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BOYDEN SUSTAINABILITY SERIES - CEO ROUNDTABLE DISCUSSION

Climate Change and the increasing pressures on Chief Executives running industrial businesses

Key takeaways from Boyden's recent roundtable event - An open forum for Chief Executives to discuss current opportunities and challenges, share their priorities, key learnings and approach to securing Sustainable businesses and contributing to net Zero targets.

Lunch hosts Claire Lauder, Partner UK & Ireland and Francesca d'Arcangeli, Global Leader, Industrial Practice were joined by CEOs of PLCs, private groups and PE backed enterprises.

What are the pressures and drivers behind the action for different businesses?

Day to day challenges are creating opportunities for sustainability led solutions. There is a strong desire to identify new approaches in the industrial sector. For example, Accolade Wines has recently utilised 3D printing as a means to combat difficulties in sourcing spare parts. In addition, there has been internal and external pressure to find energy-saving and, by implication, cheaper solutions; this has caused a more innovative approach to product design and manufacturing.

To achieve effective solutions, there is a need to drive action focused on climate change innovation.

Businesses are facing increasing pressure to take measurable steps towards climate change innovation from both employees and customers. People want to be proud of the business that they work for and to have a shared sense of purpose and vision. In today's world this is a major consideration with regards to employee attainment and retention.

In addition, it is becoming an increasingly important topic from the Investor perspective. Treating Customers Fairly (TCF) is complex and multifaceted, therefore it is worth organisations taking external advice to ensure that changes are introduced, not only to benefit consumers, but to increase confidence within the financial services industry as well.

The heightened expectations around ESG and pressure from shareholders is holding organisations to account more than ever before. Employees, Customers, Investors and the supply chain are now looking further into Scope Two and Three reporting.

Green House Gas (GHG) Categories for Reporting

Scope 1 – Emissions that the company makes directly e.g. while running boilers & vehicles

Scope 2 – Emissions it makes indirectly e.g. through the energy it buys

Scope 3 – Emissions created through the value chain e.g. used by suppliers

For many businesses, Scope 3 emissions account for more than 70% of their carbon footprint. Committing to reaching net zero will require tackling Scope 3 emissions.

The discussion concluded that Scope Three can be broken into three pieces: Process, People and Products:

- Process is focused on increasing efficiency. At Essentra 25/50 factories are currently at zero waste landfill. This is achievable to varying degrees depending on which geographies one operates in; some countries do not yet have the infrastructure to support recycling
- The people element is about how one differentiates oneself in the market to attract employees, customers and collaborates with suppliers
- Products are increasingly commercialised but need to have a greater sustainability slant. For example, non-sugar-based sweeteners and biodegradable combustible tobacco products become "purposeful" which attracts and recruits good employees

How big of a driver is regulation?

The regulation is already in place and it was felt that those in leadership roles must catch up. A fundamental change in infrastructure will help decrease the main cost drivers in energy consumption, and organisations need to become forward-thinking around this. An example of this is a move towards electrification in the transport sector. Although expensive in the short term, the running costs will dramatically decrease and therefore the long-term potential is more commercially viable.

Another example is that there is significant work needing to be done to improve efficiency in production of biofuels CO2 ability, as at present it is operationally prohibitive. The commercial model is threatened by a disproportionately high price due to the expense of the process of returning the gas produced into the liquid. There is a real need to invest in innovation, and wider concerns around the EU and trade agreements are ever present.

Additionally, shareholders must recognize that there is a need to support "social business" to generate profit.

Developing the materials to manufacture recyclable products will cost more, but the consumer mindset is changing to such an extent that they are willing to pay. The willingness to pay a "green tariff" will incentivize technical innovation. That being said, the "green privilege" is a privilege of the Western world, and less economically developed countries lack the capital and infrastructure to bottom the upfront costs associated with a move towards more sustainable living.

The regulatory environment is different across the globe. Different cultures and varying sophistication of infrastructure raise questions around how to create standardised systems and customer solutions. There is also a need to be agile, and businesses must be prepared to rapidly deselect segments and customers and repivot their offerings in response to regulatory change. Customer pressure is such that businesses must maintain momentum and anticipate changes in regulation that will require or enable them to shift their offerings.

The majority of sustainable activities will also have financial returns, the challenging question is how futureproof these gains are. Consumers and Investors often choose the "greenest" company but do not have the means or knowhow to test its future capability. The real challenge is in coming up with solutions that are both purposeful and sustainably viable, and **businesses must work with the Investors and Regulators to educate each other.** What the consumer is willing to pay also depends greatly on the industry and geography. Different countries apply varying levels of importance to ESG and sustainable business practices.

Intervention and the unintended consequences

ESG, however, can be damaging to some industries if not deployed effectively. An example of this is the agricultural sector. Farmers in the UK used to get basic payment from the Government and the EU; now the money is being used for things such as rewilding. Although undoubtedly worthy, this does not help farmers with the running costs of their farms, so often they run at a huge loss which is unsustainable in the short term. The issue is the same on the Continent. In Greece arable fields are being used for incineration plants to create waste which is put into processes that create energy. Whilst valuable, there are questions around whether fertile land can be better used when there is food poverty in various parts of the world.

Again, there is a fundamental need to recognize that in its current form, ESG must factor social consciousness and commercial viability.

Dedicated ESG Director vs embedding sustainability in the business – approaches & trends

There is concern that if ESG is not at the core of the business the focus on it will disappear.

To be truly visible, it needs to be embedded through the business at all levels and in all functions

ESG is an incredibly broad area and there are not many who are true experts on each of its aspects in equal part. There is a view that a dedicated ESG Director is necessary to evangelise the issues and educate the wider organization, but underneath them they have a dedicated team of professionals to manage the different facets.

Another approach is to have ESG Director that is primarily focused on one element, such as environment, and to have a wider ESG committee that is embedded through the business. The rationale for this is to not silo it in a function such as Procurement or HR, but to have it as a fundamental part of the business model and processes. Again,

it is becoming clear that what is important is to have a "spokesman-type" individual who can evangelise and champion ESG.

The scope of the role of the ESG Director is interesting, as it is becoming apparent that a large part of it is focused on influencing. The key objective for the person in this role is to change the behaviour of an entire organization. What qualifications equip someone to do this? The core competencies will be centered around leadership capabilities and environmental education, but what else? There are various backgrounds that have different tradeoffs, but what is the best DNA for an ESG person? Another question is what role comes next? Is the ESG Director role considered to be career progression?

Businesses must take account for ESG. It shouldn't be released as ESG strategy, it should be embedded into the core business strategy. If there isn't a dedicated person driving it, it becomes the responsibility of the collective business to drive it. Again, there are questions on whether there is a more junior team that is focusing on different elements of the E, the S and the G and senior management evangelise it.

Leadership must be on board with this role, as ESG in its current form is highly disruptive. It is becoming increasingly politicised and a constant theme in global discussions. Despite it becoming more embedded in discussion and thought processes, it is still being judged as part of a wider commercial evaluation in a business context.

Geopolitical concerns aside, "going green" can be beneficial to all, regardless of where a country is on its green journey. The issue is still around the cost of educating the workforce, customer base and supply chain to truly understand its benefits. This requires investment, therefore to a certain degree "going green" is a luxury available only to those who have a certain level of privilege. For example, vehicle electrification is sustainable, yet expensive. A necessary consideration is that

any environment or community that interacts with an organisation, be it the water used in a mine, the transportation company that takes people to work, or the supplier of staff uniforms, needs to be factored into discussions around ESG.

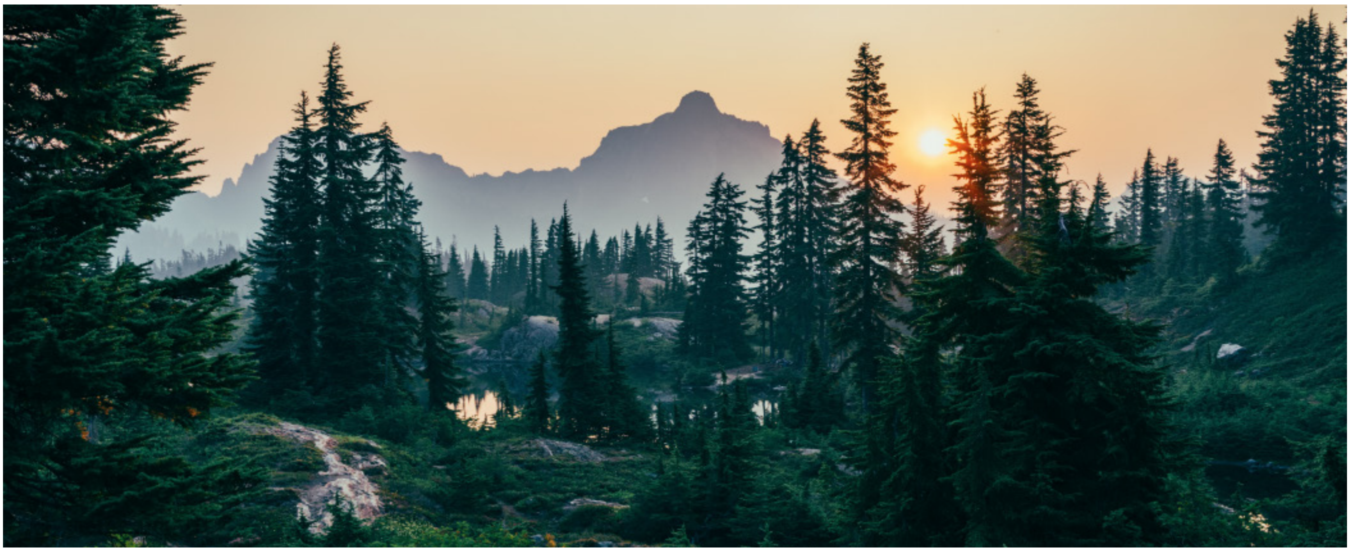
In Conclusion

Whilst there are challenges to be navigated, driving climate change is an opportunity for innovation within organisations that will have significant positive impacts if harnessed in a collaborative solution based culture.

Truly driving change will require tackling Scope 3 to collaborate and influence across the supply chain. Understanding the emissions footprint and local regulations internationally will be key to prioritising action.

ESG will need to be at the core of the business strategy with visible and credible senior leadership to ensure the whole of the business has why it's important embedded in their culture.

As the effect of legislation is felt, business and regulators will be forced to come together for constructive change.



Outstanding Questions we will look to address at our next CEO Roundtable discussion 12th May 2022

- There is strong interest in the notion of purposeful business. What does it actually mean? How is it manifested?
- ESG Leaders – backgrounds, career track, career progression – trends & future thinking
- How does an organization coordinate and standardize across geographies and different stakeholders truly addressing Scope 3?
- How is impact being measured?

If you would like to join us in the discussion or participate at our events, please do contact our team.

About Boyden

Boyden is a premier leadership and talent advisory firm with more than 75 offices in over 45 countries. Our global reach enables us to serve client needs anywhere they conduct business. We connect great companies with great leaders through executive search, interim management and leadership consulting solutions. Boyden is ranked amongst the top companies on Forbes' Americas Best Executive Recruiting Firms for 2021. For further information, visit **www.boyden.com**

Francesca d'Arcangeli

MANAGING PARTNER and GLOBAL LEADER, INDUSTRIAL PRACTICE

Francesca d'Arcangeli is a highly accomplished consultant and leader in international executive search. She has broad expertise with a particular focus on consumer and industrial. Francesca recruits change-drivers to Board and C-suite roles, and is known for partnering closely with clients as part of an advisory-led approach, assisting in their local, international and global growth.

Claire Lauder

PARTNER

Claire Lauder specialises in interim management and works closely with investors and leadership teams to understand their strategic goals. She has helped many clients to identify interim executives to assist them in time-critical situations. Claire has built an impressive track record working with PE-backed, owner-managed SMEs, FTSE and AIM-listed businesses. For over 10 years she has specialised in interim management in manufacturing, technology and industrial businesses and she works closely with our Executive Search and Leadership Consulting teams to help clients develop existing talent and recruit new talent.

Imogen Long

PRINCIPAL

Imogen Long works with multidisciplinary and international teams on all stages of the search process, from preliminary research and strategy development to candidate evaluation and selection. She is committed to high-quality delivery, and applies her exemplary project management, judgment and assessment skills, along with industry knowledge, to identify and engage ideal leaders for our clients.

Phoebe Williams

PRINCIPAL

Phoebe Williams has a strong record of successful executive and board searches for large listed companies, PE-backed firms and SMEs in a range of industries. Having a research background, she lends resourcefulness and data-based insights to develop search strategies and source candidates. She ensures positive client experiences from end to end, culminating in exceptional outcomes.