

The Board of Directors – balancing sustainability and profitability

Interview with Ines Pöschel, lic.iur., Attorney at Law and Partner at Kellerhals Carrard, who serves on the board of directors for companies such as Alcon, Implenia and Graubündner Kantonalbank.

Over the past year and a half, the COVID-19 pandemic has shaken up life as we knew it – with some dramatic consequences. Companies and organizations have also used this phase to make changes. Whereas the duties and responsibilities of the board of directors may be the same, the way the board works together has changed. And there are certainly one or two positive developments that have been accelerated by the crisis. Reto Eberle interviewed Ines Pöschel.



Reto Eberle: *You serve on the board of directors for companies in various sectors, including Alcon, Implenia and Graubündner Kantonalbank. What lessons have you learned as a board member over the past year and a half?*

Ines Pöschel: One of the most important insights for me was observing how crisis-resistant the management teams proved to be. The companies I work for all passed this test very well. But this assessment is equally fitting with respect to the Swiss economy as whole. We've weathered the crisis quite well, and things are already looking up in many areas. The crisis also acted as an accelerator for numerous processes, innovations envisaged in the area of digitalization and new ways of collaborating. Within the manufacturing industry, it confirmed what we really already knew: that global supply and value chains are a sensitive link in a company's risk management. These processes and structures will certainly be viewed in a different light in future, informed by the knowledge and experience of recent months. But we've also seen what doesn't work as well, and that is the lack of personal exchange.

Why did working digitally and from home work so well?

Probably because it simply had to. If you had done a survey first to find out whether people were ready for something like this, the resounding response would have been: "No, it's not possible." But then everyone had to go remote from one day to the next – and it worked.

What differences or similarities did you observe in the various industries where you work?

What all the companies had in common was that their management teams worked extremely well. For the board of directors, it was a balancing act. On the one hand, we wanted to provide support and assistance, but on the other, we didn't want to intervene too heavily in the operational issues that arose. Of course, there were one or two board members who suddenly rediscovered their enthusiasm for operational tasks. But now it's time to get back to strategy and supervision.

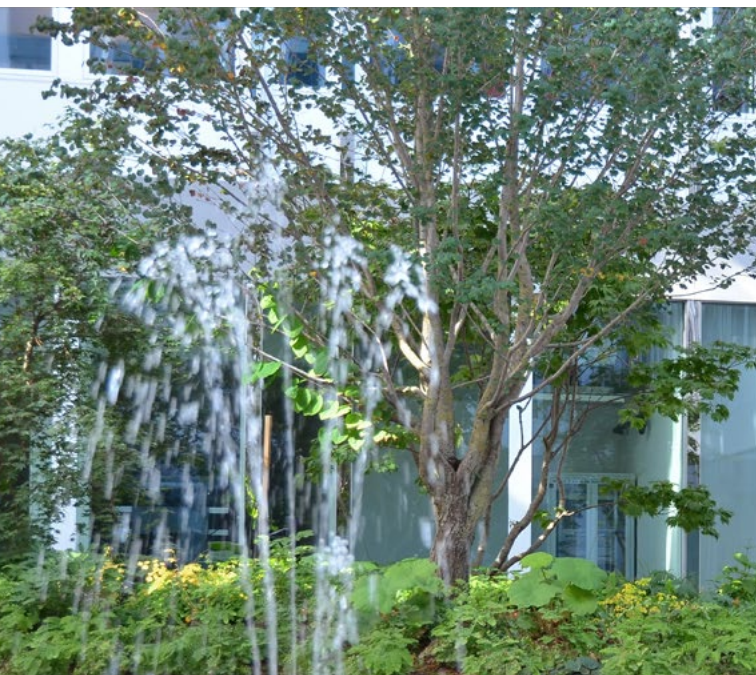
As we worked to overcome the crisis, one common complaint was a distinct lack of personal contact. How important do you feel personal interaction is for the work done by the board?

I consider it to be very important. All the nuances of communication were lost. There was also a lack of opportunity for informal exchange outside of meetings – over dinner or during a coffee break, for example. Sensing how a person is doing or what's on their mind is just as relevant to our work as facts and figures. Informal interactions may work at a distance for committees that were already well established beforehand. In those cases, creating space for creative, innovative work that extends beyond the purely administrative tasks related to day-to-day business is easier.

"The board of directors of a listed Swiss company has always been responsible for the sustainable, profitable development of the company."

The past year was a stress test at many different levels. How did corporate governance in Switzerland stand up? Or, to put it another way, is there a need for action with regard to legal and other regulations?

For me, the crisis was not a stress test first and foremost for corporate governance, but for operational management. That means the pandemic hasn't triggered any urgent need for action at the regulatory level. We know the issues and challenges that the board faces, and these remain largely unchanged since the crisis. My greatest wish in this context is that those of us on the board start taking more time again for conversations and debate, instead of just rushing from one agenda item to the next.



"The ESG approach is primarily an attempt to realign awareness and reporting; in terms of content. The concept itself doesn't add anything completely new."

Are hybrid meeting formats at board level here to stay?

I'm in favor of a sequential mix of formats; that is, a model where you hold the meeting either entirely online or entirely in person. As soon as you adopt a hybrid format, there's always inequality in how participants are treated, and I don't think that is conducive for the dynamics of a meeting.

What, in your view, is the board's role in the pursuit of sustainable and responsible corporate governance?

As the sustainability discussion unfolds, what has changed in terms of the tasks and role of the board of directors?

They're the same as before. The board of directors of a listed Swiss company is still responsible for the sustainable, profitable development of the company. What might have changed, though, is that the topic has formally been included on the board agenda. Much of what was already being done in the past is now being made more visible and measurable. Sustainability – including in the sense of a formal ESG approach – has to be integrated in a company's strategy. So if you ask me, there's no need for a separate committee within the board of directors, or for new structures in general. As the board, it is our duty to constantly weigh up the interests of the company and strike a balance between good long-term performance and short-term profitability. Despite all of this, it's still the board's duty to strive for profitability, not least because that's the purpose of a listed company.

The implementation of the indirect counterproposal to the Responsible Business Initiative will introduce a requirement to report on non-financial matters, among other things. This is probably inevitable, and should be welcomed given the importance of the topic. In your view, what are the biggest challenges in this regard for the board of directors?

The board of directors will have to come to grips with the topic, that much is clear. For many, these new and more extensive reporting requirements may take some getting used to. But, as I said, many of the topics and measures within the ESG framework are not new to companies per se, they merely have to be disclosed and communicated more transparently. Personally, I'd like to see a return to the concept of integrated reporting. But then we keep seeing topics, in the area of reporting and elsewhere, that pop up with a strong focus, only to be integrated as "normal" soon after.

What do you make of the accusation that sustainability reporting is being used as a kind of "greenwashing", but that nothing has changed in substance?

The concept of corporate social responsibility (CSR) was anchored in companies long before ESG. The ESG approach is primarily an attempt to realign awareness and reporting; in terms of content, the concept itself doesn't add anything completely new. I wouldn't call it greenwashing, though; it's more about structuring something familiar in an effort to put more emphasis on the "E" (environmental) aspect of ESG.

Standardization appears to be on the horizon thanks to efforts by three organizations to develop sustainability regulations.

Not only will standardization establish a uniform way to measure indicators, but it will also make them comparable. How important are such standards from the perspective of the board of directors?

I think reporting standards are less important for the board of directors and the company itself. It's more the investors looking for measurable tools. And here, standardization is certainly something to be welcomed. There are currently more than 600 standards covering ESG issues, for example. Even if you were to adopt only the ten most recognized standards and wanted to generate and disclose the corresponding key figures, you would have to go to enormous lengths to record around 1,000 individual criteria. And the output is also highly volatile.



In addition, an improvement in individual criteria doesn't necessarily result in a better ranking. We're now waiting with bated breath to see what provisions the IASB will make in this area. In my opinion, there are too many providers in the private sector market for standardization.

What about audits of sustainability reports? Would they be beneficial to the board of directors?

I have mixed feelings on this one. You can't just hand over responsibility to an audit firm. At the same time, the board of directors cannot monitor all aspects of a sustainability report itself. That means an external audit would take some of the pressure off the board of directors, of course. I can see that new fields of activity are emerging for auditors and other consultants, but I don't think they should get out of hand.

Then again, we often hear people saying that unless something is standardized and verified, it ultimately isn't worth anything.

I don't share that opinion. It's the board of director's responsibility to create a culture that inspires motivation beyond merely ticking off audited criteria. I need to be able to trust that the management team's is correct and accurate without everything being verified (and counted) again externally.

One last consideration before we wrap this up: What do you think of the view that ESG and risk management are two sides of the same coin?

The area covered by ESG is, in my opinion, much narrower than what you would find in a holistic risk management approach, which extends well beyond environmental, social and governance issues. This is, of course, very much industry-dependent, but if you ask me, comparing and contrasting ESG and risk management misses the point. In the future, perhaps we'll have to embrace a broader interpretation of "ESG", which is very narrowly defined at present. I think the term sustainability fits the bill much better.

Thank you for this discussion.

Prof. Dr. Reto Eberle

Partner
Member of the Board Leadership Center
KPMG Switzerland

+41 58 249 42 43
reberle@kpmg.com

Ines Pöschel, lic. iur., Attorney-at-Law, Partner

Ines Pöschel serves as a non-executive board member for various companies, including Implenia, Alcon, Reichle Holding and Graubündner Kantonalbank. She is an attorney-at-law and has been Partner at Kellerhals Carrard since 2007. Her legal expertise spans corporate and business law, M&A, capital markets and securities, as well as insolvency and restructuring. Ines Pöschel studied at the University of Zurich and has since completed further education at Stanford University, Harvard Business School and the University of London. She is a member of the Advisory Board of the Corporate Governance Centers at the University of St. Gallen.

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