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MOBILIZING BOARDS TO LEAD SUSTAINABLE TRANSFORMATION

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Preamble

As professors affiliated with the Sustainability and Organizations (S&O) Institute of HEC Paris, we have conducted a study on how societal and environmental issues are considered in the boards of European companies. Our objective was to examine how these issues are incorporated into board agendas and discussions, how they shape strategic decision-making, and the extent to which boards can drive the corporate sustainability transition, including both their limitations and opportunities.

The conclusions presented below are based on multiple quantitative studies and qualitative interviews with Non-Executive Board Directors[1]. Given their fiduciary responsibilities and to ensure confidentiality, we do not disclose their names. The panel includes a diverse range of European companies, both publicly listed and privately held.

As CSRD[2] first results are approaching, European boards show awareness but lack full engagement on sustainability issues.

Recent studies[3] reveal that most board members are at least somewhat aware, if not very aware, of the importance of sustainability and its impact on businesses. However, a study published in November 2023 by *Chapter Zero Belgium* (titled *Overcoming Barriers to Effective Climate Governance*), an NGO focused on helping board members integrate climate action into corporate strategy, shows that only 41% of boards are actively engaged in taking climate-related action.

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[1] Twelve semi-directive interviews and ten informal conversations with Non-Executive Directors and CEOs, conducted between July 23 and end of 2024.

[2] CSRD – Corporate Sustainability Reporting Directive – is a mandatory EU directive that requires companies to report on their ESG performance and have this reporting certified.

[3] Chapter Zero Brussels, "Overcoming barriers to effective climate governance" – November 2023; EY Europe, "4th Long-Term Value and Corporate Governance Survey" – March 2024; Heidrick & Struggles, "Board Monitor Europe 2024" – September 2024; PwC, "2024 Corporate Directors' Survey: Uncertainty and transformation in the modern boardroom (US) "– October 2024.

This trend is further highlighted by the *Heidrick & Struggles Board Monitor Europe 2024* report, which notes that most of boards' time (55%) remains dedicated to traditional oversight tasks, such as financial performance, risk management, shareholder concerns, strategy reviews, CEO succession planning, leadership performance, and compensation. In contrast, only 12% of board time is allocated to addressing external global risks like climate change or supply chain disruptions.

Adding to this, *PwC's 2024 Corporate Director Survey* underscores a declining focus on Environmental, Social, and Governance (ESG) topics on U.S. board agendas. Only 47% of boards are addressing ESG in 2024, compared to 55% in 2022. Moreover, just 22% of U.S. directors believe that ESG performance directly impacts a company's bottom line. Many board members also acknowledge that ESG is poorly understood and inconsistently interpreted at the board level.

Another significant observation is that adding sustainability expertise to boards remains relatively uncommon. In Europe, only 22% of boards, according to *Heidrick & Struggles*, plan to recruit members with expertise in risks faced by their companies, including climate. In the U.S., this figure drops to just 5%, as reported by *PwC*.

Additionally, non-executive directors and board chairs express scepticism — only 8% of them feel "completely satisfied" — with having a clear strategic view, supported by credible analysis, of how their company plans to address its sustainability objectives and their potential for value creation. This highlights a significant gap in data and strategic information at the board level, as per findings from *EY*.

Finally, the Corporate Sustainability Reporting Directive (CSRD), which became mandatory for European public companies in 2024, will gradually apply to other non-listed and smaller European companies by 2026, and later, by 2028, to non-European companies with significant business in Europe. Eventually, this directive will affect an estimated 1 million companies, expanding boards' responsibilities to ensure sustainability is properly reported and embedded into long-term corporate strategy, rather than treated as a standalone or compliance-driven exercise.

Yet, many investors consider “climate change and environmental stewardship” a top priority for boards in 2024, with 56% identifying it as one of their two key concerns. Furthermore, sustainability has emerged as one of the top three topics—alongside emerging technologies (including AI) and geopolitical volatility—on which European boards have focused more in 2024 compared to prior years, according to *EY*.

Board preparedness varies greatly and falls into three distinct categories

Building on these recent studies, we conducted interviews with European board members over a 12-month period. All companies represented in these interviews are either already required to comply with the CSRD or will soon be subject to it. Throughout this process, we systematically assessed key aspects, including board members’ awareness of sustainability, the board's preparedness, and the extent of their engagement, along with the concrete actions they have taken. The board members we interviewed represented a diverse range of cases, across sectors, company sizes, and types of shareholders (e.g., family-owned, or listed companies). Based on these discussions, we identified three typical situations.

First, **engaged and active** boards, which represent a minority of less than 20%, have non-executive directors who are well-informed, trained, and aware of sustainability matters. Sustainability is integrated into strategic decision-making, and some boards have a dedicated ESG committee that operates effectively and reports directly to the board. Additionally, sustainability performance indicators and actions are regularly measured and assessed against set objectives. However, the balance between financial and sustainability considerations in decision-making remains undefined, with financial factors typically taking precedence. As an illustration, one of our interviewees said, "*Sustainability is fully embedded throughout our organization: our strategy, social and environmental responsibility (CSR), and board discussions are inherently interconnected. The Chair of the CSR Committee is highly engaged and proactive, ensuring that sustainability remains a core part of our company’s DNA and family business culture.*"

Secondly, the majority of boards are on the path **from awareness to readiness**. While a few actions may have been taken, they are not yet systematized. Sustainability is not a regular agenda item for the board, with initiatives often occurring once a year or sporadically. These actions are primarily driven by top executives and management, without any formal measurement or integration into key performance indicators. Only one of the three dimensions, society, governance, or environmental footprint, is typically addressed. For example, gender equality measures or anti-corruption policies, or carbon reduction efforts may be implemented, but there is no overarching strategy. Board members and top executives have started to train themselves: "*To support this transformation, extensive training programs have been implemented. Board members receive dedicated training on their ESG responsibilities, while 600 senior executives across the group participate in specialized ESG modules developed in collaboration with leading universities.*"

Lastly, the remaining boards, approximately a fifth, are **somewhat aware but neither prepared nor engaged**. There is significant variability in the level of information and expertise on sustainability among board members: "*There is a widespread lack of expertise at the board level, with very few sustainability experts available in the market today*." Most of the criteria used to measure activities are financial, and sustainability is rarely, if ever, included on the board agenda. As a result, strategic decisions do not take sustainability considerations into account.

What is holding boards back from driving change?

Interviews with board members revealed several key challenges that are preventing progress and hindering boards from moving forward in their sustainability efforts. One significant issue is the general **lack of information** among board members, with few engaging external experts or consultants for the necessary insights.

This information gap is further exacerbated by a broader **lack of competencies**, particularly when it comes to understanding the ecological and societal transition, both of which are essential for addressing sustainability matters effectively. The terminology of ecology is often unfamiliar or unclear, not to mention the physical, chemical, and biological phenomena behind it.

Another barrier is the **absence of strong leadership** within the board. Without a driving force from key figures — such as the president, CEO, a knowledgeable opinion leader, or a shareholder — there is often little momentum to push sustainability initiatives forward. As one interviewee pointed out, "*Currently, sustainability initiatives are primarily driven by operational teams rather than boards.*"

Additionally, some board members express **reluctance to commit to long term sustainability actions**, largely due to concerns about high investments with limited short-term returns. "*There is no long-term view at board level: as soon as the gas prices went up because of the war in Ukraine, all considerations about moving to this less polluting and cheaper energy were swept away*", cited a board member from Belgium. This hesitation is often reinforced by external pressures from the finance world, where financial indicators tend to dominate over long-term strategic goals: "*Boards have mostly embraced the idea that societal and environmental responsibility is important but remains secondary to financial considerations.*"

Furthermore, **external drivers** such as regulation, reputational risks, and access to financial resources are still not strong enough to fully compel boards to act on sustainability. Therefore, an interviewee noted: "*New standards and non-financial reporting requirements will act as a catalyst for action and a key accelerator. Boards are only now recognizing their role in sustainability matters, and the European CSRD regulation will further accelerate progress in this area. This presents a significant opportunity!*"

In contrast, the examples we gathered highlighted strong drivers that are leading to more progress.

Boards that are well-informed, regularly trained, and that engage external expertise, tend to make more headway in advancing sustainability initiatives. These information and knowledge are shared between the board and top executives, ensuring a cohesive effort.

Reputation can be both a driver and a blocker. Failing to act — or to communicate actions — poses a reputational risk, while greater transparency can attract increased expectations and scrutiny from activist shareholders and NGOs. One interviewee mentioned, "*We have a well-defined corporate purpose, an integrated strategy that embeds CSR, and an internal measurement system. However, we take a cautious, measured approach to implementation. Instead of making grand announcements, we focus on action, deliberately avoiding external publicity.*"

By addressing these blockers and reinforcing the positive factors, boards can make significant strides in integrating sustainable business practices into their long-term strategic planning.

The N.E.X.T©[4] model: a structured approach to anchoring sustainability in the Boardroom, beyond CSRD compliance

Based on these previous observations, we propose a structured model, called N.E.X.T. to facilitate board commitment to sustainability. Each letter of the acronym is describing a phase in the board's journey: Nurture, Engage, eXcell, Transform. This framework encourages the board to first assess where it stands today (in reference to the three categories described earlier) and step by step embed sustainability into the company culture, making it a central element of governance and operations.

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The first phase, **Nurture**, emphasizes building awareness and establishing a foundation for sustainability transformation. This phase involves providing targeted information and training board members on both broad and specific sustainability topics.

[4] The N.E.X.T© model is copyrighted.

The goal is to develop a shared understanding of what sustainability entails, the role businesses can play, the regulatory environment, and a common vocabulary. Practical examples of **nurturing** include organizing interactive workshops such as the French-originated Climate Epic, based on IPCC[5] scenarios, or the Financial Times' Climate Game, informed by the IEA *Net Zero by 2050 report*[6], as we frequently do at HEC Paris. Boards can also engage with experts or scientists, visit Natural Sciences Museums – to explore the interconnectedness of humans, other living beings, and the physical and chemical conditions of our environment – or locations particularly affected by climate change (such as the Alps' glaciers). In addition, another step for diagnosis is to initiate a first carbon footprint assessment to measure the company's greenhouse gas emissions. On the societal front, boards might call for a gender equality or diversity audit. Combined with these initiatives, engaging the board in a broader reflection about the company's purpose can prove particularly powerful. This is confirmed by the testimonial from the Chairman of a multinational listed company: *"How did I start? By engaging my board on the company's purpose! A business is successful because it is useful and not the other way around."*

The next **Engage** phase focuses on establishing a common understanding of what is at stake for the company – both risks and opportunities – in relation to sustainability. The board and the executive team are aligned on the strategic importance of the sustainability topic. The board ensures that the most obvious initiatives in terms of measurement, mitigation, and adaptation are implemented by the company and effectively communicated to key stakeholders. A common and practical example of **engaging** includes selecting and reviewing – with the same frequency and emphasis as the financials – a limited number of key sustainability performance indicators. Another actionable step is requesting the top management team to build a double – financial and impact – materiality assessment for the company to identify risks and opportunities.

[5] IPCC, the Intergovernmental Panel on Climate Change is the United Nations body for assessing the science related to climate change.

[6] The IEA: International Energy Agency.

And finally choosing initial sustainability projects, the "quick wins", based on a cost-effectiveness analysis provided by management (as per the Marginal Abatement Cost Curve[7] for greenhouse gas emissions) to avoid greenwashing, social washing, or purpose washing, as pointed out an Oil and Gas industry interviewee, "*We started by methane leak detection and repair, one of the most cost-effective measures after non-emergency flaring*."

The third **eXcel** phase addresses embedding sustainability into the company's core purpose, strategy, and key performance indicators, making it a central focus rather than a peripheral consideration. This shift broadens the scope and extends the time horizon of strategic discussions, as sustainability is inherently a systemic and long-term challenge. Typical actions by the board in this phase often include redefining the company's purpose, tasking management with developing a longer term strategy, for example from 5-years to 10-years, setting long-term targets according to the most demanding ESG frameworks and standards (e.g.: CSRD, CDP[8], SBTi[9]), asking management to engage with other industry value chain players or local companies to align operations with circular economy principles, and adopting a triple bottom line performance approach for decision-making where sustainability metrics eventually carry equal weight with financial metrics in board evaluations. The chairman of a leading transnational company in services and utilities highlighted that, "*18 performance indicators spanning five categories – commercial, environmental, human resources, social, economic and financial – are used at board level" and that "the relative weight given to these indicators is 50% for finance and the other remaining 50% are evenly spread over the other categories. From this multidimensional approach to performance emerges a true culture of sustainability, a shared language, a common ambition, and a strong alignment between the board, the top executives, the management lines, all the employees and the external stakeholders."*

[7] A Marginal Abatement Cost Curve or MACC, specific to a given industry or company, measures and compares the financial cost and abatement (meaning GHG reduction) benefit of individual actions. It uses the metric of dollars or euros per tonne of carbon dioxide equivalent.

[8] CDP is a global non-profit that runs an independent environmental disclosure system for companies, capital markets, cities, states, and regions to manage their environmental impacts.

[9] SBTi – Science Based Targets initiative – is an organization that develops standards, tools and guidance to help companies set science-based targets to reduce greenhouse gas emissions.

The final **Transform** phase represents a fundamental shift in culture, behaviours to fully embrace sustainability and embed it into the organization's DNA, as one interviewee pointed out, "*Governance is key. Sustainability must be embedded by design, and all business models will need to integrate these principles in the future.*" The board requires management to explore, test and develop truly sustainable or even regenerative business models, that not only do not harm society and the environment but that actively restore, renew, and enhance ecological, social, and economic systems, while potentially exiting profitable less sustainable businesses. One board member emphasized that, "*We sold one of our businesses, while it was profitable because of its inherent Green House Gas emissions and social impact, to reallocate financial and human resources to other activities more in line with our sustainable strategy.*"

The **N.E.X.T©** model provides a practical and structured pathway for boards to drive sustainable transformation. By **Nurturing** awareness, **Engaging** into action, then **eXcelling** and ultimately **Transforming** their business models, European companies can meet their sustainability imperatives and ensure resilience in the decades to come.

About the Authors

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