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EACLN SUMMARY OF THEMES

Sustainability beyond climate, using failure to improve, AI for the board, and Saudi Arabia

January 2025

On December 9-10, 2024, members of the European Audit Committee Leadership Network (EACLN) met in London to discuss:

- **Sustainability beyond climate** with Claudia Bejarano, chief executive officer, Cerrejón (a Glencore company), and Roger Leese, partner, Kate Norgett, corporate governance director, and Thomas Voland, partner, Clifford Chance
- **Members-only: Using failure to improve**
- **Artificial intelligence (AI) tools to enhance board decision-making** with Pippa Begg, chief executive officer, and Jonathan Knight, chief product officer, Board Intelligence
- **Economic transformation and governance in Saudi Arabia** with Abdullah Almasoud, commercial attaché of the Royal Embassy of Saudi Arabia to the United Kingdom, and Ahmed Reda, Kingdom of Saudi Arabia (KSA) assurance leader, EY

For a list of meeting participants, see Appendix 1 (page 9).

This *Summary of Themes*[1] provides an overview of the following discussions:

EY Building a better working world

Sustainability beyond climate

Ms. Bejarano described the breadth of sustainability initiatives at Cerrejón, the world's tenth largest coal mine, highlighting how these initiatives extend beyond climate to address a wide range of environmental and social needs. Cerrejón is located in northern Colombia, where government support is lacking, and the company plays a vital role in supporting local communities. For example, it provides potable water, essential infrastructure like roads, health centers, and culturally significant cemeteries. Its social programs prioritize capacity building and income generation, offering initiatives like orchestras to engage children and training in music, knitting, horticulture, and cattle farming, enabling communities to develop sustainable livelihoods. The members of the communities have an active voice in these initiatives and are involved in the selection, design, and execution of each project. *"It's not about stopping when our company has reached a particular goal—we cannot stop. These initiatives are our social license to operate,"* Ms. Bejarano said, adding, *"We cannot fix every problem, but we aim to improve quality of life and give the community tools to support themselves."*

Members then discussed how companies are preparing for mandatory sustainability reporting under the Corporate Sustainability Reporting Directive (CSRD). Guests from Clifford Chance added perspectives. Key themes included:

- **Companies are moving forward with CSRD reporting even in countries where it is not yet implemented.** Fourteen of the EU's 27 member states have not yet transposed CSRD into national law. Companies are therefore not required to report in those jurisdictions, but Mr. Voland said that most are proceeding with reporting. Members from companies based in Germany, the Netherlands, and Austria—countries that have yet to implement the directive—confirmed their plans to report. Assurance challenges also exist due to uncertain laws: *"We plan to get assurance, but what an auditor's opinion can tell us is up for debate. When it comes to compliance, the question becomes, compliance with what? And if it is true fair presentation, what does that mean?"* a member asked. Another wondered whether early reporting could carry risks, asking, *"Could we find ourselves in a position where the final law is different, and our early reports are not compliant?"* Mr. Voland saw minimal risk if companies adhere to CSRD and the European Sustainability Reporting Standards, adding, *"There might be some retrospective aspect, but Germany, for example, has said it plans to transpose CSRD word-for-word."*

UK companies

Although CSRD does not apply to the UK, some companies will still need to comply. Ms. Norgett said that companies not yet required to report should hold off: *"Some companies may want to report early as a 'dry run,' but we advise waiting. Observing others' reports may help you refine your own approach."*

- **Companies are focused on meeting disclosure requirements, not exceeding them.** Members noted that compliance requires extensive preparation and poses significant challenges, such as standardizing data across global sites and relying on teams unfamiliar with external reporting. Their companies are cautious as they approach the first year of CSRD reporting; one said, *"We've always been focused on reporting the minimum required and doing that very well. We don't want to have to backtrack on something in the future."* Another said, *"No one will get it right this first year. If we see others in our industry taking a different approach, we can reassess afterward."* One company reduced metrics by 20% this year to minimize the risks associated with overreporting. *"Ensuring that the materiality threshold is set at the right level and keeping the number of metrics to a minimum is the right approach,"* Ms. Norgett said. On a positive note, Mr. Leese observed that CSRD preparation *"is pushing businesses to focus on what's material, identify impacts, risks, and opportunities, and align key performance indicators [KPIs] accordingly, rather than just measuring metrics for the sake of it."*

- **Double materiality adds further complexity to an already challenging requirement.** Mr. Leese highlighted the distinction between a company's impact on climate change and the risks that climate change poses to the company. As one member said, *"You may be providing a social benefit like transportation for employees, but in doing so you increase your impact on climate. How do you draw a line or know where to trade off, especially when regulators are not prepared to make tradeoffs?"*

- **Companies should closely monitor political developments.** Mr. Voland stressed the need for ongoing monitoring, especially with recent developments like President Ursula von der Leyen's proposed consolidation of disclosure requirements through an "omnibus" act. *"No one knows exactly what it is and whether it will open up a can of worms,"* he said. Regulatory and political uncertainty are significant concerns for members, as is European competitiveness more broadly. One highlighted concerns about differing views between the European Commission and the European Central Bank (ECB), observing, *"It is clear the ECB shows little interest in Europe's declining competitiveness."*

Consider future assurance requirements

"If you don't feel comfortable moving to a higher level of assurance on a KPI soon, consider whether you really want to start with that KPI this year," a member suggested.

- **The Corporate Sustainability Due Diligence Directive (CSDDD) is already raising concerns.** *"I am very concerned about the CSDDD. It has a multitude of criteria you have to report on quantitatively and qualitatively. The work is mind boggling,"* one member said. Another highlighted the need to align CSRD efforts with potential CSDDD requirements to ease future compliance burdens.

Using failure to improve

Failure can be a powerful teacher, though a painful one. Boards are uniquely positioned to turn setbacks into opportunities for reflection, learning, and future success. But responding effectively to failure starts long before a crisis—it requires building a strong culture and a resilient enterprise. By viewing failure as an opportunity for growth, boards can guide companies to emerge stronger from a failure.

Key observations from this members-only discussion included:

- **Success can lead to blind spots and complacency.** Several members described instances where management teams let previous achievements create a false sense of security. One noted, *"They viewed themselves as heroes, so when their business model became unsustainable, they weren't prepared to recognize it and take action."* Another said, *"They looked backward, focusing on past achievements rather than preparing for what was on the horizon."* One member warned how complacency can seep into all levels of a company, including its board: *"As a leader, the worst mistake you can make is believing that years of success make you invincible. That mindset is where trouble begins. This complacency affects everyone, including at the board level."*

"How does the board spot potential failures and learn from them? So often when you're in it, you don't see you're at a tipping point."

—EACLN member

- **The CEO and chair should build a culture ready to navigate failure.** While strong leadership can drive success, it also brings risks. *"A larger-than-life, highly successful CEO can be a challenge for boards,"* warned a member. A resilient culture—built on trust, candor, and a search for solutions rather than blame—starts at the top. One member noted, *"The CEO and chair set the tone for discussions, shaping the quality of conversations within the board. A well-functioning board that fosters healthy habits and maintains transparent discussions can rebound from difficulty".* Another described a situation where the audit committee identified an initiative on the brink of failure. By acknowledging the risk, the board and CEO reassessed and pivoted: *"The CEO initially thought his role was solely to deliver a single solution. We gave him another opportunity to explore and propose alternatives, which helped prevent a major failure."*

- **Board independence is crucial for objective, robust oversight.** *"Boards must maintain strong independence and be willing to make tough decisions,"* said a member. Independent directors are uniquely positioned to challenge assumptions, question decisions, and provide fresh perspectives, helping to prevent failures and support recovery. A member who is also a senior independent director noted chairing a meeting exclusively for independent board members twice a year: *"Following the meeting, I discuss the outcomes and insights with the chair."*

- **Balance expertise and diversity on the board**. Experts bring deep knowledge in areas like emerging technology, but a diversity of opinions is equally critical to uncovering blind spots and enabling comprehensive decision-making. As one member put it, *"You have to strike the right balance of having experts who can address technical issues and incorporating diverse perspectives that offer fresh insights, so the board doesn't overlook challenges. Achieving this balance between expertise, diversity, and forward-thinking is key to navigating complex issues effectively."*
- **Independent reviews enhance board oversight and learning.** Members stressed their value in identifying the root causes of failures and assessing the board's oversight effectiveness. One recalled an independent review conducted after a setback: *"The review underscored the importance of taking time to reflect on past experiences if you truly want to learn from them."*

  More broadly, they noted that independent assessments of the board in times outside of crisis can pinpoint gaps in oversight and help prevent future failures. One member described a unique approach: *"The most effective board assessment I've encountered involved a highly experienced and intelligent individual shadowing the board and its committees for several months."*

AI tools to enhance board decision-making

Boards are increasingly exploring the impact of AI on their organizations, particularly its roles in improving efficiency and enabling innovative business models. They are also interested in how AI could be applied to their own work. As one member put it, *"The company is using tools like ChatGPT and Copilot, but not yet at the boardroom level. How can we bring these technologies into the boardroom?"*

Early-stage AI tools are helping boards structure discussions, track engagement patterns, and focus discussions on key strategic priorities. Members met with Pippa Begg, chief executive officer, and Jonathan Knight, chief product officer, Board Intelligence, to discuss how AI can enhance the effectiveness of directors, committees, and boards. The session included demonstrations of Board Intelligence's AI-driven tools designed for boardroom use. Key themes emerged:

- **Members see value in the data-driven insights that AI can provide.** For example, AI tools that track boardroom conversations could provide helpful evidence-based findings, noted a member: *"We once had someone shadow our board meetings, and while their insights were intuitive, they were dismissed as mere impressions. If that person had tools to analyze the discussions and present data-backed insights—such as highlighting patterns or percentages from hours of observation—it would have been far more impactful."* One member said, *"It would be helpful to use AI to analyze* *data from the past ten years to highlight issues we may not be seeing."* Another agreed: *"We faced an issue on the board that many didn't see coming, though the red flags were there in the board papers—scattered across risk management and internal audit reports—but the warnings weren't consolidated. Could AI scan board documents to identify related risks and highlight connections an individual might miss? That would be invaluable."*

- **Tailored tools are essential.** *"Minutes, for example, aren't just a meeting record; they require human judgment and a structured format,"* Mr. Knight said. *"A generalized tool won't handle this well and using it as a first experiment could lead to awkward failures. The key is to make tools specific and tailored enough to be genuinely useful."* Ms. Begg noted that AI tools can enhance governance practices and culture: *"If the AI tools require the CEO and division heads to address certain key questions at every meeting, it fosters a culture of openness and transparency. The tools can further support this by providing analytics and identifying areas of the organization where candid communication may be lacking."* She added, *"Boards often deal with extensive reports—400-page board packs that suggest everything is fine. This creates skepticism, as board members instinctively wonder what's being left unsaid. AI tools may help them arrive ready to offer advice and support."*
- **AI should support, not replace, board work.** Ms. Begg said, *"Focusing on augmentation rather than automation of work is key. For board effectiveness, analytics can be very useful. Having analytics to enhance your understanding as a board member is helpful, but it doesn't replace or automate the role."*
- **Management can use AI to enhance its support of the board.** *"We believe the most valuable use of AI in supporting board work is in processing and organizing materials before they reach the boardroom,"* said Ms. Begg. She added, *"It's the responsibility of the preparers to ensure that the summary is accurate and doesn't overlook critical gaps. The board shouldn't rely on a 'summarize my pack' tool without reading the full materials—how else can you confirm the summary captures all the key points?"* A member said, *"I completely agree—executives must ensure nothing important is overlooked, which often happens. Many people focus on looking backward instead of forward; it would be invaluable if AI can help address that."*
- **Privacy is a top concern.** Putting company data into an AI tool increases the risk of exposing sensitive information. A member said: *"We considered using Copilot to take board meeting minutes but decided against it due to concerns about confidentiality and the permanent record of sensitive discussions."* Another member worried that AI tracking could inhibit conversations within the board: *"A board of directors should be a space where I can freely express ideas—no matter how off-the-wall—and explore 'what if' scenarios. This openness allows others to build on those ideas, ultimately creating something valuable for the company. However, introducing an external conversation partner can make people more guarded, which risks losing the*

spontaneity that drives these creative discussions." Mr. Knight summed it up: *"The first challenge is confidentiality—if you can't address that, you can't even begin."*

A forthcoming ViewPoints will provide additional detail on the themes of this session.

Economic transformation and governance in Saudi Arabia

Vision 2030 is an ambitious program of the Saudi government aimed at transforming the Kingdom's economy and society through social and legal reforms, diversification efforts, and large-scale projects. By fostering innovation, attracting foreign investment, and enhancing quality of life, Saudi Arabia aims to position itself as a global leader in economic resilience and sustainability.

Members discussed Saudi Arabia's ongoing transformation with Abdullah Almasoud, commercial attaché of the Royal Embassy of Saudi Arabia to the United Kingdom, and Ahmed Reda, KSA assurance leader, EY. Several themes emerged:

- **Leaders in the KSA see Vision 2030 as succeeding.** Its key initiatives include regulatory reforms, privatization, and sweeping urban developments like NEOM and The Line. Mr. Almasoud highlighted developments in areas like tourism growth and female workforce participation: *"Before Vision 2030, women made up 20% of the workforce. The initial goal was to increase this to 30% by 2030, but as of 2023, we have already surpassed that target, reaching 35%."* He attributed this progress to an active involvement and strong commitment from the highest levels of government. Mr. Reda noted that part of the Vision's success has been the government's ability to be agile: *"Vision 2030 was designed with foresight, allowing for adjustments as challenges arise. Each time an issue is identified, the vision is updated, refined, and moved forward. You may have seen examples in the media of projects being revised—this adaptability is a core feature of the Vision's approach."*
- **Saudi Arabia is aiming its reforms at attracting foreign investment.** *"By 2030, the country aims to exceed $120 billion (USD) in foreign investment—a target it is working to achieve within the next four years,"* said Mr. Reda. Members noted that aligning with international frameworks, such as the CSRD, CSDDD, and intellectual property (IP) protection is essential. Mr. Reda responded, *"Saudi Arabia is rapidly updating its regulations to align with global standards and attract foreign investment."* Members also noted that a slow-moving judicial process has historically deterred investment. Mr. Almasoud said, *"The country has implemented significant judicial reforms as part of Vision 2030, aimed at modernizing, digitalizing, and organizing the legal framework to enhance transparency, efficiency, and investor confidence."*
- **Regional instability remains a concern for members.** Several members noted that while Saudi Arabia is improving its international perception, instability in neighboring countries remains a significant business risk. *"We have to be aware and*

concerned about what's happening in the Middle East," said a member. Mr. Almasoud said, *"Our goal is to minimize risks for foreign companies while continuing efforts to stabilize and improve regional stability as a whole."* A member responded, *"The challenges in the region, including those in Lebanon, Yemen, and Israel, are significant. However, with Saudi Arabia's influence and collaborative efforts with other countries, finding solutions is possible."*

- **Progress will continue after 2030.** *"An unofficial strategy for the post-2030 period has been hinted at, reflecting Vision 2030 is an ongoing journey,"* said Mr. Almasoud. *"While some targets may not be fully achieved by 2030, efforts will continue to meet them. Even if certain goals seem ambitious, having targets demonstrates a commitment to progress and the belief that they can eventually be realized with the right factors in place."* Mr. Reda added, *"Two-thirds of Saudis are under the age of 30. The youth are already driving the country's progress, which is why new visions are being announced for the period beyond 2030. This dynamic generation is highly engaged and prepared to lead Saudi Arabia into its next phase of development."*

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Appendix 1: Participants

The following members participated in all or part of the meeting:

Jeremy Anderson, UBS
Christine Catasta, Erste Group Bank
Laurence Debroux, Novo Nordisk, Exor, and Randstad
Liz Doherty, Novartis and Philips
Dagmar Kollmann, Deutsche Telekom
Benoît Maes, Bouygues
John Maltby, Nordea
Anne-Françoise Nesmes, Compass Group
Stephen Pearce, BAE Systems
Nathalie Rachou, UBS
Maria van der Hoeven, TotalEnergies

The following members participated virtually in part of the meeting:

Eric Elzvik, Ericsson and Volvo
Karen Gavan, Swiss Re
Caroline Grégoire Sainte Marie, Elior
Liz Hewitt, Glencore

EY was represented by the following in all or part of the meeting:

Marie-Laure Delarue, Assurance, Global Vice-Chair
Patrick Niemann, Partner, Americas Center for Board Matters
Julie Teigland, EMEIA Area Managing Partner

Tapestry Networks was represented by the following in all or part of the meeting:

Jonathan Day, Chief Executive
Beverley Bahlmann, Executive Director
Todd Schwartz, Executive Director
Hannah Skilton, Associate
Abigail Ververis, Project and Event Manager

Endnotes

[1] *Summary of Themes* reflects the network's use of a modified version of the Chatham House Rule whereby names of members and their company affiliations are a matter of public record, but comments are not attributed to individuals or corporations. Quotations in italics are drawn directly from members and guests in connection with the meeting but may be edited for clarity.