Study on sustainable value creation in Belgian listed companies

Report on the empirical analysis

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year of publication - 2023

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Executive summary

This report presents the results of a study on the concept of "sustainable value creation" in Belgian listed companies. According to the 2020 Belgian Code on Corporate Governance, sustainable value creation involves an explicit focus on the long term, on responsible behaviour at all levels of the company, and on the permanent consideration of the legitimate interests of stakeholders.

The study has been commissioned by the Belgian Corporate Governance Committee. Its goal is to evaluate how and to which extent Belgian listed companies understand and implement sustainable value creation (or more shortly, 'sustainability'). It is based on a mixed-methods research design combining a literature review, qualitative interviews, and a survey sent to representatives of listed companies. In total, 15 interviews were conducted and 44 company representatives filled out the survey, representing a variety of company sizes, industries, and shareholder structures. This report focuses on the findings of the empirical study.

The findings of the empirical study can be summarised as follows:

» In the view of the respondents, sustainable value creation is in essence the creation of economic value, with a long-term perspective, and with respect for social and environmental factors. Awareness is present that the corporate purpose should be reviewed to incorporate these elements, but non-profit goals are considered as an 'add-on' to shareholder profit, not a replacement. Sustainability is also, first and foremost, seen as a strategic issue that requires concrete action rather than procedures or formalisation. The role of the board in furthering the sustainability agenda is not yet top of mind.

» The findings suggest that **long-term thinking** is already embedded in the decision making of Belgian listed companies. However, prioritising the long-term requires trade-offs and is a delicate balancing act. Arguably, various stakeholder and shareholder demands make this exercise increasingly complex.

» The inclusion of environmental and/or social elements in the **corporate purpose** statement has become common practice among Belgian listed companies (80% of the surveyed companies). The corporate purpose is perceived as a communication and "guidance" tool towards the company's internal and external stakeholders. However, writing down the purpose in the company's articles of association is not a popular option (only 16% of the surveyed companies). Several company representatives do not see the benefits of it. The legal consequences also remain unclear to the respondents.

- While 84% of the surveyed companies have defined a **sustainability strategy**, more efforts are required to move from sustainability as a separate strategic pillar towards full integration of sustainability in all aspects of the business strategy. The latter may lead to substantial changes in the company's business model. The definition of a strategy with regard to sustainability is perceived by most respondents as a comprehensive process, starting with a materiality analysis, involving the input from company stakeholders, and usually relying on one or more frameworks (e.g. the UN SDGs). The E, S, and G topics are all considered to be important in the sustainability strategies of the surveyed companies, but climate issues play a prominent role.
- Our findings suggest that the development of a sustainability strategy usually goes hand in hand with the development of **implementation and monitoring systems**, including quantitative KPIs, dedicated staff, internal steering groups, etc. However, the roll-out of sustainability across all corporate departments, and even more so the due diligence across the value chain, remain challenging. The importance of organization culture is stressed here, which requires 'softer' policy tools such as education and awareness-raising. Certifications (e.g. B-Corp) are perceived as a useful implementation and monitoring instrument, with advantages in terms of branding.
- **Sustainability reporting** has become common practice in Belgian listed companies, with 91% of the companies in the sample publishing some kind of sustainability report. However, the level of maturity is variable, notably regarding the "integrated" nature of the reporting and the assurance provided. Beyond the legal requirements, sustainability reporting is perceived as a necessary answer to the expectations of the company's shareholders and stakeholders. It also has a "mobilising" effect for the company management. However, the risk of greenwashing and the high administrative burden associated with data collection remain major concerns.
- Sustainable value creation has implications for the **board of directors**. Respondents indicate a general awareness of board members about sustainability issues: 64% of the respondents fully agree that their board members are aware of sustainability issues while 36% agree to some extent. Requiring specific sustainability expertise or putting sustainability as a separate point on the agenda are less popular options. The role played by the board with respect to sustainability varies, from a passive role, to a strong "proposing" role. In most cases, the management takes the lead in the definition of the sustainability strategy, while the board is rather perceived as a "safeguard": 48% of the respondents indicate that their board has a strong involvement in the sustainability strategy, while 52% of them state that the board has 'some' or even 'weak' involvement. Sustainability is also tackled by board-level advisory committees. A dedicated sustainability committee is sometimes created, especially to support the board in the early phases of the sustainability transition. Finally, practices such as sustainability criteria

in the variable remuneration of executives, and stakeholder involvement mechanisms seem to gain importance.

» The **motives and enablers** for pursuing sustainable value creation are quite diverse. The most prominent ones seem to be the expectations of the company shareholders (especially the reference shareholders) and stakeholders, and the idea that it is a necessary condition for the long-term success (and survival) of any company. Other motives are usually seen as secondary. In some entrepreneurial companies, the sustainability drive of the CEO / founder is seen as a strong enabler of a company's actions with respect to sustainability.

» Perceived **obstacles** to sustainable value creation are numerous. Among the most prominent ones are the difficulty to collect sustainability data, and the administrative burden associated with it. This is mainly an issue for smaller businesses and, according to the respondents, it might distract companies from more "genuine" actions needed for the transition, such as changes to the business model. Dependency on external factors, as well as the substantial short-term investments/costs required for the sustainability transition are other significant hurdles.

» **Respondents' suggestions** mainly focus on the role of the public authorities. There is a strong call for public policies on sustainability that provide incentives rather than obligations, that promote increased harmonisation of requirements, and that take into account the specific realities of the listed companies in different sectors. In addition, the respondents strongly support initiatives to raise awareness and educate board members and executives.

Finally, we find some indication – and in some cases, statistical evidence – that company size, sector, and ownership structure influence the practices and perceptions of sustainable value creation.

1. Introduction

The 2020 Belgian Code on Corporate Governance (Code 2020) places emphasis on sustainable value creation. The latter is defined as "a corporation's pursuit of objectives which go beyond short- and medium-term financial metrics and share price performance and which incorporate the needs and expectations of the broader society in which it operates as well as the legitimate interests of its shareholders and other stakeholders"

However, the concept of sustainable value creation is not always clear to everyone and can be understood differently depending on the specific context of each company. In order to help listed companies implement this important principle, the Belgian Corporate Governance Committee published an explanatory note in 2021 describing some of the elements which are conducive to sustainable value creation:

1. **Prioritising the long term**
2. **Appropriately defining corporate purpose**
3. **Integrating sustainability into corporate strategy**
4. **Integrating sustainability into corporate operations**
5. **Structured and verified reporting on ESG matters**
6. **Structured engagement by the board**

To foster a better understanding of this concept, the Corporate Governance Committee commissioned GUBERNA with a study on sustainable value creation. The objective of this study is to evaluate **how and to which extent Belgian listed companies understand and implement the six principles conducive to sustainable vwwalue creation** mentioned above. As overarching goals, we also want to share good practices with the business community and help the Corporate Governance Committee improve its guidance to listed companies.

The study is part of a multifold research project that is composed of a literature review and an empirical study.

» The **literature** review consists of a review of the concept of sustainable value creation in the corporate governance codes of different European countries, in the academic literature, and in the legal doctrine. The results of the literature review are presented in separate publications.

» The **empirical part** is based on semi-structured interviews with selected representatives of Belgian listed companies, followed by an online survey sent to all Belgian listed companies of the BEL 20, BEL Mid and BEL Small indices. The present report focuses on the results of the empirical study.

In addition, a **roundtable** gathering representatives of Belgian listed companies, was organized on 15 June 2023. This event allowed the participants to provide feedback on the empirical findings and discuss possible policy recommendations.

In the following sections, we explain the methodology of the empirical study, we present our results, and we finish with some concluding remarks.

2. Methodology

The objective of this study is to evaluate **how** and **to which extent** Belgian listed companies understand and implement the six principles conducive to sustainable value creation contained in the explanatory note of the Belgian Corporate Governance Committee.

Literature review

To do so, we started with a literature review on the concept of sustainable value creation. First, we analysed the integration of sustainable value creation in the corporate governance codes from a Belgian and international perspective. The findings are published in the article by Prof. Dr. Abigail Levrau, "The Corporate Governance Code as a Tool for Sustainability". Second, we undertook a review of the academic and management literature on the concept of sustainable value creation in a corporate context, including related notions such as sustainability, ESG and CSR. Third, we examined the legal implications of sustainable value creation in a Belgian context. The second and third part of the literature review are forthcoming as separate publications.

Interviews

Based on the preliminary results of the literature review, we conducted several interviews with selected company representatives. The semi-structured interviews explored the different facets of sustainable value creation. We asked the interviewees about their personal interpretation of the concept of sustainable value creation in the context of their company, and on the way their company implements sustainable value creation in practice, in function of the six elements of the explanatory note of the Belgian Corporate Governance Committee.

A total of 15 interviews were organised with representatives of Belgian listed companies, at board and executive level, with a balanced representation of sectors, company sizes, and shareholder structures. The interviews were conducted online by two researchers of GUBERNA between May and July 2022. They had an average duration of approximately 1.5 hours.

Survey

Following the interviews, we launched an online survey that was sent to the chairpersons and company secretaries of all Belgian listed companies of the BEL 20, BEL Mid and BEL Small indices (82 in total). The survey was available from 21 September to 9 November 2022. In total, we received 44 answers (i.e., a response rate of 54%).The purpose of the survey was to validate and quantify the findings from the interviews. The respondents were asked (1) to answer a series of questions on the actual practices of their company related to sustainable value creation, and (2) state their opinion on a series of statements on sustainable value creation in the context of their own company. The structure of the survey questionnaire broadly followed that of the interview protocol.

Data analysis & reporting

We analysed the findings from the interviews and the survey in parallel to provide complementary perspectives on the subject at hand.

We used a qualitative data analysis software to organise the interview data in different categories and identify common patterns and themes. For the survey we provide descriptive statistics of the survey results In addition, we test the relationship between the company's sustainable value creation practices and a number of contextual variables. More specifically, we collected data on the following firm characteristics, based on publicly available data:

» Stock market index of the company (BEL 20, BEL Mid of BEL Small), used as a proxy for firm size.

» Industry, based on the NACE classification.

» Shareholder concentration, calculated as the percentage of shares owned by the largest shareholder.

» Type of largest shareholder.

We performed a chi-square test to verify to what extent those firm characteristics explain the observed differences in sustainable value creation practices of our sample companies.

The main findings are then presented using the following conventions:

» All the results are anonymised (no company or respondent is cited by name).

» For the sake of brevity, the word "sustainability" is usually used an alternative for "sustainable value creation".

» When the results from the cross-analyses are significant at the 0.05 level, we label it as "evidence" of a relationship and we mark it with an asterisk ('*'). When the results are not significant at the 0.05 level, we refer to it as an "indication" of a relationship and we mark it with a white bullet ('º')

3. The findings

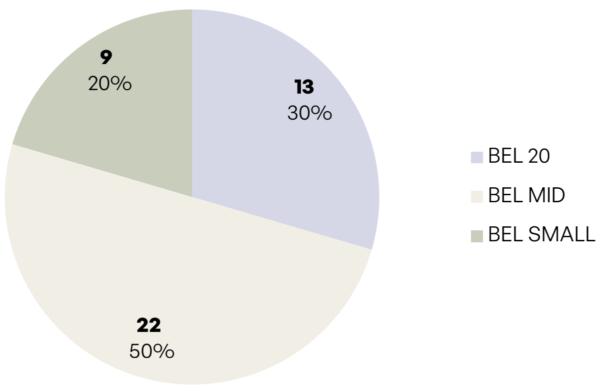
In this section, we present the results of our empirical study. We follow the structure of the six elements conducive to sustainable value creation as identified by the exploratory note of the Corporate Governance Committee. We also add some elements, such as the definition of sustainable value creation, the main obstacles and enablers experienced by the companies, and recommendations put forward by the respondents.

3.1. The survey sample: company characteristics

The literature review revealed that firm characteristics such as company size, industry and ownership structure, are determinants of a firm's sustainability practices. Financial parameters may also play a role, but they are not considered in the present study.

The stock market index of a company depends on its market capitalisation and is used as a proxy for **company size**. Among the 44 companies who participated in the survey, 13 belong to the BEL 20 index, 22 to the BEL Mid index, and 9 to the BEL Small index (see Figure 1). The participating companies represent 54% of the 82 Belgian listed companies of the BEL 20, BEL Mid and BEL Small indices. When we look at the specific stock indices, 72% of the BEL 20 companies, 59% of the BEL Mid companies, and 33% of the BEL Small companies are represented in the sample.

Figure 1: Stock market index of the companies in the sample (N=44)



We have also classified the sample companies according to **industry** based on their NACE classification. They have further been grouped between industrial firms (manufacturing of goods), and services. The results are summarized in **Table 1** and show the large variety of sectors represented in the sample.

Table 1 : Breakout of the companies in the sample according to sector

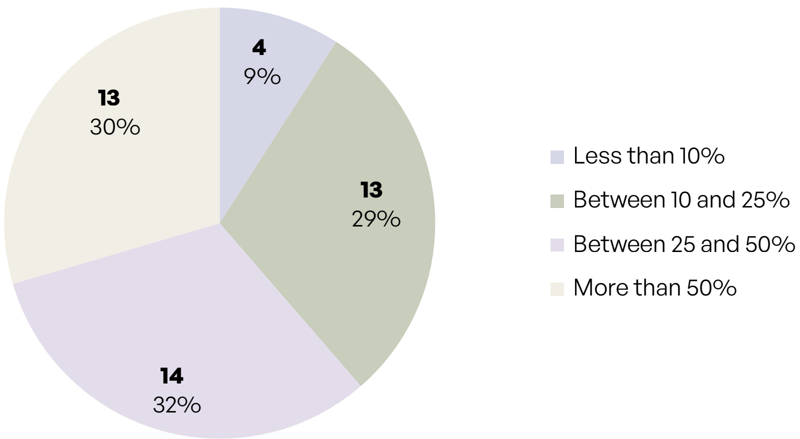
Sector	#	%
Real Estate	9	20%
Financial Services (incl. banks, insurance, private equity, holding)	6	14%
Telecommunications	3	7%
Industrial Transportation	2	5%
Other services	3	7%
Chemicals	4	9%
Electronic & Electrical Equipment	3	7%
Pharmaceuticals & Biotechnology	3	7%
Food Production	3	7%
Construction & Materials	2	5%
Other industry	6	14%

» Service firms – 52 %

» Industrial firms – 48%

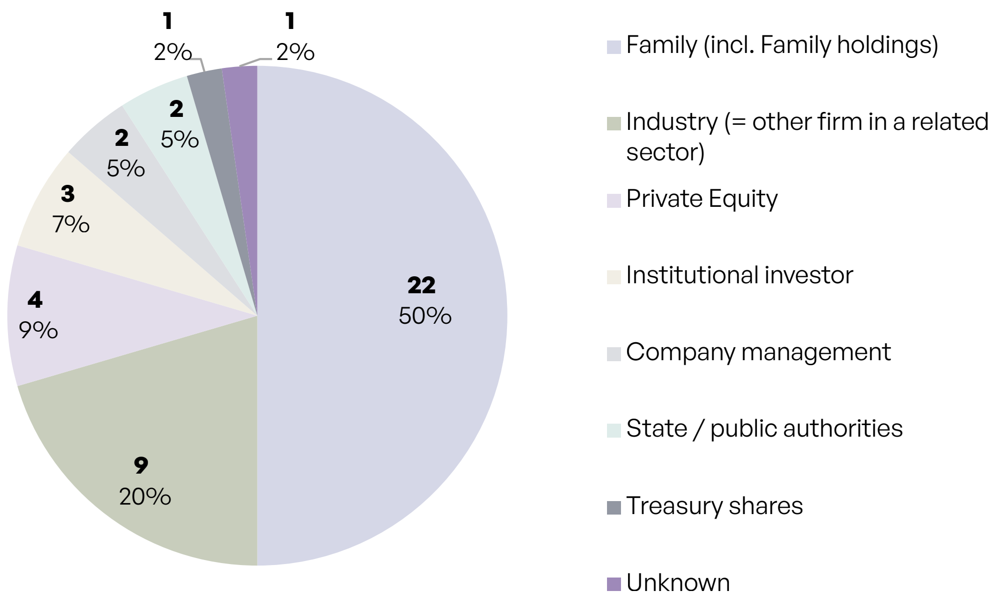
A third characteristic is the company's **ownership structure**. More specifically, we calculate two relevant indicators: shareholder concentration and the type of largest shareholder. Figure 2 shows the percentage of shares (directly) held by the largest shareholder. Although there is no generally accepted definition percentage of a reference/majority/significant shareholder, we can say that in 30% of the companies, the largest shareholder has full control in the general assembly (i.e. holds the absolute majority of shares).

Figure 2: Percentage of shares held by the largest shareholder (N=44)



The analysis of the identity of the largest shareholder reveals that 50% of the companies in the sample have a "family" as their main shareholder (see Figure 3). Other important shareholders include industrial owners (other companies in a related sector), private equity firms and institutional investors (investment banks, insurance companies, ...).

Figure 3: Identity of the largest shareholder among the companies of the sample (N=44)



3.2. Sustainable value creation: what's in a name?

First, respondents were asked how they understand and apply the concept of sustainable value creation in their company. A first striking finding from the interviews is that company representatives have **different ways of understanding** sustainable value creation. Most respondents stress that this concept should be **adapted to the context** of each company.

However, the following recurring elements can be identified:

» Several participants indicate that they wish to contribute positively to their stakeholders and society at large. In other words, the "**WHY**" for doing business should be broader than the sole profit of the shareholders (see also section 3.3.2) and should also include the interests / expectations of the company's relevant stakeholders. In the view of most interviewees, however, financial profit remains an important goal of the company. Social and environmental goals are not seen as a replacement for shareholder-related goals, and reportedly any strategy with regards to sustainability should be based on a "business case".

» Other respondents stress that sustainable value creation also resides in "**HOW**" a company is doing business. That is, the corporate processes and activities should be run with respect for people and the planet.

» Remaining relevant, resilient, and profitable in **the long term**, is also frequently mentioned as an important element of sustainable value creation. This means that a company should remain steady despite changing circumstances, but also adapt to the changing environment. "Long-termism" is especially emphasised by representatives of family businesses, with the family shareholder arguably developing a long-term vision that spans over generations and being the steward of the company's sustainability.

» Some interviewees argue that sustainable value creation requires r**eviewing the strategy, or even the business model** of a company: it may be necessary to divest profitable activities when they are not compatible with sustainable development (see section 3.3.3).

» Other - less frequently mentioned - elements are: integrating sustainability thinking in all decisions, sustainable innovation, the importance of values in the way you do business, and corporate communication on sustainability initiatives.

Figure 4 illustrates what the survey participants perceive as the most important elements that contribute to sustainable value creation[1].

Figure 4 : "What are for you the most important elements for the creation of sustainable value for/by your company?" (N=44)

1 The respondents were asked to select the 3 most important elements for them.

Based on those results, combining **economic value with the pursuit of environmental, social and governance objectives** appears to be the most important element contributing to sustainable value creation (36 respondents). This comes before the integration of sustainability in the business strategy (30) and giving priority to the long-term (20). Remarkably, the engagement of the board of directors on sustainability initiatives is considered less of a priority.

Summary: Overall, the findings of the interviews and the written survey point in a similar direction: in the view of the respondents, sustainable value creation is in essence the creation of economic value, with a long-term perspective, and with respect for social and environmental factors. Awareness is present that the corporate purpose should be reviewed but non-profit goals are considered as an 'add-on' to shareholder profit, not as a replacement. Sustainability is also first and foremost seen as a strategic issue which requires concrete action rather than procedures or formalisation. The role of the board in sustainable value creation is not yet top of mind.

3.3. Six steps towards sustainable value creation

In order to help listed companies implement the principle of sustainable value creation, the corporate Governance Committee has published an explanatory note. In this section, we focus on the specific elements of this explanatory note and how they are understood and applied by listed companies.

3.3.1. Prioritising the long term

Explanatory note of the Corporate Governance Committee:
"Sustainable value creation does not imply that short-term or medium-term objectives are unimportant or that periodic financial metrics should be neglected. However, it does imply that if there is a conflict between a corporation's short-term targets and long-term interests, priority should be given to long-term interests. Managing potential trade-offs between the short and long term requires foresight and courage. Companies should refrain from making excessive or untenable promises about short-term and medium-term financial performance and should set their long-term targets carefully."

The empirical findings reveal that sustainable value creation is spontaneously associated with giving priority to the long term (see section 3.2). The interviews provide additional insight in the way Belgian listed companies handle trade-offs between short-term targets and long-term interests[2].

2 This specific question was not tackled in the written survey.

First, all interviewees explain that **long-term thinking is embedded in their company's decision-making** as the board of directors always considers the long-term (10+ years) returns and consequences of the decisions taken. Arguably, this does not mean that boards are always explicitly weighing long-term against short-term considerations; rather, they are implicitly integrating a long-term perspective in their decision-making.

Second, the interviews highlight that prioritising the long-term requires trade-offs in terms of giving up on (some of the) short-term profit to ensure long-term viability. Accordingly, companies try to find the right **balance between short-term profitability and long-term goals**. In practice, this may mean, for example, that a company distributes lower dividends to invest in sustainable business practices. While in most cases, those trade-offs are easily accepted by shareholders, some interviewees deplore that they have become increasingly difficult to achieve in the current business context as shareholders, clients and other stakeholders require short-term and long-term results at the same time (see also section 3.5). To illustrate, one respondent argues:

> *"Today, the notion of choice no longer exists. Before, you were short-termist or long-termist, industrial or sustainable. Today you have to be everything at the same time. You must ensure short-term profitability but also have a long-term sustainable policy."*

Another barrier to long-term thinking is when the market/clients/partners are not yet "ready" for this and do not accept the long-term strategies proposed by the company.

Third, some interviewees explain that **long-term and short-term thinking are often intertwined** in management's decision making. All companies need to define a strategy – which is typically medium- to long-term oriented – and translate it into short-term plans and budgets.

Finally, the interviewees stress that a long-term perspective is easier when the company has a **stable shareholder base**, such as the state or a family shareholder. This is even more the case when those shareholders have a long-term vision for the company. One company introduced so-called loyalty shares to encourage long-term ownership. In the view of the respondents, it is necessary to be clear to the shareholders about the fact that the company prioritises to the long-term. This way, the company is more likely to attract shareholders who support those long-term goals.

Summary: The findings suggest that long-term thinking is already embedded in the decision making of Belgian listed companies. However, prioritising the long-term requires trade-offs and is a delicate balancing act. Arguably, various stakeholder & shareholder demands make this exercise increasingly complex.

3.3.2. Appropriately defining corporate purpose

Explanatory note of the Corporate Governance Committee:

"Companies benefit from articulating purposes that not only target financial success but also go further and describe how they aspire to contribute – through their technology, products, services and behaviours – to broader societal goals. When defined in a meaningful way and in conformity with the company's bylaws, a company's purposes will set a direction for the executive management as well as for the entire workforce. They will also guide the board in making strategic choices and will enhance the company's legitimacy in the eyes of all its stakeholders."

Definition and review of the corporate purpose

When asked to share their views on the topic of corporate purpose, several interviewees **stress the importance of properly defining the company purpose as a communication tool**. It is seen as a way to "verbalise" the mission towards the company stakeholders, especially vis-à-vis the investors and employees. This should in turn strengthen the reputation of the business. One board member expresses his views as follows:

> *"It is a challenge to develop a communicative storytelling, to explain our purpose in simple words with a captivating slogan and well-worded story".*

Another company representative warns about the potential risks of a marketing-driven approach and the risk of greenwashing.

Some interviewees explain that the company purpose should be **translated into the values and behaviours of the whole organization**. For instance, in one company, the compatibility with the company purpose, culture and values is explicitly assessed during the recruiting process. In another company, the redefinition of the company purpose was an inclusive and bottom-up exercise in which employees and other stakeholders were involved. According to the representative of this company, thanks to this approach, the purpose will be fully supported by all stakeholders and will be visible in the behaviours and attitudes of the employees.

Finally, some respondents provide explanations for why their companies have not (yet) reviewed their purpose: either concrete action is considered more important than communication; or the company purpose does not need to be reviewed because it already has a societal dimension.

The survey respondents were asked to briefly describe their purpose or mission statement. Our results show that purpose statements are formulated in a very diverse way among the sample companies. Nearly half of the companies use the word ‘sustainable’ and some make reference to their stakeholders (beyond the shareholders). A few companies explicitly mention climate/environment and/or society. Finally, some companies attach importance to ‘a better life’.

In addition, the survey findings show that more than **80% of the surveyed companies have redefined their corporate purpose** in the last 10 years to include societal or environmental objectives, or intend to do it in the future (see Figure 5). Although this concerns a large majority of the companies in the sample, we have previously observed that a review of the purpose is not considered to be among the top elements conducive to sustainable value creation (see section 3.2).

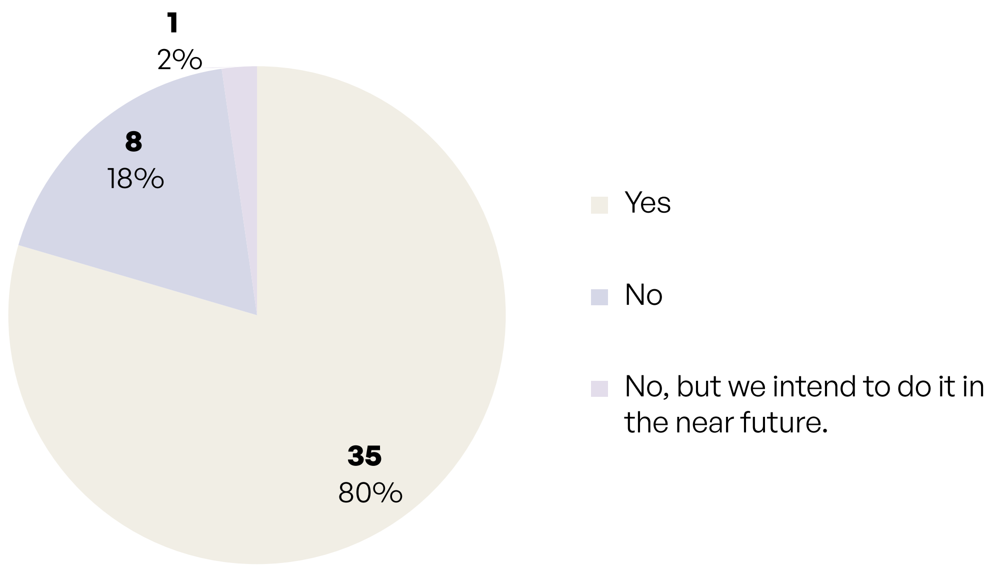
A cross-analysis with the firm characteristics mentioned above reveals the following findings:

» **Size**: there is an indication° that larger companies (BEL 20, BEL Mid) are more likely to review their purpose compared to BEL Small companies.

» **Industry**: there is an indication° that the review of the corporate purpose is more frequent in service firms than it is in industrial firms.

» **Ownership**: we find no indication of a difference in review of the corporate purpose in relation to ownership structure.

Figure 5: “Has your company purpose been redefined (in the last 10 years) to include societal and/or environmental objectives?” (N = 44)



Integration of the reviewed purpose in the articles of association

Article 1.1 of the Belgian company law allows companies to define a company goal that goes beyond the sole profit of the shareholders. However, this requires **writing down this broader purpose in the articles of association of the company.**

During the interviews, the motivation for considering a change in the articles of associations is explored. Proponents stress that this formalisation could protect the company from legal action by shareholders when the latter are dissatisfied with the sustainability stance taken by the company, or from a hostile takeover bid by other actors. Some interviewees also emphasise that writing down the revised purpose in the company's articles of association is required for obtaining the B Corp certification (see section 3.3.4). Finally, it is seen as a way to communicate the broadened purpose to all the stakeholders, and in particular the shareholders.

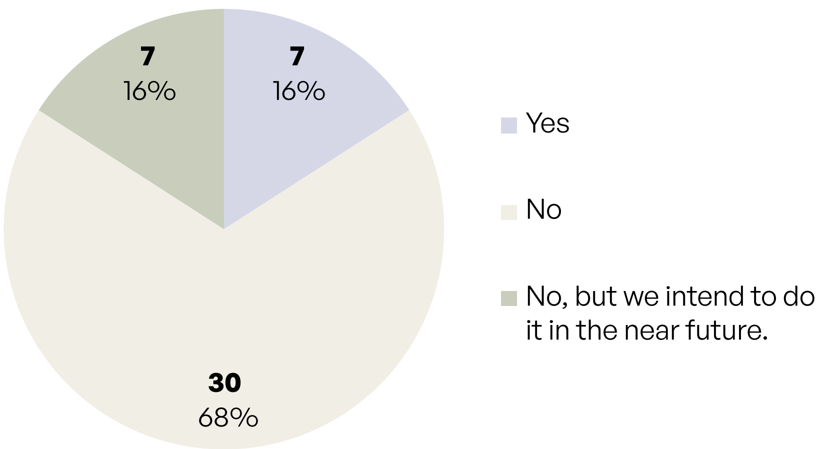
However, some counterarguments are also provided. Some board members express the idea that writing down the purpose in the articles of association is not an issue per se, but they do not perceive any added value. For instance, one company representative states:

> *"I don't see the point. Nobody reads articles of association, people look at the website, branding, social media. I have no problem with it but I don't think it's important."*

Other interviewees point out that writing down the purpose in the articles of association would not be an effective remedy against legal action by shareholders, as exemplified by the recent Danone case. Finally, a number of interviewees declare that concrete action is more important than administrative formalisation.

As shown in Figure 6, only **16% of the surveyed companies have written down their company purpose in the articles of associations**, and another 16% intend to do it soon. This means that a large majority of the companies (68%) have not written down their (revised) purpose in the articles of association and are not planning to do it any time soon.

Figure 6: "Has your company purpose been written in articles of association of the company?" (N=44)



The 14 survey respondents who say their company integrated its purpose in the articles of association (or intended to do so) were also asked about the advantages of this decision. Their answers are mostly in line with the explanations of the interviewees. They also provide a ranking of the most important motivations:

» It enables a better communication of (new) priorities to the outside world (57% of respondents).

» It provides legal certainty to the company vis-à-vis the shareholders (50%).

» It provides more clarity for directors and guidance in the implementation of their directors' duties (43%).

» It is a catalyst for sustainability practices in the company (29%).

» It is necessary to obtain a certification (e.g., B Corp) (29%).

Regarding the potential disadvantages, the survey respondents again confirm the arguments of the interviewees, but some of them add that a reviewed purpose could even expose the company to an increased legal liability (24% of respondents). This seems to contradict the opinion that a formalisation in the by-laws could provide legal certainty to the company. Others (12% of the respondents) were simply not aware of that legal possibility.

Summary of the findings: The inclusion of environmental and/or social elements in the corporate purpose statement has become a common practice among Belgian listed companies (80% of the surveyed companies have done it). The corporate purpose is perceived as a communication and "guidance" tool towards the company's internal and external stakeholders. However, writing down the purpose in the company's articles of association is not a popular option (only 16% of the surveyed companies). It appears that several company representatives do not see the benefits in terms of communication & guidance. The legal consequences also remain unclear .

3.3.3. Integrating sustainability into corporate strategy

Explanatory note of the Corporate Governance Committee:

"The world is facing a number of issues and changes that seriously challenge our planet and society at large. Significant course corrections will be necessary in order to avoid major crises. The United Nations' Sustainability Goals are a useful framework in this respect. It is the duty of a company's board and executive management to proactively address these challenges. In doing so, the company should anticipate emerging risks and constraints to its current business model and strategic portfolio. At the same time, and equally importantly it should endeavour to detect opportunities to innovate and offer new solutions to the challenges posed by sustainable development."

Contribution of the current business strategy to the sustainability transition

The Corporate Governance Committee recommends ensuring that the company's business model and strategy contribute to solving the challenges of the planet and the society at large. Several interviewees highlight how their strategy already contributes to the sustainability transition, mainly by creating value for other company stakeholders beyond shareholder profit, and/or by reducing the negative impact of the business activities on those stakeholders. (For more information about what sustainability means to the board members we refer to section 3.2). However, those same interviewees also recognise that there is more work to be done in this respect and that strategic transformations are necessary.

Similarly, we asked the survey participants to assess the extent to which the business strategy of their company already contributes to a sustainable transition, on a scale from 1 (not at all) to 5 (to a great extent) (see Table 2). The majority (52%) of the respondents give a score of 4, and the average score is 3.95. This indicates that **most company leaders consider that their business strategy already contributes to a sustainable transition to a certain extent**, although more can be done in this respect. Moreover, the cross analysis with the firm characteristics leads to the following findings:

» **Size**: there is an indication° that BEL 20 companies score higher on average on strategic readiness than BEL Mid companies and BEL Small companies.

» **Ownership**: there is an indication° that companies with dispersed ownership (i.e., where the largest shareholder owns less than 25% of the capital) have a lower average score than the total average. In addition, our findings indicate° that the average score is higher when the largest shareholder is a family owner.

» **Industry**: no significant differences are observed between the different industries.

Table 2: "To what extent does the current strategy of your company contribute to a sustainable transition?" (N = 44)

Score	*1 – not at all*	*2*	*3*	*4*	*5 – to a great extent*	*Average*
# Observations	0	1	10	23	10	3,95
% observations	0%	2%	23%	52%	23%	

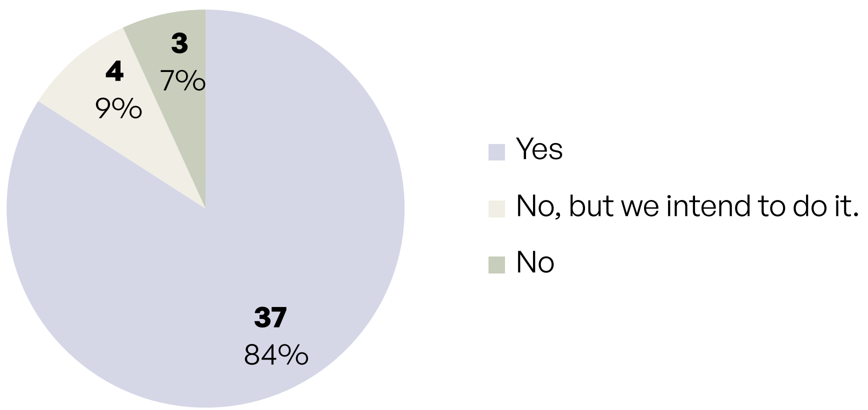
Legend: the intensity of the colouring is proportional to the number of answers.

The sustainability strategy and its impact on the business mode

To ensure the integration of sustainability into the company's business strategy, a common practice is the formulation of a specific "sustainability strategy". During the interviews, several participants indicate that a sustainability strategy, which defines specific objectives related to environmental, social and governance factors, has been in place for a few years. However, the latter was still distinct from the business strategy and only loosely related to it as a separate pillar. They highlight that their company is **evolving towards a full integration of sustainability into the business strategy**, where all the objectives and KPIs (financial or not) must contribute to the long-term success for all stakeholders. In the view of many interviewees, defining a sustainability strategy, and even more so embedding it in the business strategy, is a **lengthy process**, which may require significant resources. This might explain why some have not done it yet (see section on the strategy process below). This is especially the case for small and/or young companies. However, their representatives state that their strategy already contains E, S and G components, even if it is not formalised.

From a quantitative point of view, 84% of the surveyed companies indicate that they have defined a sustainability strategy, and 9% declare that they intend to do it in the near future (see Figure 7).

Figure 7: "Has your company defined a distinct sustainability strategy?" (N = 44)



The cross analysis with firm characteristics yields the following results:

» **Size**: There is evidence* that the definition of a distinct sustainability strategy is more common in BEL 20 companies than in BEL Mid and BEL Small companies.

» **Industry**: There is an indication° that a larger number of industrial companies define a sustainability strategy compared to service firms.

» **Ownership**: There is an indication° that defining a distinct sustainability strategy is less common when ownership is dispersed, and more common when the largest shareholder is a family shareholder.

A related question is **whether the defined sustainability strategy will have a significant impact on the business model and strategy of the concerned companies,** or only lead to marginal changes. During the interviews, company representatives provide insight on how the sustainability strategy might affect the business strategy of their company.

» One interviewee explains that the sustainability strategy directly **impacts the way a company creates value** and requires breaking down the value chain in different "links". Actions should be taken for each of these links.

» Some recognise that sustainability can have an **impact on the product/service portfolio** of the company and explicitly state that the company should withdraw from all activities that are not compatible with the sustainability transition. However, such choices are not always easy; first, because these activities can be very profitable, and second, because there is not always an easy alternative to the product or service being delivered. Therefore, companies face dilemmas and trade-offs (see also section 3.3.1).

» Another related impact is **investment selection.** Several interviewees explain that their investments are screened on sustainability criteria (sometimes via an audit), and that investments should be reoriented towards sustainability projects. This argument is particularly strong among the representatives of investment firms such as holdings, banks and insurance companies. One production company in our sample focuses on (eco-) **innovation** in its investments.

» Other interviewees stress the importance of **adapting the production processes for existing products**. Even if a product / service is necessary for the transition, it does not mean that it is produced in a sustainable way. In this respect, the companies in the sample strongly focus on the **reduction of CO2-emissions** linked to their operations.

» Finally, several respondents mention the **impact of sustainability on the HR-policies and the culture** of the organisation. Although human resources are traditionally seen as a peripheral aspect of the company activities and not part of the core strategy, they are increasingly considered as strategic factors. Concretely, attention is paid to diversity & inclusion, education, empowerment, health & safety, ethical culture, etc.

The survey respondents provide additional insight into the extent to which their company's sustainability strategy leads to changes to their business model or strategy. The average score on a scale from 1 (no changes at all) to 5 (great changes) is 3.59 (see Table 3). We can interpret this result as follows: the defined sustainability strategy will bring substantial changes to the business model of the company, without completely transforming it either.

Table 3: "To what extent will your sustainability strategy bring changes to the business model / strategy of your company?" (N = 41)

Score	*1 – not at all*	*2*	*3*	*4*	*5 – to a great extent*	*Average*
# Observations	0	3	17	15	6	3,59
% observations	0%	7%	41%	37%	15%	

Legend: the intensity of the colouring is proportional to the number of answers.

Linking this finding to the firm characteristics leads to the following observations:

» **Size**: We see an indication° that respondents expect bigger changes to the business model / strategy in BEL Small companies, compared to BEL Mid and BEL 20 companies.

» **Industry**: There is also an indication° that larger changes to the business model are expected in service companies compared to industrial companies.

» **Ownership**: finally, our results indicate° that the respondents expect larger changes to the business model when the ownership is concentrated and when the largest shareholder is not familial.

The process of defining a sustainability strategy

We explore the process that companies follow to define their sustainability strategy. The findings of the interviews are presented below in combination with quantitative insights from the survey (Figure 8).

» **Materiality assessment:** Many interviewees explain that the strategic exercise starts with the definition of a materiality matrix, which ranks topics in function of their impact on the company and their importance for the company stakeholders / environment. In some companies, such a materiality assessment is considered as a baseline measurement, which serves as the basis for defining the strategy. One interviewee stresses the importance of updating the materiality matrix in function of changes in the business environment or in its strategy.

⇨ ***The survey results confirm that, in the 95% of the cases, the sustainability strategy is decided based on a materiality assessment.***

- **Input from the company stakeholders:** During the interviews, company representatives explain that the input from the company's stakeholders helps define the materiality matrix. This input can be collected in various ways, such as interviews, surveys, roundtables, etc., with different degrees of formalisation. Respondents also note that awareness-raising is necessary to convince certain categories of stakeholders of the company's sustainability projects. Regarding the categories of stakeholders being consulted, our interviewees mostly mention clients and employees, but they also cite investors, suppliers, public authorities and NGOs. This step is illustrated as follows by a company representative: "To set up our sustainability strategy, we interviewed and looked to all our stakeholders: investors, employees, NGO's. Our ESG team mapped all the different important aspects, and assessed their materiality for the company".

    ⇨ ***90% of the companies in the survey sample consult their employees to define the sustainability strategy. 78% do the same with their shareholders, and 85% also consult other stakeholders such as clients and suppliers.***

- **Support from consultants**: Interviewees explain that consultants are usually tasked with collecting the input from the different stakeholders, helping to define specific objectives and key performance indicators (KPIs) with regards to strategy, and drafting the sustainability report.

    ⇨ ***The survey results indicate that this happens in 63% of our sample companies.***

- **Review and challenge from the board of directors:** Finally, the interview participants comment the role of the board of directors. In most cases, the board is not directly involved in the development of the strategy, but it sometimes gives the first 'impulse' and a mandate to the management team. At the end of the strategy process, the board's role is to approve and challenge the proposed strategy. (For more information about the board's role in sustainability, we refer to section 3.3.6.)

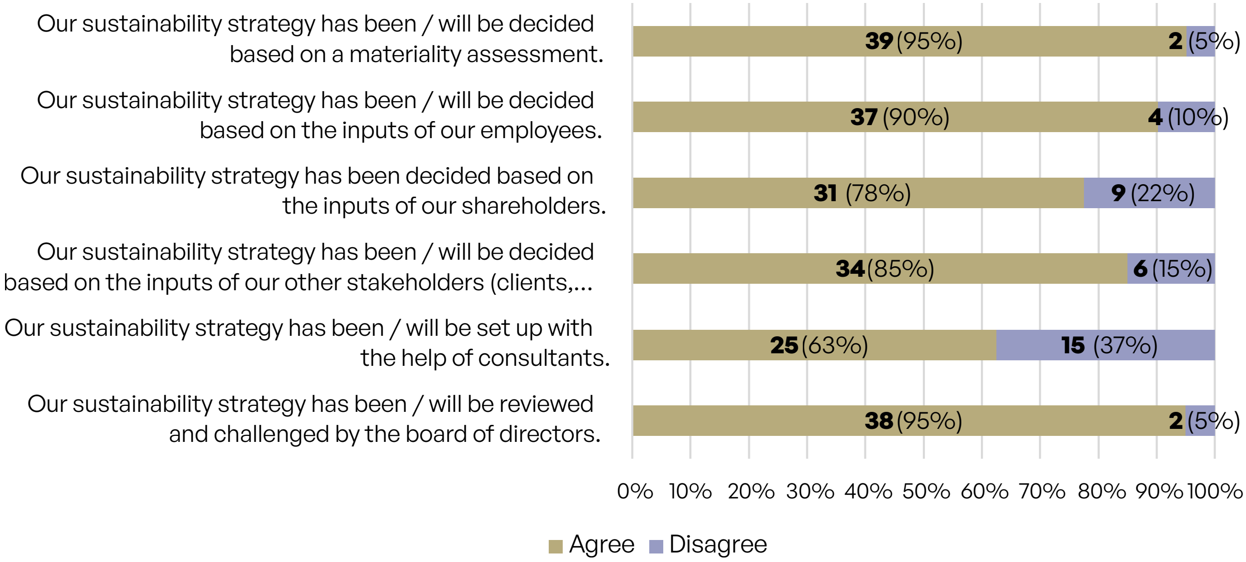
    ⇨ ***The survey results teach us that 95 % of the companies involve their board of directors in reviewing and challenging the sustainability strategy.***

As already mentioned, several respondents emphasise that the formulation of a sustainability strategy is a **lengthy process**, which requires a lot of effort from the entire management team. As emphasised by a respondent during the interviews:

> *"You don't just wake up one morning and say you're going to put an ESG strategy in place. It's a long-term process. Sustainability starts out as an ancillary activity and has to be placed at the heart of everything the company does."*

This argument is particularly strong among small companies with limited resources. According to one participant, the whole exercise takes two years (which does not include the implementation of the strategy). Many interviewees agree that the sustainability strategy should be updated from time to time in function of the evolving corporate and societal context.

Figure 8: Process for defining the sustainability strategy (N=41)



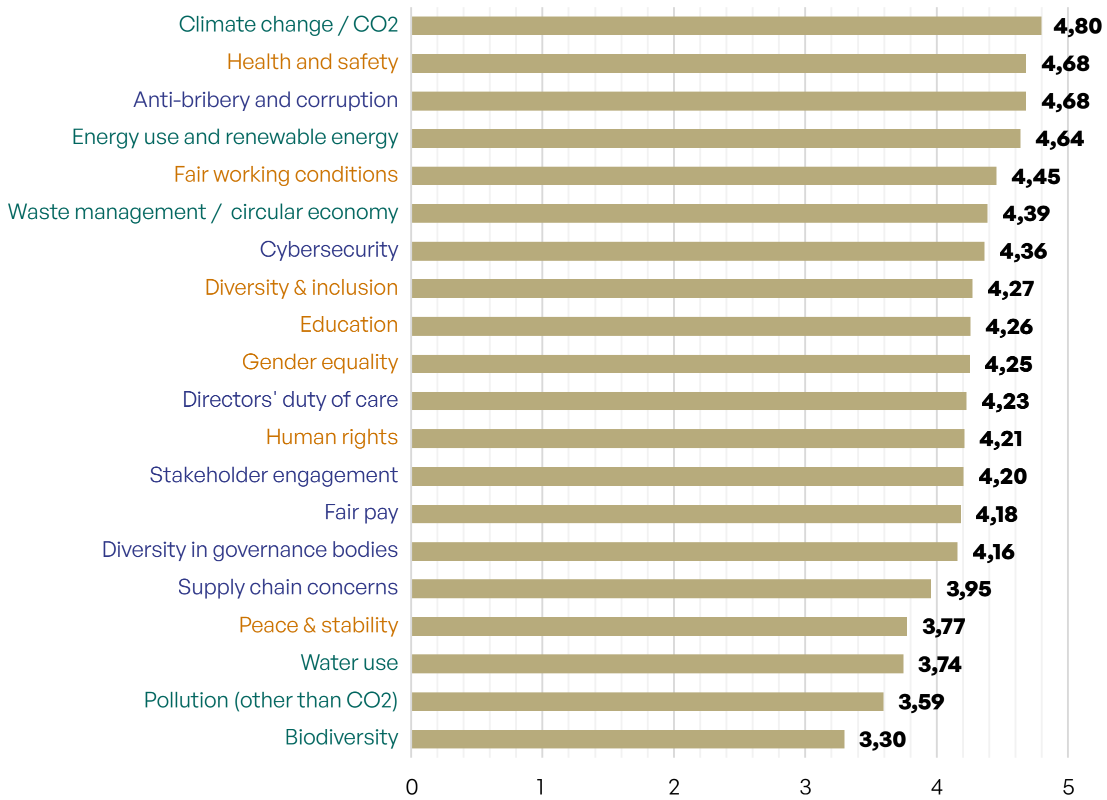
Use of sustainability frameworks

It is worth noting that **95% of companies in the survey sample use one or several frameworks** to define their sustainability strategy. The UN Sustainable Development Goals (SDGs) is the most widely used framework. Several other frameworks are mentioned, which are not strategic frameworks as such (rather general principles or reporting frameworks) but are nonetheless helpful to focus strategic efforts. They include the UN Principles for Responsible Investing, the UN Global Compact, the Global Reporting Initiative (GRI), TCFD, SASB, etc.

Strategic topics

Finally, we asked the survey participants to rate sustainability topics in function of their importance to their company's strategy, on a scale from 1 (not important) to 5 (very important). Figure 9 displays the average scores of the ESG topics in descending order of importance.

Figure 9 : Assessed importance of ESG factors for the company – average scores on a scale from 1 to 5 (N=44)



Legend: environmental topics are written in green, social topics in orange, and governance topics in blue.

Climate change / CO_2 is by far the topic rated as the most important sustainability topic (average score of 4.8). This is followed by "health and safety", "anti-bribery and corruption" and "energy use & renewable energy", all of them with an average score of approximately 4.6. Interestingly, with the notable exception of climate change, the governance topics (4.27) and the social topics (4.26) receive a higher score on average than the environmental topics in the list (4.07).

Additional sustainability topics mentioned by some survey respondents include animal welfare, marine life, sustainable mobility, quality of space, recyclable packaging, affordability of services and products, digital inclusion, ethical sourcing, community involvement & corporate citizenship, wellbeing, product safety, sense of purpose, data privacy, risk management, transparency, customer relations, governance of the investee companies, and linking executive remuneration to ESG.

An analysis of the relationship between the sustainability scores and firm characteristics yields the following results:

» **Size**: There is an indication° that large companies (BEL 20) grant more attention to social and governance topics compared to smaller companies (BEL Mid and BEL Small). In contrast, the results indicate° that smaller companies find environmental topics more important.

» **Industry**: we see an indication° that industrial companies find environmental topics more important, while service companies find social topics more important than their counterparts. No significant differences are observed for the governance topics.

» **Ownership**: overall, we find an indication° that companies with more concentrated ownership dedicate more attention to all ESG topics (environmental, social and governance) compared to companies with dispersed ownership. Our results also indicate° that family companies grant more importance to environmental topics compared to non-family companies.

Summary: while 84% of the surveyed listed companies have defined a sustainability strategy, more efforts are required to move from sustainability as a distinct pillar of the business strategy towards a full integration of sustainability in all aspects of the business strategy. This integration may lead to substantial changes in the business model of the companies. The definition of a strategy with regards to sustainability is perceived by most respondents as an inclusive process, starting with a materiality analysis, involving the input from various company stakeholders, and usually relying on one or more frameworks (the UN SDGs being the most common). E, S, and G topics are all important in the sustainability strategies of the surveyed companies, but climate issues get a prominent place.

3.3.4. Integrating sustainability into the company's operations

Explanatory note of the Corporate Governance Committee:

"The company should ensure that it operates in line with the imperatives of sustainable development. Therefore, the company should set itself achievable and sufficiently ambitious improvement targets on environmental, social and governance (ESG) matters. The process around the setting of such targets should involve executive and operational management and include an assessment of the expectations of outside stakeholders and the materiality of the externalities generated by the company."

Once a sustainability strategy has been decided, the company needs to implement it, make sure it is embedded in the company's daily operations, and monitor its achievement. Survey participants were asked to state their agreement / disagreement with a series of statements regarding how sustainability is integrated in the company's operations. The results are presented in this section.

Implementation & control

Interviewees express the idea that precise and **quantitative KPIs** are important to objectivise the targets, to make things measurable, and to avoid greenwashing. However, , qualitative objectives remain relevant for less quantifiable elements. Reportedly, it is a challenge to define the right KPIs and collect the data necessary for that follow-up.

» According to survey results, **76% of the company representatives** fully agree that their company has defined quantitative KPIs related to their sustainability strategy.

» Additionally, there is an indication° that industrial companies are more prone to defining quantitative KPIs regarding sustainability, compared to service companies.

Most interviewees explain that once KPIs have been defined, the **control of the achievement of the sustainability strategy** takes place on a yearly basis, usually by the board of directors. However, in some cases more regular evaluation moments take place. For instance, a dashboard with relevant sustainability indicators is sometimes used for a continuous follow-up.

» Survey results indicate that 82% of the respondents fully agree that the progress towards the sustainability objectives is monitored and evaluated on a regular basis.

» 75% of them fully agree that the strategy is being adjusted, when necessary, based on the evaluation.

» Our results indicate° that, for both elements, smaller companies (BEL small) tend to score lower than larger companies (BEL 20 and BEL Mid).

Many companies choose to designate a specific **sustainability manager**, who oversees the whole sustainability strategy of the company. In one company, a specific ESG department has been created. Another practice is the establishment of a **steering committee** with employees from the different departments, whose role is to ensure the coordination of the various actions relating to sustainability. In some companies, this "ESG governance" is very structured, including complex steering and reporting processes.

» 80% of the survey respondents "fully agree" with the statement that their company has dedicated staff for sustainability matters.

» There is an indication° that smaller companies (BEL small) are less likely to have dedicated sustainability staff than larger companies (BEL 20, BEL Mid).

In addition, respondents comment on the challenges related to **rolling out the sustainability strategy across all organizational departments.** One interviewee argues:

"It is not necessarily easy to bring sustainable development to life at all levels of the company. The lower you go in the organisation, the less present it is, the less understanding there is of sustainability".

Therefore, several interviewees stress the importance of **creating the right culture** among the company's employees, through training, communication, etc. Arguably, the presence of a sustainability mindset is also regularly tested in the recruitment process for new employees.

» Taking into account these alleged difficulties, 61% of the survey respondents fully agree that the sustainability strategy is rolled out across all departments (which is a lower score than the previous statements).

» Our results provide an indication° that BEL 20 companies get a higher score on that topic compared to BEL Mid and BEL Small companies.

Implementation beyond the company's borders

Another question relating to the operationalisation of the sustainability strategy, is whether the actions are limited to the company itself or extend beyond its boundaries. In other words, should companies have a due diligence process for their customers and suppliers? The idea is to verify that other actors in the value chain respect certain ESG criteria. The interviewees recognise that the sustainability transition cannot be limited to the company itself. Instead, it must extend to its whole ecosystem. That said, they emphasise that performing a due diligence on their trading partners in the value chain is a challenging task: convincing suppliers to accept certain standards can be hard, especially if those suppliers are located in a region with a different sustainability culture. Awareness-raising, education, codes of conduct for suppliers, and ethical sourcing policies, are suggested as potential (albeit imperfect) solutions according.

» In line with these interview findings, we find that only 27% of the surveyed company representatives fully agree that their company has a due diligence process for suppliers and clients, whereas 41% agree to some extent.

» There is also an indication° that companies with dispersed ownership (= where the largest shareholder owns less than 25% of the shares) are less prone to putting in place due diligence processes for suppliers and customers. BEL Mid companies seem to get a lower score than their BEL 20 and BEL Small counterparts°.

Similar challenges are mentioned when it comes to the monitoring of controlled entities (subsidiaries, portfolio companies, joint ventures, ...). When such entities are located in foreign countries, the parent company has a less grasp on their practices. Moreover, the sustainability culture is not the same in different parts of the world. One interviewee explains the following:

“When we set KPIs, they are at the level of the group and the controlled entities. With joint ventures, we rather work on a best-effort basis because we don’t have the same degree of control there. However, there are clear policies towards human rights and bribery.”

» Notwithstanding these issues, 57% of the survey respondents fully agree that the sustainability strategy is rolled out across the company’s subsidiaries. 32% agree to some extent.

» Moreover, there is an indication° that industrial companies are more prone to rolling out their sustainability strategy across subsidiaries, compared to companies in service sectors. A similar indication° is found for BEL 20 and BEL Mid companies, compared to BEL Small companies.

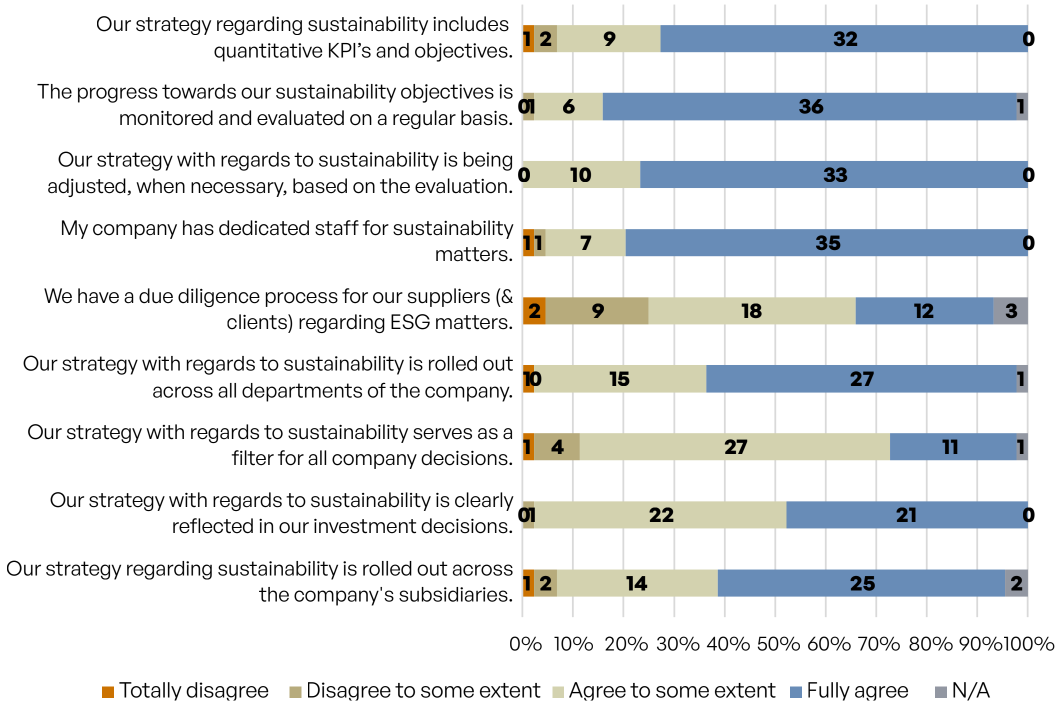
» Additionally, 48% of the survey respondents fully agree that sustainability is reflected in their investment decisions. 50% agree to some extent.

According to several respondents, unilaterally imposing requirements on the suppliers or subsidiaries, or simply stopping the collaboration, are not the most effective methods. They advocate discussing with them as partners to find possible solutions that are beneficial for both parties.

Integrating sustainability in all company decisions

Only 25% of all survey respondents fully agree that their strategy with regard to sustainability serves as guidance for all company decisions. Most other respondents only "agree to some extent". If the objective is that sustainability is fully integrated in all company decisions and actions, this means that there is still room for improvement. Figure 10 provides a more detailed overview of the survey results on the operationalisation of the sustainability strategy.

Figure 10 : Assessment of the operationalisation of the sustainability strategy (N=44)



Sustainability certification

Respondents also discuss the topic of **certifications**. For instance, a few interviewees comment on the **B Corp certification**[3]. B Corp is a certification granted to commercial (for-profit) companies that meet societal and environmental, governance and public transparency requirements. Beyond being a recognition and 'marketing' tool, B Corp is also perceived as a structured methodology to achieve sustainability goals. The interviewees explain that it helps the company set an action plan, progress gradually, focus the management team's efforts and quantify the progress. Once they have obtained the certification, companies must define an action plan to make progress if they wish to keep the certification. Some challenges related to B Corp are mentioned by the respondents: it can be difficult to collect and show all the necessary data; and the certification is not always well understood by the clients and other stakeholders.

3 The B Corp methodology focuses on five 'streams' (governance, environment, clients, employees, community). It is based on a thorough questionnaire and provides a quantified score (from 0 to 200).

The survey results allow us to objectivise the interview findings. They indicate that **59% of the companies in the sample have obtained some sort of sustainability certification,** whose goal is to testify that they have achieved certain goals regarding sustainability. The most common certifications mentioned by the survey respondents are CDP leadership status, UN Global Compact, EPRA SPRBs awards, B Corp, Ecovadis, diverse ISO certifications, and several certifications awarded by ESG ratings providers.

The survey respondents also assess the most relevant advantages of a label / certification, on a scale from 1 (not relevant) to 5 (very relevant). **Better reputation and branding** are perceived as the most important advantage (average score of 4.26). However, other advantages are also considered quite relevant, such as benchmarking against other companies (average score of 3.86), employee motivation (3.79), methodology to measure progress (3.74) and methodology to implement the strategy (3.47). Additional benefits mentioned by the respondents include commercial opportunities, financing opportunities (financing via green label) and responding to customer demands.

Summary: our findings suggest that the development of a sustainability strategy usually goes hand in hand with the development of implementation and monitoring systems, including quantitative KPIs, dedicated staff, internal steering groups, etc. However, the roll-out of sustainability across all the departments of the companies (including at the more operational levels), and even more so the due diligence across the value chain, remain challenging. According to several respondents, culture is a real issue, which requires 'softer' policy tools such as education and awareness-raising. Certifications (such as B-Corp) are perceived as a useful implementation and monitoring instrument, with strong advantages in terms of branding.

3.3.5. Structured and verified reporting on ESG matters

Explanatory note of the Corporate Governance Committee:
"Transparent external reporting on ESG targets and the company's annual performance with respect to these parameters will induce discipline around the pursuit of these objectives throughout the company. Such reporting should be independently verified. Adhering to one of the established or emerging ESG reporting standards will help the company to set comprehensive targets and enhance its credibility".

In this section, we examine how Belgian listed companies report to the outside world about ESG matters. Sustainability reporting is already the subject of numerous research and publications; therefore, this section will be relatively short. It is worth noting that, at the moment of the empirical study, the Non-Financial Reporting Directive (NFRD) was applicable to large listed companies [4].

4 Requirement to include a non-financial statement in their annual reports, for companies meeting at least two of the following criteria:

Sustainability reporting & integrated reporting

A distinction is made between **sustainability reporting** (i.e., reporting on how a company deals with environmental, social and governance factors) and **integrated reporting** (i.e., the integrated representation of a company's performance in terms of both financial and other non-financial information that is relevant for value creation). In this sense, integrated reporting goes further than sustainability reporting, and it is reportedly better suited for reporting on sustainable value creation in all its financial and non-financial aspects.

When it comes to **sustainability reporting** in general, interview respondents argue that **it mobilises the action of the management team** and triggers questions by the company stakeholders. This results in more accountability and creates a virtuous circle. Another argument is that sustainability reporting is necessary to attract investment, especially from institutional investors. Finally, one comment highlights that integrated reporting is important to show that sustainability is at the heart of the business.

However, more critical comments are also expressed. Several interviewees argue that too much emphasis is put on reporting in general. They warn about the danger of **greenwashing**, and defend the idea that concrete action is more important than reporting. They also mention the high administrative burden associated with the data collection, and the complexity of the numerous reporting frameworks. Finally, one respondent asserts that he is not in favour of more standardisation. He believes that more autonomy should be left to companies (and their subsidiaries), therefore leaving room for creativity and specific accents.

The survey responses reveal **that 91% of the companies in the sample publish a sustainability report.** Among the latter, **78% also publish an integrated report** (see Figure 11). In addition, the cross-analysis in function of firm characteristics yields the following results:

» **Size**: There is an indication° that both sustainability reporting and integrated reporting are more frequent in larger companies (BEL 20) compared to smaller companies (BEL Mid and BEL Small).

» **Industry:** We find an indication° that integrated reporting is less frequent in companies in the services sector, compared to industrial companies.

» **Ownership:** There is evidence* that companies with a family shareholder make greater use of sustainability reporting than non-family firms.
Our results also indicate° that sustainability reporting is less common in companies with dispersed ownership (i.e., where the main shareholder owns less than 25% of the shares). However, there is an indication° that publication of an integrated report is more common in those same companies.

having more than 500 employees; having a balance sheet total of more than EUR 17 million; and/or having a net turnover of more than EUR 34 million.

Assurance of sustainability reporting

The opinions of the interviewees are divided regarding the topic of **audit and assurance of sustainability reporting**. On the one hand, some company representatives indicate that auditing is useful to avoid green washing. They argue that sustainability reporting should be certified and trustworthy, similar to financial information. On the other hand, some company representatives criticize the audit for being merely a compliance exercise. They also wonder whether there is enough expertise in the audit firms to perform the assurance of non-financial information.

In 48% of the cases, survey respondents indicate that the sustainability report is audited by an external assurance provider (see Figure 11).

Reporting standards

80% of the surveyed company representatives declare that they use a specific reporting standard to set up their sustainability report (see Figure 11). Frequently mentioned standards include:

» GRI (Global Reporting Initiative)

» EPRA sBPR (guidelines for the real estate sector)

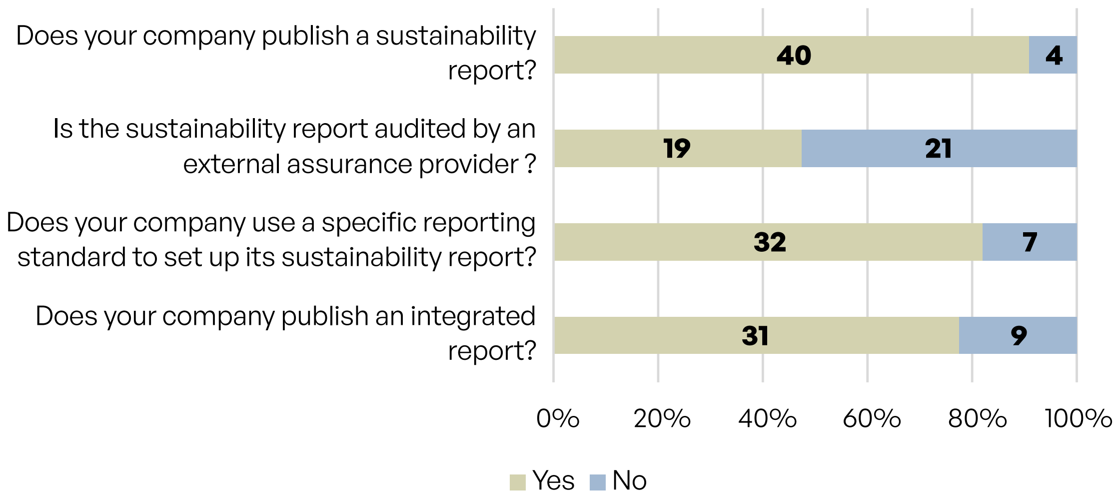
» TCFD recommendations (Task Force on Climate-Related Financial Disclosures)

» SASB standards (Sustainability Accounting Standards Board)

» International Integrated Reporting Framework

» EU Taxonomy

Figure 11: Assessment of sustainability reporting (N=44)



Summary: sustainability reporting has become common practice among Belgian listed companies, with 91% of the companies in the sample publishing a 'sustainability report'. However, the level of maturity is variable, notably regarding the "integrated" character of the reporting and the assurance provided. Beyond the legal requirements, sustainability reporting is perceived as necessary to answer to the expectations of the company's shareholders and stakeholders. It also has a mobilising effect for the company management. However, the risk of greenwashing and the high administrative burden associated with data collection remain major concerns.

3.3.6. Structured engagement by the board

Explanatory note of the Corporate Governance Committee:
"The pursuit of sustainable value creation has been articulated as the primary task of the board in the Belgian Code on Corporate Governance (provision 2.1.). Therefore, the board should reflect actively on each of the above elements and discuss them at regular intervals. It should provide clear guidance as well as support to the executive management when facing potential trade-offs and strategic choices involving sustainability issues. It should also systematically monitor ESG performance and include this in executive management's performance evaluation."

The present section provides an analysis of **the role of the board of directors**[5] of the Belgian listed companies with regards to sustainable value creation. The overall governance of sustainable value creation at company level is also examined.

Board composition and decision making

Firstly, we look at the way sustainable value creation is integrated in the composition and the functioning of the board. With respect to the first element, several interview participants acknowledge the importance of **affinity and awareness of sustainability among all directors**, and this is clearly integrated in the selection process of the board members (f.i. in the interviews with the candidates). Interviewees also support that hiring an **expert on specific ESG questions** in the board can be useful if this expertise is relevant for the company's activities and needs, and if the selection is based on a competency matrix. One respondent advocates an "outside-in" approach, whereby external directors bring insights and inspiration from other companies and sectors. For instance, in one company, the presence of an 'ESG activist' among the board members ensures that challenging questions on sustainability are addressed during board discussions. However, respondents formulate two

5 Or supervisory board, for companies with a two-tier governance structure.

attention points: (1) it is unnecessary that all board members possess extensive ESG expertise, and (2) granting the responsibility of ESG to one specific director might lead to his/her isolation and threaten the collegiality of the board. Finally, some respondents believe that training is a useful tool to increase the knowledge and the awareness of board members on sustainability topics.

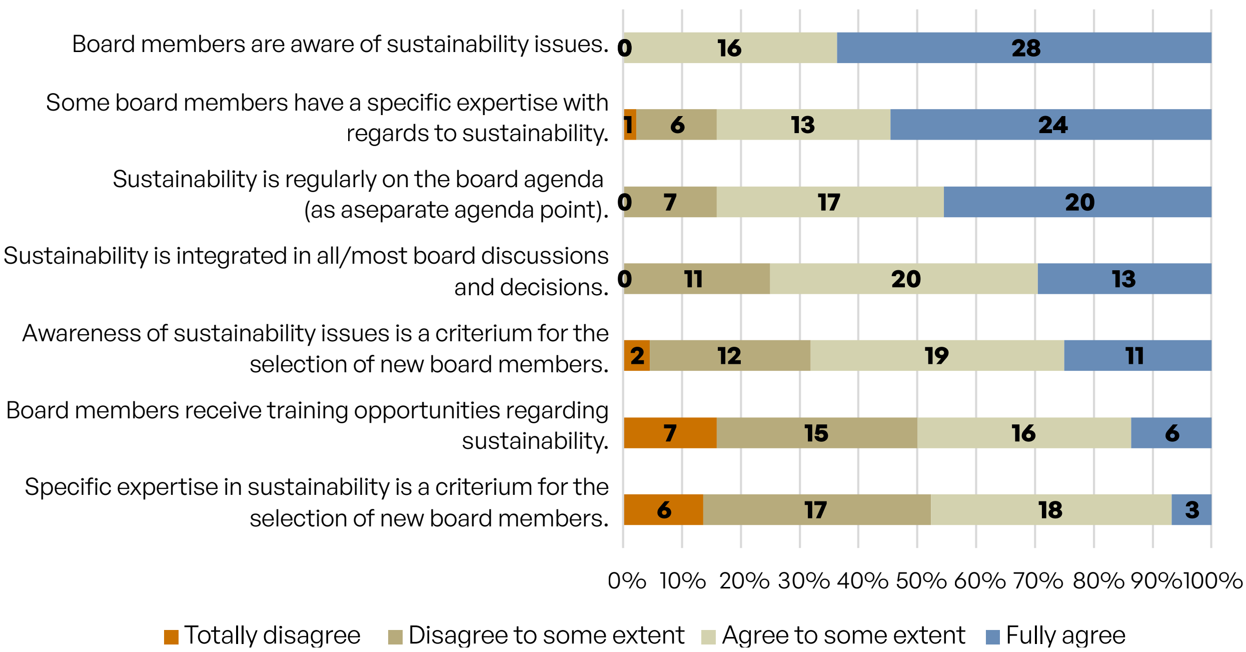
When it comes to board decision-making, in some companies, sustainability is a **specific point on the board agenda** (for discussion, decision or follow-up of the sustainability strategy), usually once or twice per year, for instance at the occasion of a strategic off-site. In some other boards of directors, sustainability is arguably present in all discussions and decisions, and comes naturally through the questions and remarks formulated by board members. To the extent that sustainability is fully embedded in the company and its strategy, one respondent argues that considering it as a separate point on the agenda is useless, or even undesirable.

Figure 12 displays the respondents' opinion about how sustainability is integrated in the composition and the decision making of the board, on a scale from 'totally disagree' to 'fully agree'.

The majority of surveyed company representatives agree that **board members are aware of sustainability issues** and most respondents agree **that some board members have a specific expertise in sustainability**; however, it does not appear to be common criteria for the selection of new board members. Finally, respondents are divided on the question **whether board members get training opportunities regarding sustainability** (half of the respondents tend to agree, and the other half tend to disagree). These findings confirm that both sustainability awareness and expertise are important for Belgian listed companies, but that more efforts are needed in terms of educating board members.

When it comes to decision making, most survey respondents agree that **sustainability is regularly on the board agenda** and is **integrated in all/most board decisions**, at least to some extent.

Figure 12 : Assessment of the integration of sustainability in board composition and decision-making (N=44)



The cross analysis with the firm characteristics yields the following results:

» **Size:** for all statements, there is an indication° that BEL 20 companies score higher on average than BEL Mid companies. In turn, BEL Mid companies also score higher than BEL Small companies. Regarding director awareness on sustainability issues, we even find statistical evidence* of this relationship.

» **Shareholder structure:** we find evidence* that companies with lower shareholder concentration are more likely to use ESG expertise as a criterion for selecting board members and tend to provide more training opportunities on sustainability for board members. Likewise, our results provide evidence* that non-family firms are more likely to use specific sustainability expertise as a criterion for the selection of board members.

» **Industry:** No significant difference can be observed when crossing the results with sector variables.

Board's involvement in sustainable value creation

Next, we asked the interview and survey participants about the concrete role(s) that the board of directors plays in the domain of sustainability. Interview participants comment on the **involvement of the board in the strategy with regards to sustainability. They explain that the management is usually the driving force behind the sustainability strategy, while the board's role is to advise, challenge, and in the end approve the proposed strategy.** Hence, company representatives advocate for an intense interaction between the management and the board. In some companies, the board is perceived as more reactive than proactive in this respect, but it is never perceived as a hindrance. This finding echoes the previous observation that the involvement of the board is not perceived as one of the most important elements conducive to sustainable value creation (see section 3.2). It is also illustrated with the following quote from the interviews:

> *"The board's involvement is growing, but I consider that the board's impact in this area is insufficient. This is not dramatic because we did not wait for the board in this area. The board has underestimated this issue."*

In other companies however, the board is described as the initiator of the sustainability actions of the company by providing the first 'impulse'. This is especially true in family businesses, where the founding family has an entrepreneurial stance and has a strong influence in the board of directors.

Several interviewees also see it as a key task of the board to **verify that the sustainability strategy is effectively implemented.** In this sense, the board is perceived as a "safeguard".

We asked survey respondents to assess the degree of involvement of the board in different tasks (on a scale from 'no involvement' at all, to 'strong involvement'). Figure 13 shows the answers.

» The involvement the board appears to be particularly high in the definition of the sustainability strategy of the company, in the assessment of the sustainability related risks, and in the control of the sustainability performance of the company. From a good governance viewpoint, those areas can be considered core to the strategic and monitoring roles of the board, and this finding is aligned with the statements of the interview participants.

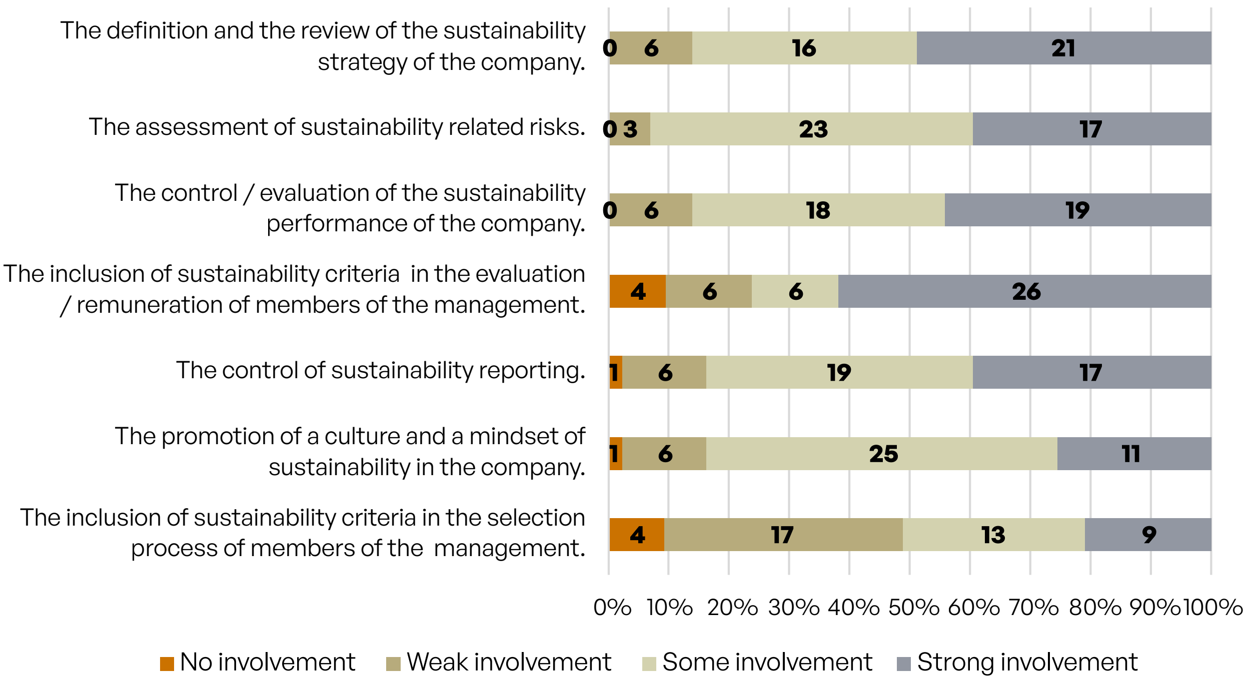
» We also observe that the control of sustainability reporting, and the promotion of a culture and mindset of sustainability in the company, are areas where the involvement of the board appears significant, but lower than the elements previously mentioned.

» The involvement of the board in including sustainability criteria in the selection process of management members is perceived as relatively low. However, there seems to be a high involvement of the board in including sustainability criteria in the evaluation & remuneration of management members (see also infra). From a good governance viewpoint, those areas can be considered to be part of the leadership role of the board.

A number of interesting insights can also be drawn from the cross-analysis with firm characteristics:

- **Size:** for all tasks, we find the indication° of a higher board involvement in BEL 20 companies compared to BEL Mid companies, and in BEL Mid companies compared to BEL Small companies. When it comes to definition of the sustainability strategy, the control of the sustainability performance and the control of the reporting, this relationship is even significant*.
- **Industry:** we find no significant differences when comparing between sectors.
- **Ownership:** for all tasks, there is an indication° that the involvement of the board is the highest when the largest shareholder owns 25 to 50% of the shares, and the lowest when the largest shareholder owns more than 50 % of the shares. The results also indicate° that boards in family businesses are more involved in strategic and control tasks compared to non-family businesses. On the other hand, the boards in non-family business appear more involved in leadership tasks (evaluation, remuneration and selection of management).

Figure 13: Assessment of the board's involvement in sustainable value creation (N=43)



Sustainability in the board committees

Almost all Belgian listed companies have set up specialised committees, whose role is to provide advice to the board in specific areas. Interviewed company representatives highlight that those committees also play a role with regards to sustainable value creation.

» **Remuneration / nomination committee** (Remco): The sustainability criteria for setting the remuneration of the executive management are discussed in the Remco. In this context, the Remco verifies whether ESG KPI's are met (see also infra).

» **Audit (& risk) committee**: Interview participants explain that the audit committee performs a variety of tasks when it comes to sustainability, which vary from one company to another. A first task is mapping the ESG risks, which arguably become increasingly prominent in the risk management of companies. The control of the sustainability / ESG reporting is also mentioned as an important task of the audit committee. Finally, in some companies, the audit committee is tasked with monitoring the progress (KPIs) of the sustainability strategy.

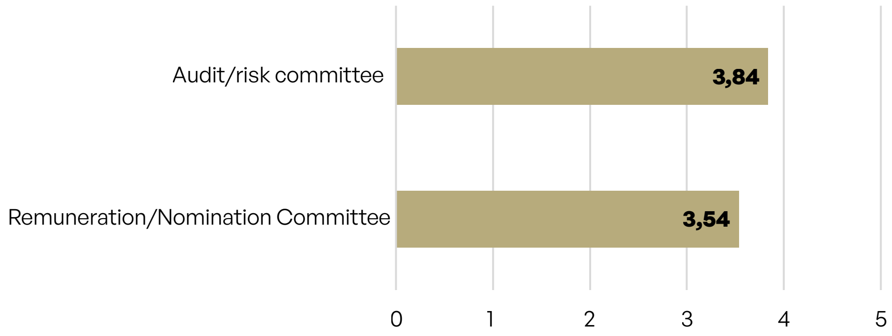
» **Specific committee tasked with sustainability**: The name of this committee varies from company to company; most common names are "ESG committee", "CSR committee", and "Sustainability committee". One board member describes the role of the ESG committee in his/her company:

> *"The ESG Committee is not the committee responsible for ESG. It is a committee that acts as a relay between the work of the board and the management. The complexity and depth of the subject requires more time than the board can devote to meetings".*

However, the interviewees are divided regarding the desirability of creating a dedicated committee for sustainability at board level. Counterarguments include the risk of "marginalising" the discussion on ESG, the creation of additional burden for the company and the idea that sustainability is a key strategic topic which belongs to the board as a whole. In contrast, "proponents" mention several advantages: arguably, the creation of a sustainability committee signals to the stakeholders that the company takes sustainability seriously; as ESG topics are complex, a specific committee is also helpful to prepare the files for the whole board; additionally, it has the potential to increase the focus of the board on those questions; it also plays an educative role for board members. Put otherwise, a dedicated committee is mostly considered useful in the first phases of the sustainability journey of the company when sustainability is not yet fully embedded in the business strategy and processes. Finally, it is worth noting that one company uses its ESG committee to organise meetings with diverse company stakeholders.

The survey respondents were asked to evaluate to what extent sustainability is integrated in the discussions and recommendations of the audit committee and the nomination / remuneration committee, on a scale from 1 (not at all) to 5 (to a great extent). Figure 14 shows the average scores. However, a lot of variation can be noticed among the surveyed companies.

Figure 14 : Integration of sustainability in the discussions and recommendations of the board committees - Average scores on a scale from 1 to 5 (N=44)



In addition, **16%** of the survey participants indicate that their company has set up a **specific board committee tasked with sustainability,** indicating that it is not (yet) a common practice among Belgian listed companies.

Other aspects of sustainability governance

Other aspects of "sustainability governance" tackled in this study are the inclusion of ESG indicators in executive (& board) remuneration, and mechanisms of stakeholder engagement.

Regarding the first element, several interviewees indicate that the variable part (bonuses) of the **remuneration of the executives is linked to the achievement of environmental, social and/or governance criteria**. An important comment is that those criteria should be linked to the objectives of the sustainability strategy. Hence, the definition of a sustainability strategy is a prerequisite. Both from the survey and the interviews, it appears that decarbonisation (reduction of CO2 emissions) is an important criterion in variable remuneration schemes. Another related mechanism is **the granting of shares**. While this is a common practice in executive remuneration (encouraging alignment between the interests of the managers and those of the shareholders), it is relatively new practice for non-executive board members. The 2020 Corporate Governance Code recommends that non-executive board members receive part of their remuneration in company shares. One company representative praises that mechanism because it incentivises board members to identify with the company and to adopt a longer-term perspective. Others are less enthusiastic and indicate that share value is merely a financial indicator with a short-term focus and is therefore not the right incentive for the creation of long-term value and for the pursuit of ESG objectives.

With respect to **stakeholder engagement**, we already mentioned in the section on the sustainability strategy (see 3.3.3) that the strategic process often starts with an analysis of the expectations of the different stakeholders (though interviews, surveys, etc.), which are summarised in a materiality matrix. The strategy with regards to sustainability is based on that output and contains 'pledges' towards the different stakeholders. Other companies have created more structural ways to organise an ongoing dialogue with the stakeholders. For instance, stakeholders are often invited to exchange views with the board members in the ESG committee of one particular company. In another company, a sustainability sounding board has been set up. The latter is composed of sustainability experts relevant for the company's activities and is tasked with advising and challenging the company management on ESG-related issues. In addition, several interviewees stress the importance of communicating towards the stakeholders on a regular basis, and on raising awareness about the company's sustainability initiatives. Finally, the value of building long-term relationships with the stakeholders, based on trust, is emphasised.

» **60% of the surveyed companies include sustainability related criteria in the remuneration of the executives.**

» **36% of the surveyed companies have set up formal mechanisms to voice the interests of company stakeholders,** such as employees, clients, NGOs, etc. Frequently mentioned mechanisms include employee surveys, materiality assessments based on stakeholders' input, grievance pages on the company stakeholders or for whistleblowing, meetings with the stakeholders, informal contacts, etc.

Summary: our findings reveal that sustainable value creation in the board of directors has a variety of meanings. In the first place, it concerns the inclusion of sustainability in the composition and the functioning of the board; here, respondents give preference to a general "awareness" of board members about sustainability issues, to ensure the consideration of sustainability in board discussions and decisions. Requiring specific sustainability expertise or putting sustainability on the agenda as a separate point are less popular options. Another aspect is the role played by the board with respect to corporate sustainability. The board's involvement clearly varies among the companies, from a passive role, to a strong "proposing" role. In most cases, the management has a leading role in the definition of the sustainability strategy, while the board is rather perceived as a "safeguard". Sustainability is also often tackled by board advisory committees. A specific "sustainability committee" is sometimes created, especially to support the board in the early phases of the sustainability transition. Finally, governance practices such as sustainability criteria in the variable remuneration of executives, and stakeholder involvement mechanisms seem to gain importance.

3.4. Motives & enablers

After this review of the most important elements conducive to sustainable value creation, we will now have a closer look at the **motives** which drive companies to pursue sustainable value creation, as well as the most important **enablers** that influence companies in their sustainability transition. Again, the results are based on the perceptions of the company representatives who took part in the interviews and the survey.

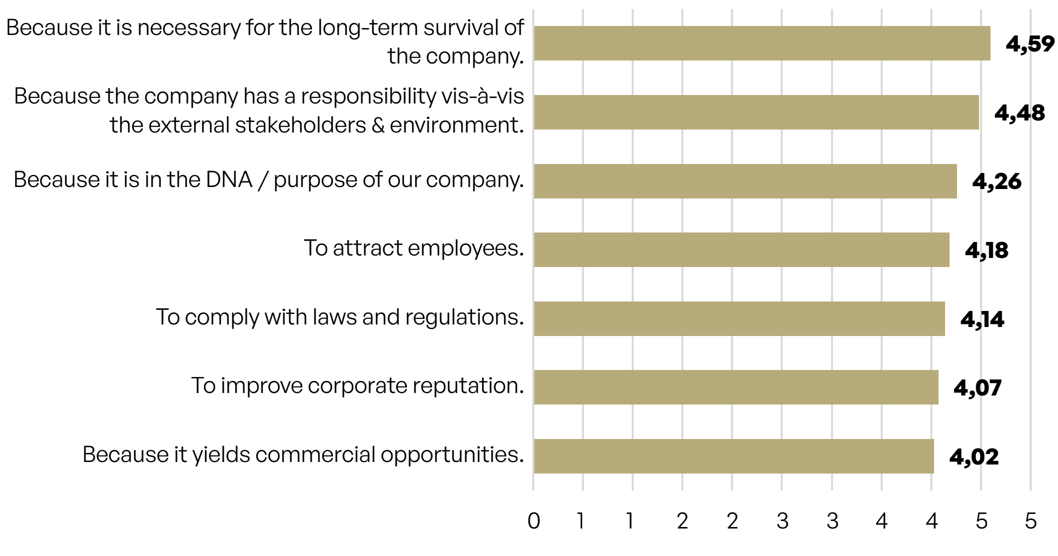
Motives

Several interviewees emphasise their conviction that **the pursuit of sustainable value creation is a necessary condition for the long-term success (and survival) of any company.** They also explain that companies have a responsibility towards the planet, the people and future generations. In other words, pursuing value creation provides the company with a "license to operate". Other reasons such as attracting capital, complying with regulations, improving reputation, etc. are also mentioned as relevant, but they are not considered as primary motives: they are rather seen as necessary conditions to achieve long-term success. One respondent summarises those arguments as follows:

> *"We do it not because the market asks for it, but mainly because we feel it is necessary. We are all parents and grandparents too. Making good business is important to invest and attract capital, but that should not conflict with a bright future for the next generations."*

Figure 15 displays how survey respondents perceive the relevance of a series of possible motives, on a scale from 1 (not relevant) to 5 very relevant). The motives are ranked in function of decreasing average rated relevance. The findings reveal multiple reasons for pursuing sustainable value creation, which seem to be aligned with the findings of the interviewees. On average, all the proposed motives are considered relevant, with an average score above 4. However, the long-term survival of the company (4,59) and the responsibility towards the external stakeholders and environment (4,48) are perceived as the most relevant motives on average.

Figure 15 : Motives for pursuing sustainable value creation – average relevance on a scale from 1 to 5 (N = 44)



When crossing the results with firm characteristics, we can make the following observations:

- **Size:** we find evidence* that BEL 20 companies give a higher score to the motive "Because it is in the DNA purpose of the company", while BEL Mid give a higher score to the motive "to comply with laws and regulations".
- **Industry:** there is an indication° that industrial companies attach more weight to the commercial benefits compared to companies in the services sector.
- **Ownership:** our findings indicate° that companies with concentrated ownership give more weight to most motives (the relationship is even significant* for the motive "Because it yields commercial opportunities"), while companies with dispersed ownership appear to give more importance to the motive "to comply with laws and regulations". Likewise, we see an indication° that companies with a familial ownership give a higher score to most motives, except for the motive "to comply with laws and regulations", where non-family companies score higher.

Enablers

The analysis of the enablers provides a complementary perspective on that topic. It allows us to understand which factors and actors exercise the greatest influence on the company's choices with regards to sustainability.

Starting with the interview results, several company representatives emphasise that **the CEO, or more generally the top management team, is the driving force behind the sustainability actions** of the company. This seems especially the case when the CEO has a strong entrepreneurial spirit and is driven by a sustainability agenda. For several respondents, this situation makes sense because they see strategy (including sustainability strategy) as the primary task of the CEO. As one interviewee states:

> *"Our CEO is drenched in sustainability; he is the motivator of all and wants to make the world a better place".*

The **enabling role played by the shareholders** is also commented. In several companies, it is argued that the **reference shareholder has a long-term vision and is willing to ensure the success of the company beyond mere financial profit.** This brings some kind of "comfort" to the companies wishing to pursue long-term and non-financial goals. In a few companies, the reference shareholders go a step further and explicitly require that the company and its board undertake a sustainability transition and might accept lower financial returns to make it possible. **Regarding the role of other shareholders, the opinions are more divided.** Some argue that most investors exercise a great deal of pressure on the companies to improve their sustainability track record. A lot of emphasis is put on the disclosure of sustainability data. Arguably, a company can attract new capital by supportive and long-term investors willing to let go some of the short-term profit, in exchange for a solid sustainability strategy combined with a perspective of growth. Other respondents are more critical: they argue that small (retail) investors are very passive and not really interested in sustainability. They also regret that many investors have a "tick-the-box" approach to sustainability, mainly focused on a limited number of indicators provided by ESG rating agencies which are not representative of the genuine actions undertaken to achieve the sustainability transition. Finally, the short-term focus of many shareholders is even considered detrimental to sustainable value creation (see also section 3.5).

Regarding the **role of the employees**, the opinions diverge as well. A number of interviewees praise the company employees for being strong supporters of sustainability action. Arguably, employees are increasingly demanding in that domain, especially the younger generations, and they are looking for an employer with long-term societal goals. Employers must adapt to those demands if they wish to attract new talent. As already explained in section 3.3.3, employees are often consulted or involved in the definition of the sustainability strategy of the companies. This positive opinion is nuanced by a few other respondents: while the so-called 'white collar workers' (highly educated professionals) have indeed a certain sustainability-awareness, it is arguably less the case for 'blue collar workers' (low-skilled, manual workers). Others go a step further and argue that most employees are not sustainability advocates : in the best case, they have no interest in the topic; in the worst case, they even resist the change (see section 3.5).

Finally, the interviewees discuss the **enabling role played by existing regulatory and policy initiatives**. They acknowledge the strong impact of the regulations on their activities and on sustainability, although this strongly depends on the sector (some sectors are much more regulated than others). They are also aware of the upcoming legislations on sustainability reporting, due diligence, etc. Regarding the latter, they stress the importance of being proactive and not waiting for the legislations to become applicable: "better anticipate than endure". More critical opinions are expressed, arguing that many legislations are often disconnected from the corporate reality and are not sufficiently forward-looking. Based on this argument, they believe that more progress on sustainability can be fostered with genuine action by companies rather than with "tick-the-box" legislation. Another comment goes as follows:

> *"The regulation unfortunately completely lacks operational guidance, which is entirely left to the interpretation of the companies themselves and always has to be dealt with in a very short time frame."*

Figure 16 displays an overview of the rated influence of diverse actors on the pursuit of sustainable value creation by companies, on a scale from 1 (no influence) to 5 (strong influence). Factors are ranked in function of decreasing average influence. All the proposed factors appear to be influential to some extent. However, the CEO / management (4,64), the expectations of the reference shareholder(s) (4,37) and the expectations of the clients (4,23) receive the highest average score. It is remarkable to observe that the demands of the board of directors are not among the most influential factors. Overall, the importance granted to these factors is in line with the opinions of the interview participants, even though the survey stresses additional factors (clients, banks, other stakeholders, ...).

Figure 16 : Perceived enablers of sustainable value creation – average influence on a scale from 1 to 5 (N = 44)

A cross-analysis of those results with company characteristics reveals the following insights:

» **Size:** on average, our results indicate° demands of the board of directors, expectations of (activist) shareholders and expectations of other stakeholders are perceived to be more influential in larger companies (BEL 20, BEL Mid) compared to smaller companies (BEL Small). Regarding the influence of the CEO & the management, we even find evidence* of a significant relationship.

» **Industry:** there is an indication° that representatives of industrial companies perceive a higher influence of the expectations of their clients compared to service companies.

» **Ownership:** the results indicate° that the rated influence of reference shareholders is (logically) lower in companies with dispersed ownership (< 25%), but also the rated influence of regulatory pressure appears higher in those same companies. At the other side of the spectrum, we have an indication° that companies with concentrated ownership (> 50%) experience a lower influence of activist shareholders, but a higher influence of the expectations of their clients.

Finally, there is an indication° that companies with a family shareholder perceive a higher influence of the expectations of the reference shareholder and of their clients, compared to their non-family counterparts.

Summary: The motives and enablers for pursuing sustainable value creation are quite diverse. The most prominent ones seem to be the expectations of the diverse company shareholders (especially reference shareholders) and stakeholders, and the idea that is a necessary condition of the long-term success (and survival) of any company. Other motives are usually seen as secondary. In some entrepreneurial companies, the sustainability “drive” of the CEO / founder is seen as a strong enabler of a company’s actions with respect to sustainability.

3.5. Obstacles

While some factors positively influence the pursuit of sustainable value creation (cf. section 3.4), others hinder it. The interviewees point out the difficulty to **reconcile the necessary short-term costs and investments with returns that only materialise in the long-term** (see also section 3.3.1). Significant investments are required in the short-term, while companies need to deal with other short-term, or even urgent, priorities. This presents companies with difficult trade-offs. This argument is expressed with the following quote from the interviews:

> *"I don't think sustainability and profit always go together. That's a delusion. There are choices to be made. It costs money in the short term. It pays off in the long run".*

However, most respondents are still convinced of the long-term benefits of their decisions with respect to sustainability.

Dependency on external factors is another obstacle emphasised by the interviewees. As highlighted previously (see section 3.3.4), several respondents believe that sustainability should extend to the company's whole ecosystem, including the value chain of the products / services, or even the competitors. This is a challenge since companies usually have limited leverage on the other actors in the value chain. One company representative illustrates this issue with an example: his company recently adopted a sustainable sourcing policy. As a result, they became less price competitive and some of their costumers turned to Chinese products, resulting in a financial loss and no direct positive impact on sustainability. Another respondent comments that, if other market players do not contribute to the efforts, their own action will only be "a drop in the ocean". Small companies, especially, have a limited impact on the wider economy. The current macro-economic and geopolitical context (war, inflation, ...) is another external factor that may impede the sustainability efforts of the companies.

The **lack of human resources** and the **administrative burden** are also perceived to be potential barriers to sustainable value creation. Logically, it is mainly an issue for smaller companies with limited staff. A particular difficulty resides in collecting the sustainability data required by investors, banks and ESG rating agencies, or in putting in place complex measurement and monitoring systems. Respondents stress that a company can be sustainable in its purpose and its activities, but that its actions will get less recognition and visibility because of those administrative issues. This could in turn negatively impact financing prospects. Interestingly, the difficulty to collect data is also present in larger companies. For the latter, the problem is less a lack of staff than the large number of subsidiaries with very diverse reporting systems.

In addition, a few respondents explain that the **lack of awareness, or even the resistance, of their own employees** was a hurdle in the initial phases of the companies' sustainability transition. However, awareness raising proved effective in convincing the employees, who then became supportive of the companies' actions for sustainability (see also section 3.4).

Finally, while they are generally considered to be enablers (see section 3.4), **the demands of the shareholders / investors can sometimes be contradictory or constitute a barrier to the pursuit of sustainable value creation.** Arguably, companies experience a lot of shareholder pressure to make short-term progress on sustainability, while having to remain profitable at the same time. One respondent illustrates this issue: when his company announced bold investments in sustainability, short-term investors were scared, leading to a drop in share price. This is a challenge for companies, as several interviewees remind that the sustainability transition is a progressive process for any company, which may require large investments in the beginning, while benefits only materialise later. However, the concentrated shareholder structure of most Belgian listed companies, might make them less sensitive to such short-term demands.

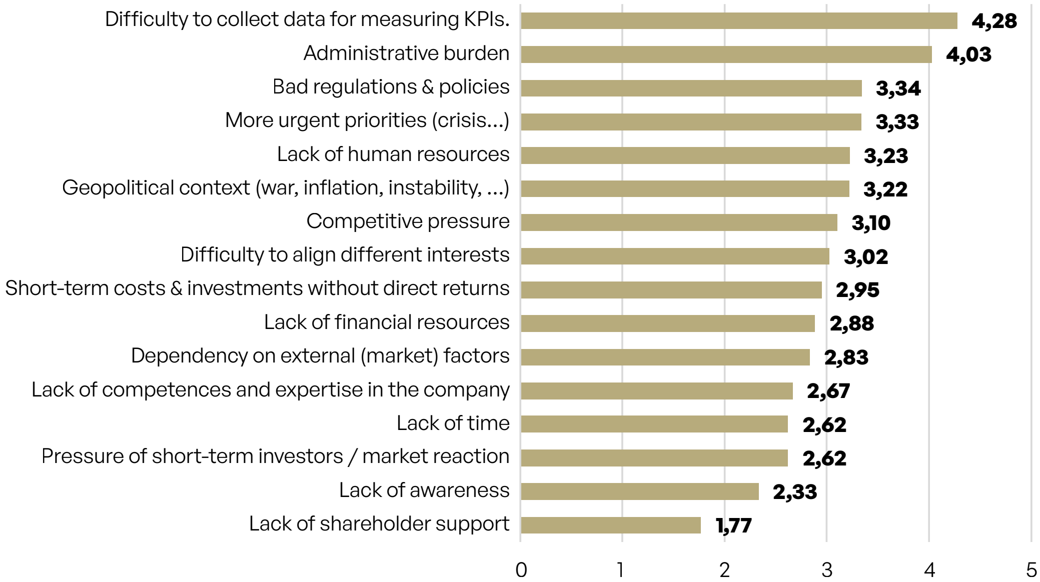
To objectivise the findings, we asked the survey participants to rate a series of potential obstacles in terms of their negative impact on sustainable value creation. **Figure 17** provides an overview of the factors rated on a scale from 1 (not problematic) to 5 (very problematic). The factors are ranked in function of descending average score. The findings reveal that several factors are perceived to play a negative role in the pursuit of sustainable value creation, with varying degrees of gravity. The five most "important" barriers (in terms of average score) are the **difficulty to collect data** (4.28), the **administrative burden** (4.03), **bad regulations and policies** (3.34), **more urgent priorities** (3.23) and the lack of human resources (3.23). At the bottom of the list, the lack of awareness and the lack of shareholder support are not perceived as major hurdles by the survey respondents. While those results broadly align with the findings of the interviews, they show that other factors may also be problematic.

The crossing of the findings with firm characteristics such as size, industry and ownership, yields additional insights:

- **Size:** for most of the mentioned obstacles, we see an indication° that BEL Mid companies score higher (= more problematic) than their BEL 20 and BEL small counterparts. In addition, the results indicate° that "the difficulty to collect data" and "the bad regulations & policies" are considered as more problematic in "large" (BEL 20) companies. On the contrary, there is an indication° that the lack of human resources is perceived as more problematic in small companies (BEL Small and BEL Mid) compared to BEL 20 companies.
- **Industry:** we find evidence* that industrial companies are more likely to consider the issue of 'short-term costs & investments without direct returns' as problematic, compared to service companies. There is also an indication° that industrial companies are more likely to consider competitive pressure as a problematic obstacle, in comparison with service companies.
- **Ownership:** on average, there is an indication° that companies with a "medium" shareholder concentration (i.e., where the largest shareholder owns between 25 and 50% of the capital) experience all issues as more problematic than companies with dispersed or

concentrated ownership. This relationship is even significant* for the issue of "short-term costs & investments without direct returns".

Figure 17: Perceived obstacles to sustainable value creation – average severity on a scale from 1 to 5 (N = 44)



Summary: Perceived obstacles to sustainable value creation are numerous. Among the most prominent ones are the difficulty to collect sustainability data, and the administrative burden associated to it. This is mainly an attention point for smaller companies and, according to the respondents, it might distract companies from more genuine actions needed for the transition. Dependency on external factors, as well as the substantial short-term investments/costs required for the sustainability transition are other significant hurdles.

3.6. Suggestions from the respondents

We conclude our presentation of the empirical findings with an analysis of the most important **recommendations from the respondents.**

The interviewees mainly focus on **recommendations addressed to the public authorities.** They emphasise the need to create **common standards for the reporting of sustainability information.** The goal must be to avoid greenwashing and achieve a level playing field at the European level. On that topic, it is striking to observe that sustainability reporting is a main concern of both the survey and interview participants, while it was not considered as one of the most important elements conducive to sustainable value creation (see section 3.2). Beyond the rules regarding reporting, interviewees are not opposed to additional regulation in the field of sustainable business conduct, but they formulate several conditions:

» Public authorities should have regular contacts with business to better understand their situation.

» Policies and legislations should be realistic and feasible for companies.

» Preference should be given to incentivising instruments rather than binding rules (no "tick-the-box").

» Legislation itself should have a long-term perspective and be stable over time. One respondent even advocates for a long-term industrial policy with regards to sustainability.

The importance of **awareness and education of board members and senior executives** is also highlighted. One interviewee states:

> ***"People on the board need to have the awareness that sustainability has become indispensable. That awareness comes mainly through training, to keep directors up-to-speed".***

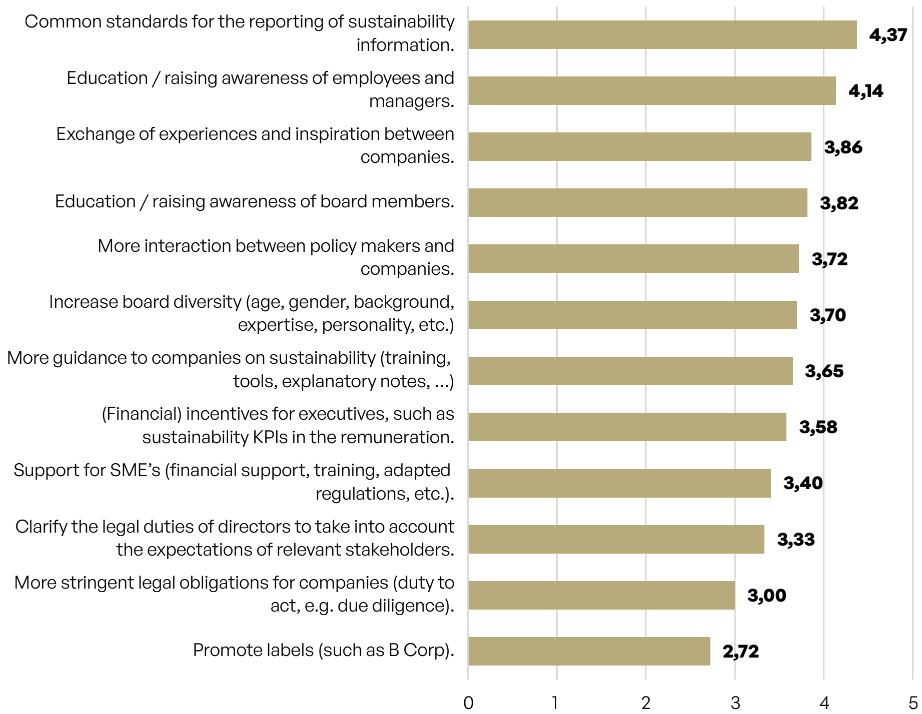
To create the necessary awareness, one interviewee encourages the creation of a network of company leaders concerned with sustainability to exchange experiences. This participant also believes that listed companies should use their "visibility" to take the lead and to set the right example. Some go even further and state that awareness is not enough and should be complemented by suitable sustainability skills. Specific trainings could therefore be organised and promoted.

Finally, several interviewees encourage the other companies **to formulate and implement their own sustainability strategy.** In their opinion, it is the task of all companies to implement their transition to sustainable value creation:

"Companies should find their place where they can make a difference; (...) Every company has something, even if you don't have a sustainable product/service: distinguish yourself and be the one that is the most sustainable in doing that unsustainable but necessary product."

The survey provides a ranking of these recommendations, while revealing some other suggestions. Concretely, the survey participants were asked to assess a series of propositions, on their contribution & relevance for improving the pursuit of sustainable value creation by companies and their boards, on a scale from 1 (not relevant) to 5 (very relevant). **Figure 18** shows the results ranked in terms of descending average relevance. Overall, the respondents perceive several suggestions as relevant. Common standards for the reporting of sustainability information (average score of 4,37), education / raising awareness of employees and managers (4,14), exchange of experiences and inspiration between companies (3,86), education / raising awareness of board members (3,82), and more interaction between policy makers and companies (3,70), make the top 5 of the propositions. At the bottom of the list, it appears that survey respondents are less supportive of stringent legal obligations, and of promoting labels such as B Corp (while the latter was praised by certain interviewees) [6].

Figure 18: Suggestions to improve sustainable value creation – average assessed relevance on a scale from 1 to 5 (N = 44)



6 For this section, no cross-analysis is provided because the question was asked in a general way to the survey respondents, and not in the specific context of their company

Summary: The respondents' suggestions mainly focus on the role of the public authorities. There is a strong call for sustainability public policies that provide incentives rather than obligations, that promote a stronger harmonisation & standardisation, and that take into account the specific realities of the listed companies in different industries. In addition, the respondents strongly support initiatives to raise awareness and educate board members and the senior management

4. Conclusion

This study focuses on the concept of sustainable value creation contained in the 2020 Belgian Code on Corporate Governance and aims to create a better understanding of how Belgian listed companies apply this concept in practice.

Using a mixed-methods research design combining semi-structured interviews and a written survey, we came to the following conclusions:

» Sustainable value creation implies a focus on the **long term**, and consideration for the **expectations of your stakeholders**. However, for several companies, economic value creation remains the primary goal.

» **Long-term thinking** is embedded in companies' decision making, but conflicting demands make it increasingly difficult to achieve.

» Most companies have reviewed their **corporate purpose** but see it foremost as a communication tool. "Formalisation" of purpose in the articles of association does not seem to be a priority for several respondents.

» Companies evolve from dealing with sustainability as a separate pillar to placing **sustainability at the core of their business strategy**. However, this process takes time.

» Sustainability is progressively being **formalised into the company's operations**. To fully embed it at all levels of the company and beyond company borders, creating the right organizational **culture** is key.

» Almost all companies in our sample **report** on sustainability. Reporting is perceived as a useful tool not only to inform investors, but also to mobilise managerial action. However, the risk of a tick-the-box approach and greenwashing remain major concerns.

» The **involvement of the board of directors** in sustainability matters is on the rise, but some respondents see it as too passive. Areas of improvement include sustainability training for board members, integration of sustainability in boardroom decisions, the board's influence on the sustainability strategy, and the inclusion of ESG criteria in the selection of executives. A dedicated sustainability committee is seen as one potential solution to increase board involvement.

» The expectations of the diverse company shareholders (especially reference shareholders) and stakeholders, and the idea that is a necessary condition of the long-term success (and survival) of any company, are seen as the **primary motives** for pursuing sustainable value creation.

» The largest obstacle experienced by companies is the **lack of resources**, whether financial, human or data related.

» More coherent regulations, and education and awareness raising are amongst the top **suggestions** of the respondents.

Overall, we find that most Belgian listed companies have started their **sustainability transition** and are in the process of fully embedding sustainable value creation into their purpose, strategy, operations, and reporting. However, it is described as a complex process that requires time, efforts, money, and other resources.

Another key finding of the study is that **sustainability is understood in a variety of different ways** depending on the company's characteristics. In other words, there is no "one size fits all" approach to sustainable value creation. We provide some evidence that **company size, industry and ownership structure** matter when it comes to sustainability.

» Our findings indicate that larger companies usually have more formalised practices regarding sustainable value creation. However, that does not mean that those companies are more sustainable: their actions are just more structured and visible than those of smaller companies, which can be explained by the more extensive resources at their disposal. Small companies are indeed often confronted with a lack of resources, while larger companies face other challenges, such as implementing sustainability at all levels of the organisation.

» Companies with a concentrated shareholder base seem to be better equipped to pursue long-term sustainability practices, especially in family-owned companies. This might be explained by the stability and the long-term orientation brought on by a family or other reference shareholder. In contrast, sustainable value creation appears to be more embedded in the functioning of the board of directors of companies with a dispersed shareholder base, possibly due to the presence of more professional independent directors.

» The industrial companies in our sample appear to dedicate more attention to environmental topics, while the companies in service-related sectors are more likely to focus on social topics. Our results also indicate that industrial companies are often more advanced in certain sustainability practices compared to service companies, maybe because (environmental) sustainability has been on their agenda for a longer time compared to service companies. However, we also find evidence that the necessity to make significant investments in the short term (while benefits only materialise in the long run) is a major hurdle for industrial companies.

The results of this cross-analysis should be interpreted with caution. Indeed, several results are not statistically significant (possibly because of the low number of observations) and are therefore mere indications.

Following the presentation of the results from our empirical study, **some key questions remain.** For example, how are the sustainability practices of companies expected to evolve, given the uncertain economic and regulatory context? What will be the impact of (future) European legislation on sustainability? Will European companies take the lead on sustainable value creation, or will they be "distracted" by other, more urgent, priorities? In addition, can a shift in legal responsibility and liability of companies and their directors make a difference? On a more political and philosophical level, one can wonder whether sustainable value creation, as it is defined today, is an appropriate response to the environmental and social challenges that we face: can action at the individual company level have a non-marginal impact on global challenges? Is economic growth, at the company or macro-economic level, still be compatible with a sustainable world? These can be interesting questions to tackle in the board of directors of Belgian listed companies.

We would like to conclude our study with a few **suggestions** to the Corporate Governance Committee and the policy makers. Those suggestions are the sole responsibility of GUBERNA, but inspired by the views expressed by representatives of Belgian listed companies during the **roundtable** with discussion held on 15 June 2023:

» First, there is still a lot of misunderstanding around **the definition and the idea of sustainable value creation**. For instance, many people still reduce this concept to its "reporting" part. Hence it is important that the Corporate Governance Committee and other policy makers continuously explain the meaning of sustainable value creation in its different facets.

» Second, governance (in terms of the board) is a key enabler of sustainable value creation. However, it is not yet fully supportive of the transition. Accordingly, there is clear need for **education** of board members. While most of them are aware of sustainability issues, there is still no common understanding of what concrete actions need to be undertaken at board level to drive the sustainability transition. Of course, life-long learning is primarily a responsibility of the companies and board members themselves. Policy makers, including the Corporate Governance Committee, have nonetheless some levers at their disposal to stimulate or facilitate training on sustainable value creation. This can take the form of guidance on certain topics, soft law provisions on the importance of training, and the promotion or facilitation of training initiatives. Encouraging the creation of a **specific board committee** tasked with sustainability could also be considered in the early phases of the transition.

- Third, there is call for a “one size DOES NOT fit all” approach. For instance, our findings indicate that SMEs are less equipped than large companies when it comes to sustainability. Those companies could be specifically supported with lighter regulatory/ policy requirements, with financial / fiscal incentives and with targeted guidance. In the same line of thought, sustainability has a different meaning in different sectors. Therefore, we support a segmented approach of policy making considering the specificities of different kinds of companies.
- Finally, policies and regulations must **enable a real transition of the companies’ business model**. An overemphasis on reporting and on formal requirements is likely to encourage a compliance approach but divert companies’ attention from the strategic aspects of sustainable value creation. Hence, while regulations and policies should be sufficiently bold and ambitious, at the same time they should leave enough flexibility in the implementation. For instance, public authorities could set a simple and coherent set of social and environmental targets to be reached at sectoral / industry level, without versing into the micro-management of the companies’ decision-making process.

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