board member with tenure longer than 9 years
(in %)



Proportion of DAX companies with sustainability committees
(in 2021; in %)

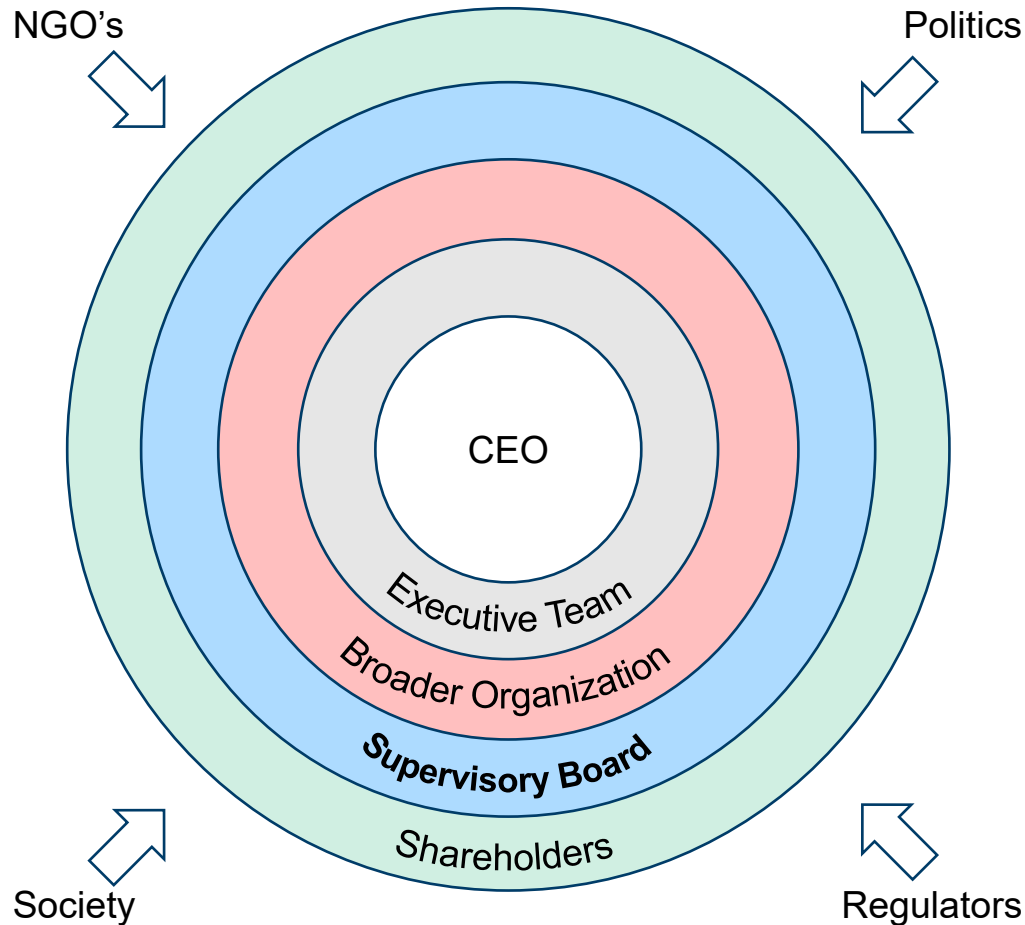


Source: University of Göttingen

Agenda

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Where do sustainability and leadership “meet” in organizations?



- Supervisory Boards should be in dialogue with CEO's/Executive Teams about:
 - Sustainability & Strategy
 - Sustainability & KPI's
 - Sustainability & Regulatory / Compliance
 - Sustainability & Organizational Capabilities
 - Sustainability & Cultural Transformations
- Supervisory Boards should consider sustainability aspects in CEO / Executive Team appointment decisions & evaluations
- The role of Supervisory Boards in communication with capital markets might be revisited

For all this the Board needs to improve their “sustainability competence”

What questions need to be answered by Supervisory Boards to improve their Sustainability Competence?

- Are the supervisory board members “on the same page” regarding sustainability ambition & strategic implications ?
- Is there alignment about the priority of the topic? Does the priority correspond with the meeting agenda?
- How should sustainability competence be defined for the respective supervisory board?
- What does that mean for the selection of supervisory board members and board composition?
- What does that mean for supervisory board governance (e.g., sustainability committee, sustainability advisory council)?
- ...



What are the chances and “watch-outs” for Supervisory Boards

Chances

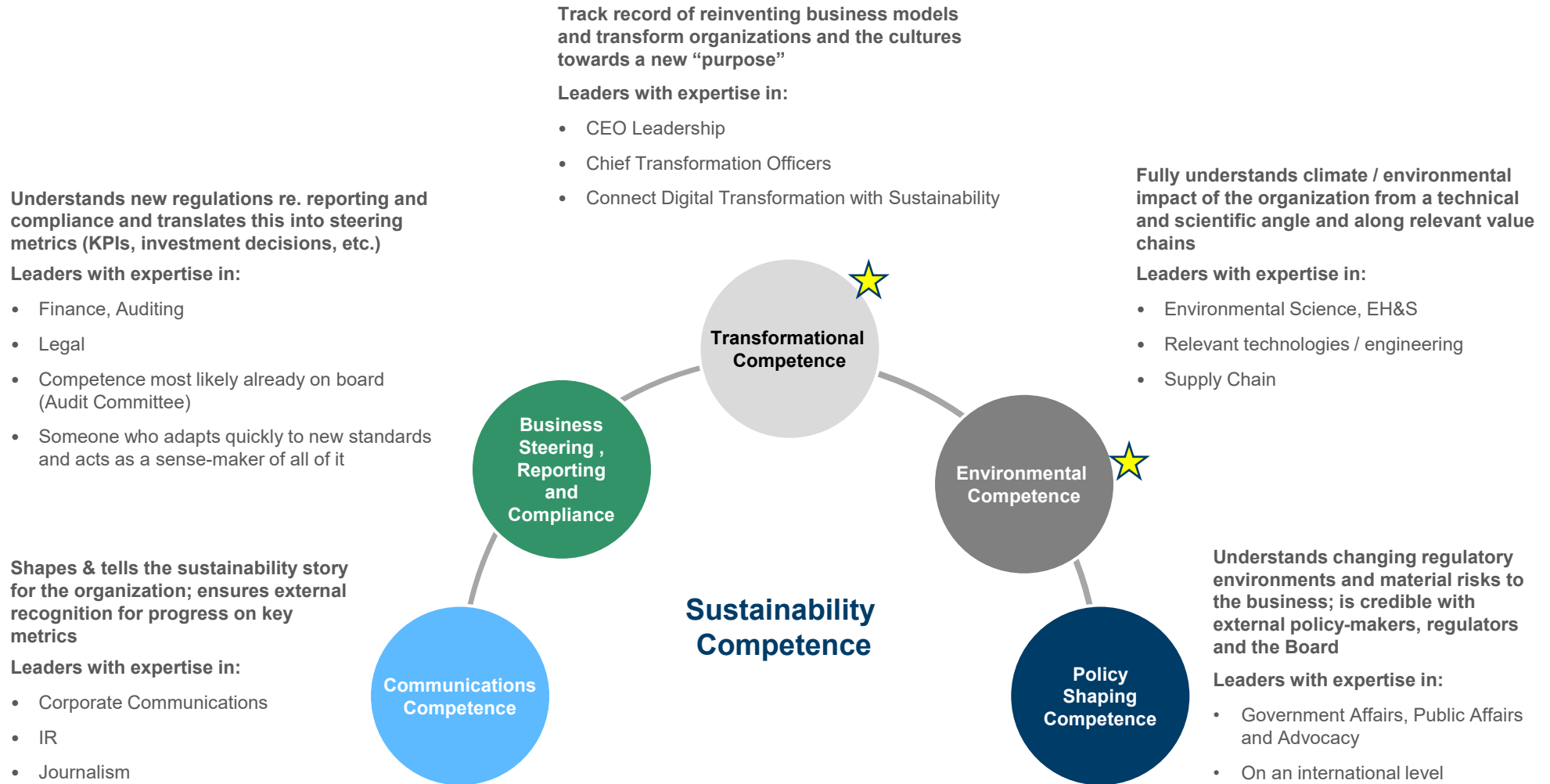
- Discuss and position sustainability first & foremost as **strategic business topic**
- Connect sustainability with the **company purpose**
- Strengthen the **dialogue with CEO**
- Add meaningful **sustainability competence** to the board and make this competence effective

Risks

- Loose the “big picture” and **get lost in detailed reporting/compliance** discussions
- See sustainability as another “**corporate initiative**”
- **Pass on the pressure** from capital markets / stakeholders to the CEO
- Have some big “sustainability names” on the board and that’s it (“**green washing**”)



How to define 'Sustainability Competence'?



Traits of “Sustainability Board Members”



Curiosity

- A pioneer and out of the box thinker
- Makes new sense of complex issues that are material to the business
- Is an agile learner with a growth mind-set



Courage

- Believes in and leads with purpose
- Has the courage to tell the truth – also what does not make sense
- Assess chances and risks in new ways



Engagement

- Creates alliances, partnerships and momentum across the board
- Engages people with the heart not just the head
- Engages broader stakeholders in an authentic and compelling manner

Quick Summary

- Sustainability is first and foremost a strategic business imperative
- Capital Markets ask for transformation towards a “green economy”
- Supervisory Boards can have an active impact on “sustainability performance”
- A diverse supervisory board helps to move the needle
- Sustainability competence needs to be specified and build up in supervisory boards
- Sustainability needs to be reflected in supervisory boards governance and agenda
- Integrating financial and sustainability valuation models in a meaningful way is a challenge IR may help to tackle. More than ever are supervisory boards in need of IR advice

