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A PERSPECTIVE ON CORPORATE GOVERNANCE IN FRANCE: WHAT WILL CHANGE AFTER THE COVID-19 CRISIS?

By **Floriane de Saint-Pierre**, Founder and President of Ethics & Boards

The world now knows that once the COVID-19 crisis will be over, nothing will be as before. Why, then, would corporate governance remain unchanged? The toughest question is ***what*** will change for corporate governance? The ***how*** is easier: annual shareholder meetings will no doubt sanction any companies who have not fully understood the need to reset.

Boards will need to adapt corporate strategy and asset allocation in a post-globalized world. Funds and banks, which have driven globalization over recent decades, will be asked to adapt in the face of rapidly changing paradigms.

One of the necessary wake-up calls of COVID-19, and its yet unimaginable economic and social impact, will be recognition and reward for sustainable capitalism and companies that have understood the importance of their environmental and social impact. Asset owners and managers will be under scrutiny, as will listed companies in the move from an exclusive focus on shareholder value to a wider consideration of all stakeholders.

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In France

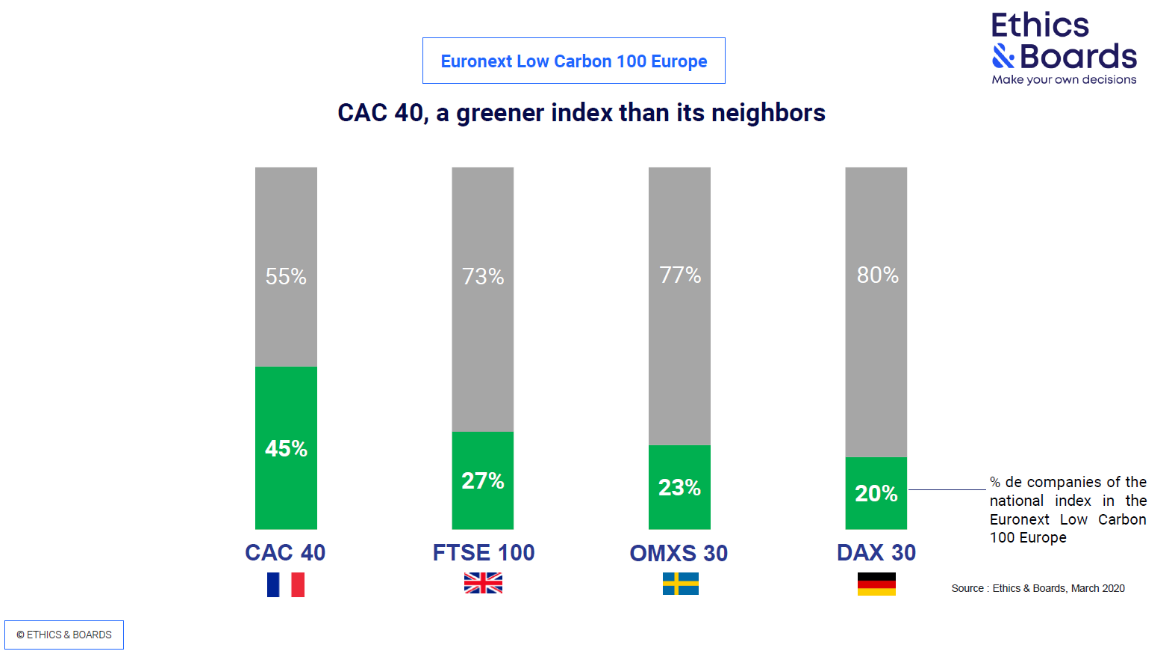
After the application of the Copé-Zimmermann Law in favour of 40% female representation on boards – putting France at the top of the G7 countries with 45,7% of women on SBF120 boards – the country went further, voting in the PACTE (Plan d'Action pour la Croissance et la Transformation des Entreprises) in 2019. This was clearly targeted at boards, making them responsible for the inclusion of ESG criteria, as well as the obligation to define their 'raison d'être' – in company statutes.ut the importance of the PACTE goes beyond national boundaries in highlighting a difference in approach to corporate governance between Anglo-Saxon shareholder-based value creation and the French and European-based focus on wider stakeholder value creation. Let's take a look at some recent data and analysis.

Ethics & Boards recently conducted two interesting studies related to outperforming companies. One looked at the correlation between low carbon and gender diversity as metrics of good governance practice, and the second at learning from the governance of family-controlled companies.

Low carbon, gender diversity & performance… a correlation?

Let's start with Low Carbon 100 Europe (a stock market index operated by Euronext since 2008), an index which aggregates the 100 largest companies in Europe with the best climate score provided by Carbone 4* and CDP** and is a clear indicator of governance standards that prioritize environmental objectives.

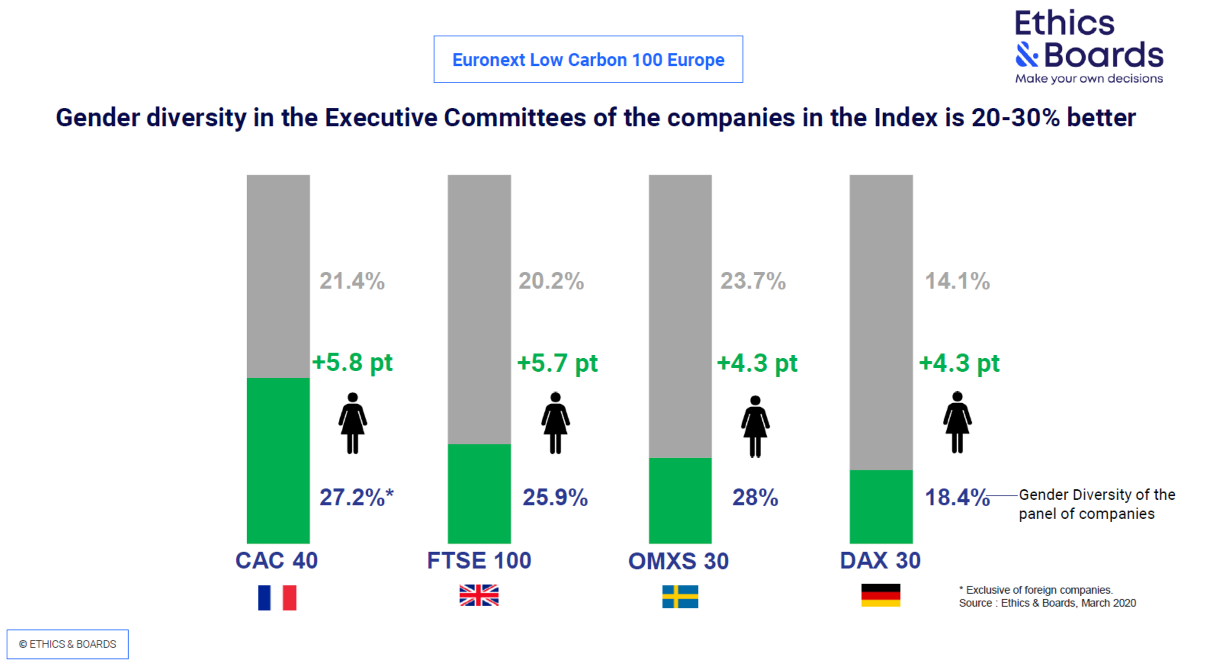
- **1st finding**: 45% of the companies listed in the CAC40 are part of the Euronext Low Carbon 100 Europe (making France the best represented country), as are 27% of the FTSE100, 23% of the Swedish OMXS30, but only 20% of the German DAX30 companies.



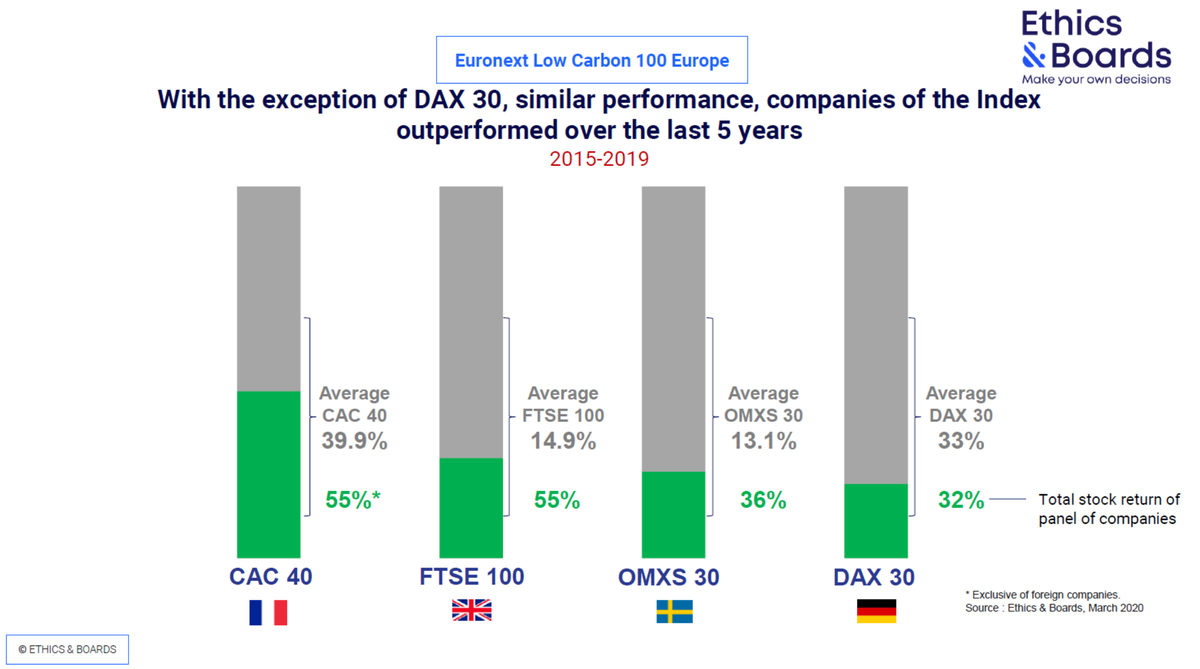
*Cabone 4 is a leading consulting firm specialized in the energy and climate transition. Carbone 4 advises public and private entities, assisting them in the transition to a low-carbon economy.
**CDP is a global not-for-profit organization that holds the largest and most comprehensive collection globally of primary corporate climate change, water and forest-risk information.

Ethics & Boards then combined its data analysis of companies that are part of Euronext Low Carbon index with their gender diversity (on the board and top management) to see whether there was any correlation.

- **2nd finding**: While companies in the Euronext Low Carbon 100 Europe 100 show no significant difference in gender diversity at the non-executive board member level compared to the country stock index, a gap of 4 to 6 points in gender diversity at top level (i.e., executive committee, management board) can be seen in companies listed in the Low Carbon 100 Europe. For example the CAC 40 companies in the Low Carbon 100 Europe index average 27.2% female representation at top level, compared to 21,4% for CAC40 companies not part of the Low Carbon 100 Europe, the FTSE100, OMXS30 or DAX30, with respectively 25.9%, 28% and 18.4% compared to 20.2%, 23.7% and 14.1%.



- **3rd finding**: Combining Ethics & Boards extra-financial data with Euronext financial data, we can see that companies that are part of the Low Carbon 100 Europe significantly overperformed their peers of the related country index over the last five years.



Family-controlled companies

In partnership with the IFA (Institut Français des Administrateurs), Ethics & Boards looked at listed family-controlled companies as paving the way for longer term capitalism. Let's start with the conclusion:

Public family-controlled companies represent around one third of the largest listed companies in France (SBF120), Germany (HDAX), and Italy (FTSE MIB). In all these markets, over the last five years they outperformed the national stock index.

So what's the secret sauce of family-controlled companies that explains their superior performance compared with fully floated companies owned by funds? The Ethics & Boards study showed that the governance of listed family-controlled companies ticks different boxes than those we usually see :

- In France, nearly 50% of the family-controlled companies listed in the SBF120 have combined the role of chair and CEO. Not surprisingly, the independence rate is lower than in non-family companies. Until now this was not a positive metric of good governance, but it could be argued that a long-term shareholder is more engaged in long-term performance than an independent non-executive director elected for a three year term.
- Family-controlled companies of the SBF120 have more diversity at board level.
- In most listed companies (except those with a supervisory board), boards of family-controlled companies include executive representation, INED, as well as employee representatives. Family-controlled companies have another type of stakeholder: family representatives as long-term shareholders. Indeed, 87.2% of the E&B Family Europe 86 have shareholder representation at board level.
- Age diversity is another metric specific to family-controlled companies, and interesting when it comes to addressing changing paradigms: board members under the age of 40 (except employee representatives) sit in family-controlled companies of France's SBF120.
- Qualified and more diverse INED expertise is clearly watched in family-controlled companies. As an example, Kering, LVMH, L'Oréal, and Seb appointed senior digital expertise years ago, combining quota law compliance with strategic skillsets acquisition.
- As for gender diversity, family-controlled companies are again leading the way, namely for CAC 40, all 3 companies having 60% women on the board, including the only chairwoman.
- Last but not least, most family-controlled companies of the SBF 120 have included CSR targets in their CEO compensation policy.

Conclusions

Simply put, the learning from these two studies on listed companies that outperform in financial terms is that[1] advanced, qualified diversity[2], avoiding groupthink on the board, combined with[3] a long-term ESG commitment by stakeholders – have proven invaluable.

As we head into the traditional AGM season, where many meetings will be taking place virtually, it will be interesting to see how the effect of COVID-19 will impact mentalities and our sense of what is valuable and how responsibility is defined. Will there be more categoric negative votes on excessive executive remuneration? Will there be positive votes for linking non-financial performance and CSR objectives to executive pay? Will there be greater awareness of individual and collective responsibilities?

Whatever the rules of the new playbook, it will certainly refocus our sense of priorities. Perhaps ESG will become GES as we more clearly understand the importance of responsible governance and inclusive capitalism in setting new standards of decision making, especially concerning the environmental and social impact of business.

About the Author

Floriane de Saint Pierre is a woman entrepreneur. She is the Founder and President of ETHICS & BOARDS, the leading independent data-based governance monitoring solution for Board Assessment, Governance Benchmarking, Executive and Non-Executive remuneration rankings and Board Talent Place.

Ethics & Boards aggregates and structures over 250 data points per company listed on all major stock indexes worldwide, to produce insights and monitoring solutions used by funds, listed companies, institutions and board directors.

Ethics & Boards partners with the IFA (Institut Français des Administrateurs), INSEAD Corporate Governance Centre, OECD, EY (Panorama de la Gouvernance 2019).

Floriane graduated from ESSEC Business School and started her career in Finance at CHRISTIAN DIOR (LVMH Group). In 1990, she founded the eponymous consulting firm, which specializes in executive HR strategies for global brands.

She sits on the Board of the French-American Foundation France. Involved in supporting culture, Floriane is a Member of the Boards of both the Palais de Tokyo Museum and of the Société des Amis du Centre Pompidou. Equally, she is President of the Benefactors of the non-profit Association AWARE - Archives of Women Artists, Research & Exhibitions. In 2007, she was made Chevalier de la Légion d'Honneur.