Part 1

A Global Framework for the Governance Process and Indicators of Sustainable Performance
1.1. Enterprise governance

Many principles of good governance and codes of good behavior have been suggested over nearly 15 years; the most recent ones place more emphasis on the function of Boards of Directors and the notion of internal audit. Today, we observe a certain maturity among enterprises with regard to carrying out these good practices: reporting the chapter relative to corporate governance in the annual report establishing responsible internal control or even a governance board in certain businesses, etc.

This aspect of corporate governance is oversimplified however, as it does not address matters of value creation, which is central for assuring a business’ continuity as well as its performance.

The model suggested by the Chartered Institute of Management Accountants (CIMA) and the International Federation of Accountants (IFAC) has the merit of introducing the “value creation” section, complementing the “risk management” section (see Figure 1.1).

The analysis of existing models in the light of affairs revealed to the public highlights the fact that the human aspect has so far been neglected. It appears that leaders have lost interest in their human resources for a long time (“the only wealth is man”, said J. Bodin on the subject). Therefore, it seems necessary today to rebuild momentum in corporate governance by taking people
(decision-makers) into account more, beyond the implemented systems and organizations.

Finally, in order to think about the many diverse aspects that governance covers, nothing is better suited than the following image of navigation (Figure 1.2). It shows that we must simultaneously:

– know where to go and plan the route to get there (value creation);
– avoid obstacles (risk management);
– make the best of winds and currents (optimization of resources);
– not forget teamwork: “we’re all in the same boat” (people).
Figure 1.2. Illustration of governance principles by navigation. For a color version of this figure, see www.iste.co.uk/leignel/enterprise.zip

It also shows that we cannot neglect any of the aspects and that we must approach all of them in a balanced manner.

Governance must not appear as an obligation; if it is imposed from outside like international accounting standards or regulations on internal control, it will be nothing more than one virtuous component integrated into the corporate culture. However, the essential preoccupation of governance and its administrators must be to assure the business’ continuity through a periodically renewed project with a unique vision that is economically responsible and sustainable by taking human aspects into account, without which a project has no true meaning.

Enterprise governance provides guidance for conditioning operational systems, their coordination and their control in order to meet the objectives that it put forth. It ensures coordination between various processes, which can conflict with each other.
Hence, the idea of highlighting a governance process that is in charge of orchestrating the decision-making process of all the managers of the company.

Indeed, corporate governance is characterized by the decisions made by the management at all levels throughout the life of the company with the goal of sustainably creating value:

1) Ensuring short- and medium-term business development thanks to the pertinence of the established strategy and the optimization of available resources.

2) While simultaneously guaranteeing that risks capable of threatening the corporation are assessed and managed.

The decision-makers’ responsibilities are exercised within the framework of a decision-making process that we chose to represent in the diagram in Figure 1.3 in order to give the management a global vision of enterprise governance that emphasizes the key areas where these responsibilities must be exercised.

Figure 1.3. The process of enterprise governance
The strategy is defined here based on the expectations of all the stakeholders. From this strategy, the objectives are defined in order to improve the business processes to achieve the strategic goals. Projects mobilizing the resources of the processes are launched in order to realize these adaptations. Monitoring, a major component of the governance concept, covers the measurement of:

- meeting strategic objectives;
- performance;
- risks;
- maturity in terms of governance.

However, the diagram of this model of governance is only effective when the human aspect is taken into account, defining the role of the actors in charge of making it work, evaluating the competencies and convictions that the employees have or should have. It needs also to take into account the economic, social, ecological, political, geopolitical, judicial, competitive, media and financial (analyst, rating agencies) environments.

The increasing influence of financial markets leads to certain difficulties in terms of governance. Actors are above all concerned with profit in the short term rather than constructing a sustainable future. As a result, it is necessary to ask oneself what are the values that have to be capitalized on and how it could be possible to make them sustainable. This sustainability depends on invention, innovation and technological capabilities.

In the same perspective, governance faces the issue of externalization and relocation. This phenomenon therefore requires opening up the previous model to the future of the extended enterprise. Thus, an important factor must be considered: networks – their quality, the enterprise’s place in these networks, the ability and prerequisites to access these networks and the partnerships.
The governance process therefore consists of two complementary and inseparable components that will be elaborated in the following:

– the chain of decisions that must be made on various points, all contributing to the objectives of governance to a various degree. The chain is only as strong as its “weakest link” – no one point can be neglected, as it could destabilize the whole;

– the role of managers in charge of making decisions throughout the chain, decisions that must respect good practices so that the decision chain sustainably creates value for the business.

Since governance is above all a human business, the governance process involves actors, who will be different depending on the “link” of the decision-making chain considered.

1.2. Strategic business development

How well the enterprise elaborates its future vision and its applied strategy to attain it, meeting the criteria of good governance, mainly rests on:

– the extensiveness of consideration for the environment and, notably, stakeholders’ expectations regarding the enterprise;

– the involvement of the right people at the right place, in the process of decision-making at the right time.

1.2.1. The global environment

The environment consists of elements that influence the enterprise’s decisions. It consolidates external factors that help the enterprise make decisions. In other words, it is the entirety of elements that are external to business but still must be considered when making decisions according to a systemic approach.

In this open system that incorporates the enterprise and its environment, the enterprise must therefore adapt its offer based on a constantly changing competitive environment, all while maintaining the level of quality of offered goods and services.
Some structural factors that characterize the business environment today:

– the growing evolution towards globalization;
– the arrival of new technologies capable of altering the market balances;
– the greatest conscience of ecological, ethical, etc. considerations;
– the development of innovation and competition: reduction in product and service life cycles, lowering of costs and rapid obsolescence of means of production;
– the growing consumer importance amplified by social networks;
– the change at the societal level: progressive transformation of the industry, modifying habits, new legislation (General Data Protection Regulation (GDPR), etc.) and new norms.

The environment, despite its complexity and its restraints, presents opportunities for enterprises. It is therefore absolutely necessary that an enterprise understands the heavy trends that structure it and analyzes its own strengths and weaknesses in order to be in a position to take advantage of opportunities as they present themselves.

The environment is primarily characterized by several aspects: diversity, complexity, turbulence, uncertainty, volatility, economy, politics, technology, socio-cultural aspects, legal matters, ecology and demographics.

**Diversity**

Globalization does not mean uniformity. Quite the contrary, globalization diversifies access to resources whereas at the same time expectations become more singular. Our industrial culture that is constructed on mass production and has founded its model on economies of scale is deeply questioned by growing diversity. We must from now on inspire ourselves with other, more economical and agile models.
Complexity

Diversity is a source of opportunities, but the resulting complexity can be a source of disappointment if it is not well managed. However, when properly managed, it paves the way for qualitative differentiations that allow the establishment of a reputation. Norms, for example, offer an enterprise a framework that can lead to excellence if the enterprise knows how to intelligently go about it. When badly managed, complexity becomes stifling.

Turbulence

Turbulence accounts for the agitation that stems from incessant interactions between the many actors that animate the enterprise environment and therefore its resources. The environment depends on economic, social, ecological and financial phenomena such as the Arab Spring, protectionist regulations, the fall of financial markets, etc., which can turn out to be advantageous or disadvantageous for the enterprise. These phenomena often change their appearance with the scales of time that we use to observe them.

Uncertainty

The environment is called uncertain insofar as several contradictory interests compete at all times (the arrival of a new operator like Free or the emergence of the electric car from Tesla). Many enterprises can complain of uncertainty regarding the environment they are investing in. Yet, the instability of resources is the counterpart of their fast renewal.

Volatility

Volatility is everything that is short-lived. With regard to resources, the company must be wary.

Cyclical incentives deemed “artificial”, most often emanating from public powers such as the “scrapping premium” for old cars, momentarily boost sales but lower them even more when they are
over. Concerning products and services, they require time to market and manufacturing delays that are shorter and shorter. Even when orders are placed a long time in advance, customers insist on being able to modify them up to the expected delivery date, with the consequences in terms of logistics that one can imagine.

Beyond its ecosystem, the enterprise, wherever it is, is surrounded by a vast set of determining factors whose importance is becoming increasingly preponderant with globalization. Despite their big differences, understanding them is indispensable.

Economy

The economy is now global, but like an orchestra without a conductor, it does not function in unison: one slip-up and everything malfunctions. This turbulence consisting of recessions and prosperous periods of varying length influences the offer creation of products and services. New expectations and trends that accompany them are equally opportunities to renew the offer.

However, the products and services offered by the company must account for the economic context. Indeed, the offer is aimed at consumers whose level of income and their propensity to spend is linked to the economic cycle and to the confidence placed in the policies that guide the country’s economic policy.

If during a period of economic growth with steadily increasing salaries the consumer will buy the latest phone model (for example, the iPhone X) without asking any questions, it would not necessarily be the same in the context of high unemployment.

The consumer will tend to differ their purchases, with basic needs becoming more significant. Even though this logic is not respected for certain types of projects, due to the power of fashion trends, it remains true that the enterprise must pay close attention to economic indicators and orientations given to the economy by politicians.
Politics

In every country, politics tend to protect companies’ employment from jolts in the economy. Thus, politics orients the economy of the country with the decisions it makes, even though its role is becoming less and less a determining factor with globalization, where multinational firms such as GAFAM can be more powerful than states.

Once again, the approaches diverge. Here, one attempts to plan the economy while somewhere else one is convinced that it must be more liberal. Thus, based on the barriers that the State either does or does not put on the importation of foreign products, local companies will or will not have the incentive to invest primarily in a national offer.

In certain sectors, due to their particularity, the State must take initiative and present the main strategic axes and objectives. That is the case we find in France in the sector of renewable energy, where we note that the political guidelines play an important role in the development of more ecological vehicles.

In other sectors, State intervention can prove to be counterproductive, insofar as it most often tries to infringe on the rules of a market that is open to global competition.

Technology

Technology is a particularly sensitive element that the enterprise cannot influence but should at least efficiently look out for. Indeed, the enterprise must remain extremely vigilant to the risks of disappearing if it does not make decisions at the right time with respect to technological change and disruptions in the considered industry. At this level, the enterprise must also know how to take risks (notably large groups that have important financial means at their disposal) by investing in innovating projects. The risk is limited, because if the project fails, the enterprise has only lost a small sum of money, whereas in the case of success, it will have been a pioneer in the domain and will receive important competitive gains.
Socio-cultural aspects

Different cultures have developed very different relationships with work. Motivations, hierarchical organization, modes of social dialog at the heart of the enterprise, the way work procedures are carried out. These all vary from one place to another and enterprises are dependent on them. Our perception of efficiency stems from cultural criteria, where short term and long term are often opposed to one another from one country to another. Enterprises are dependent on this.

Since the enterprise must be closely interested in the consumer and their patterns, it is the country’s culture that, among others, determines how consumers welcome the enterprise’s offer.

The socio-cultural environment must also be assessed internally at the corporate level. Indeed, employee work conditions will determine their performance in certain job positions and consequently the performance of the business itself. Conscious of this situation, many big businesses like Google, Microsoft or Apple integrate salary satisfaction and continuous improvement of work conditions as factors of performance.

Legal matters

The many matters regarding individual liberty, the protection of personal data and sustainable development expand the norms of conformity and security of the companies’ products and services. With respect to employee work conditions, for example, China is constantly cited in several matters and the companies that subtract their production in this country have to be very careful so that their reputation is not tarnished (see the reputation issues that Apple has had to deal with because of poor working conditions at its subcontractor Foxconn in China).

The existence of the economy itself rests on the exchange between counterparties; it excludes theft. But not everyone shares the same perception of wealth. The same applies to intellectual property, for example. Without going so far as to consider stealing, a patent ends up in the public domain but the delay can vary from country to country. A high or incipient degree of harmonizing trading practices reflects a
more or less elaborated consensus on the value of things, once again influencing offer creation with its relative uncertainty.

**Ecology**

Ecology is one of the major issues of the 21st Century where problems linked to sustainable development are sharply addressed. The global reflection that is conducted is whether the development of the market could be reconcilable with environmental imbalances even if it could provide solutions. Thus, we would integrate the consequences caused by companies on the environment in their internal coordination mechanisms. Even if decisions are slow at the state level, it seems unimaginable that a company does not take into account the ecological impact of its activity.

Understanding the impact of human activity on the natural balance of our planet will be the major issue of the 21st Century. The problem has already arisen. Its perils and their costs will continue to increase. Solutions and the corresponding offer must be found.

**Demographics**

The first element that constitutes the enterprise environment is population, the reservoir of its markets. A business must be keenly interested in different characteristics within the population: size, geographical distribution, density, mobility, age breakdown, nationality, marriage and death rates, socio-cultural composition and religious affiliation. Demographics are the source of diversity and turbulence and therefore, once again, a source of threat and opportunity.

**1.2.2. Stakeholders**

All environmental players (external or internal) must be considered in order to elaborate the business’ strategy and vision. They mainly consist of customers, consumers, stockholders, competitors, suppliers, partners, the public sphere, financers and also the employees of the company.
As shown in Table 1.1, stakeholders take action in various ways within the enterprise environment.

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<th>Employees</th>
<th>Stakeholders</th>
<th>Competitors</th>
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**Table 1.1. The environmental actors whose expectations must be considered while elaborating the enterprise’s strategy**

The expectations of stakeholders can differ depending on the domain of the environment in which they intervene. In order to have an exhaustive vision of their expectations, it would be most convenient to capture them within the context of each domain.
Obviously, we cannot be content with expectations expressed through questionnaires, exchange groups, observation, etc. These approaches are necessary but not sufficient. Indeed, even though latent expectations are more difficult to detect, they are often the ones that trigger innovative ideas or even disruption in the enterprise’s offer of products or services. In order to understand them, it is effective to ask oneself what is “bothering” the stakeholders in their environment and therefore what are the constraints that they would like to see lifted.

This analysis can be carried out through brainstorming, including representative actors from the environment, or internally, under the condition that the company has a sufficient understanding of the problems faced by these actors. That is how the most “disruptive” innovations come about, such as Booking and Uber, for example.

1.2.3. The structuring forces of companies

When we widen the scope of resources offered to the enterprise, we access what represents economic dynamism from a geographical zone as well as an industry. At this scale, the decisions made by a company are very much influenced by its micro-environment. The company is part of this micro-environment.

![Figure 1.4. The micro-environment of an enterprise](image-url)
1.2.3.1. Suppliers and partners:

In order to deal with the diversity of market expectations, it becomes increasingly important to make client/supplier relationships evolve in the direction of partnerships.

In a trivialized market where mass-produced products are exchanged, clients and suppliers try to share a pre-existing margin through competitive sourcing procedures.

The result is different when the offer is diversified and the cycles of renewal are sped up. Sustainable solidarity is established in client/supplier relationships that take on the form of a collaborative network, for the company with regard to suppliers just as much as for its distributors.

The composition of these networks must be attentively cultivated. Thus, the density and proximity of a range of activities becomes a vital asset of its micro-environment. In any case, it is a major component for the entire company when leaving the status of SME for that of a large multinational firm.

In a SME, the size criteria may be a disadvantage for the company when it comes to negotiating buying conditions (price, quantity, delivery, etc.) for raw materials and other services needed to create the company’s offer. This will have a direct impact on negotiated quantities as the financial element gets factored in. This impacts the company’s offer in that the company is exposed to the wishes of the supplier; the possibility of shortages in provisions or material is still feared and unpredictable. The major inconvenience of such a situation is constraining the company to a limited horizon of visibility, taking into account the risk of stock rupture.

In a large international firm, negotiation conditions remain globally advantageous given the size and the quantities that are dealt with. It is a matter of taking interest in the various risks involving, among others, logistics, quality or the local political regime.
In an international context, the route of raw materials from one point to another is a central issue for businesses that remain dependent on the geopolitical situation in accordance with suppliers’ locations. In addition, the quality/conformity of ordered materials in the case of an international firm is a central point in negotiation because, in the case of failure, the enterprise jeopardizes its reputation or even its continuity. In whole, the business must pay attention to the fact that the relationship it maintains with its suppliers deserves careful follow-up because a disagreement or a late delivery will first have an effect on the chain of production (a problem of quantity and quality), and then on the market through the client’s dissatisfaction.

Strategical alliances constitute more and more of an important lever for innovation, for combining organizations’ performance with the conquest of new markets. They concern the following aspects:

- technological;
- geographical;
- economic;
- sociological.

Projects with the aim of collaboration or strategic alliance can constitute an opportunity for enterprise development. Thus, partners remain independent entities, all while combining their talents and the knowledge of their respective teams.

Through the exercise of forging alliances, collaboration facilitates and accelerates the execution of the following key points:

- better value chain coverage in a faster and less costly manner for products and services that deserve co-contracting or sub-contracting;
- new opportunities by adapting existing products to new markets and making use of new technology;
- research on new market positions occupying the space left free by the competition;
– a tighter relationship with strategic clients by anticipating their needs, their expectations and new uses that result from them;

– administrative, legal and geographic barriers that can be simplified by choosing an expert partner in specialized domains at the international level.

The decision-makers’ objective is to forge alliances as a basis for improving their competitiveness. This is achieved by developing the following actions:

– selecting partners based on criteria for cooperation, differentiating short, medium and long term;

– mobilizing concerned teams around a mode of operation that is open and conducive to collaborative project;

– constructing the architecture of alliance that will better guarantee bonds of trust between stakeholders;

– defining the methodological deployment approach, allowing decision-makers and actors to work together.

1.2.3.2. Competitors

Auguste Detœuf once wrote in a famous work: “Competition is an alkaloid; a moderate dose is stimulating; a massive dose is poison” (Detœuf 1937). Much has been written about competition. From one extreme to another, some consider it pure waste, and others consider it the leaven of an activity’s prosperity. A philosophical matter? Competition is a response to the turbulence of expectations whereas at the same time it creates it.

Thus, creating competition when it does not exist is one of the levers of supply-side economy politics. When competition exists, it constitutes a reservoir of knowledge that the enterprise must take ownership of in order to create its own supply. The enterprise must therefore use all of its available tools transparently and legally, making use of its competitors, partners, subcontractors and co-contractors.
This is an observed correlation between an enterprise’s export capacity and the liveliness of competition in which the enterprise indulges in the home country. But this is not always the case. In the end, competition opens up a field of alliances or fusions that remain important tools for adaption and evolution.

1.2.3.3. The public sphere

The “public sphere” is a term that covers very varied groups of interest that have an actual or potential impact on a business’ ability to realize objectives. They can hinder or foster the business’ activity.

They are generally analyzed in four large categories, each covering a largely diverse domain:

– *The world of finance* is comprised of all those who can provide the business with funding. It is sensitive and must be controlled or managed efficiently. In this category, we find banks, shareholders, financial markets, etc.

– *Media* convey the company’s image. They transmit information regarding the company that can build or break its reputation. This group is particularly sensitive and must be approached with great caution.

– *Administration* generates the regulations that influence corporate management. It should ensure that these regulations do not harm the enterprise’s operations.

– *Pressure groups* are today, associations of consumers for protecting the environment, user committees and many other organizations in this regard, which affect the business’ decisions. With globalization and the development of the Internet and social networks, these associations have more and more influence on the enterprise’s operations.

It is worth noting the particular role of the State, which, beyond the resulting administration and legislation, extends to the control, orientation and stimulation of certain sectors of the economy. This can be seen in the role of surveillance assured by the State in the pharmaceutical industry. As another example, the control of energy
prices (electricity, gas), fossil fuels or regulations concerning portable blood alcohol content measuring devices (breathalyzers) can be mentioned.

Enterprises and the State often have a contradictory relationship:

– it is in the nature of the enterprise to produce wealth, satisfy its ambitions and provide jobs. In return, society owes it security, infrastructure and an institutional context in which the economy can develop. The enterprise must also contribute to the necessary redistribution of generated profit. This means accounting for hazards, such as those concerning health and employment, and providing pensions when age takes away from work;

– but public power is often expressed by its will to steer the economy in a direction that supports growth and counteracts the harmful effects of such events. This steering takes on various forms; it can be more or less intense. It involves a certain redistribution that enterprises are called to contribute to, whether or not it corresponds to their *raison d’être*;

– State orientations often compete with the orientations that the enterprises must naturally follow for their own survival. This can result in a certain wastefulness insofar as reaction times and approaches are necessarily different;

– the State will justify its interventionism if it finds that enterprises are adopting a wait-and-see approach. However, this is what enterprises will do if it turns out that the State will only promote options that are unfavorable to them.

1.2.3.4. Standardization

Here standards are referred to in a broad sense. They consist of the laws, professional standards of sectorial branches, incentive standards, mandatory levies, taxes and social, economic, sanitary and ecological rules that have an effect on the behavior and strategy of economic, social and cultural actors (citizens, consumers, producers, businesses and organizations, networks and public and private institutions).
These norms can be optional (e.g. ISO Quality Assurance Standards 9000), mandatory (of regulatory nature or from legislative sources), or binding at the local, national, European, international or global level.

Binding or not, the standards are first and foremost the recognition of good practices and proven solutions that allow diversity and complexity to be disciplined. In this sense, standards are essential in providing the foundation for a company’s responsible operation. They are intended to be milestones of progress.

A recent evolution should be noted. For a long time, standards addressed the conformity of a product in terms of safety, quality and function (standards). The evolution towards a larger diversity of supply contradicts this normative approach, an approach that is now evolving towards standards of certification. Here, we are less concerned with the qualification of products as we are with the processes that give birth to them. For a long time, this type of certification has applied to operations like in the nuclear or aeronautical industries.

While integrating standards can become a considerable challenge for a company due to their proliferation and sometimes conflicts between standards, the company cannot be satisfied with just watching them. It must play a proactive role in order to be involved in their elaboration and to be able to influence their course. Only in this case can it take advantage of standards in order to contribute to its development in a demanding if not hostile environment.

We can see that the micro-environment (the structuring forces of the business) reflects the history of a country, a civilization and a culture. In order to change micro-environments, a business must go elsewhere, England rather than France, the United States rather than Europe, Asia rather than Africa, etc. This can justify partial delocalization politics.

Competitive practices in Japan are not the same as those in Germany. Judicial procedures in France are not the same as those in the United States. Social organization in Argentina is not the same as
in Sweden. Russian standards are not the same as they are in Switzerland. Lobbying in China does not work the same as way it does in the European community.

The micro-environment will thus shift the business towards audacious and aggressive approaches here, and maybe towards diffident and conservative approaches there.

### 1.2.4. Strategic analysis

In order to guarantee coherence with the governance diagram in Figure 1.3 above, the decisional process concerning strategy will support a structured methodology following two areas corresponding to what Michael Porter suggests:

– *Attractiveness of the market*: analysis of the environment and stakeholders’ expectations structured around matters such as: market growth, competition, barriers to entry, constraints or opportunities originating from legislation, client evolution and segmentation, etc.

– *Business competitiveness*: analysis of the business’ competitive strengths and weaknesses structured around matters such as: market share, skills available or to be created, technological innovation, listening to customers, operational excellence, communication, etc.

For all of the company’s product families, this approach should result in both ambitious and realistic goals in terms of:

– growth;

– means to implement in order to attain this growth;

– need of human and financial capital.

As crucial as this step is, it is far from enough, because even once it is made, the hardest part remains to implement “good governance” at the heart of the company, namely: making sure that the entire company gets on track to contribute to the achievement of the established strategic objectives.
To achieve this, it is necessary to “align” the operational goals of all managers, regardless of their level, with strategic objectives.

Strategic analysis must help structure thinking in order to identify ideas for enriching supply or improving its market positioning, whether it be new products or the improvement of existing products, with the goal of contributing (in parallel with other initiatives such as reducing development time, improving the quality perceived by clients, reducing product manufacturing costs, etc.) to the achievement of clearly defined strategic objectives, such as, for example, reaching a desired market share in a certain market sector within a precise time horizon.

Strategic analysis will naturally exploit:

– in “pull” mode, economic intelligence (i.e. the entirety of collected information) previously cited in order to identify voiced or latent expectations in the environment;

– in “push” mode, the analysis of key competencies that the business has capitalized on over the years and can rely on for developing its offer or releasing an innovative offer. This new offer is most often obtained through an original combination of some key competencies, sometimes involving those of external partners.

In order to do this, it needs tools such as those described by Michael Porter and summarized in publications that made reference to them at the beginning of the 1980s, notably:

– *Competitive Strategy* published in 1983;


In the first book, he describes the four “forces” that structure competitive behavior and the strategic positioning of a company inside its activity sector:

1) *Potential entrants into a market*: the larger their number, the more intense the competition in the sector. The significance of this threat depends on the presence of barriers to entry (necessary critical
size, very strong brands of present competitors, patents, particularities in distribution circuits). Potential entrants can be a threat for the business based on the maturity of offered products and services. These entrants will make choices and strategies that are different from those of the present enterprise: price, distribution, packaging, location, etc. A developed vigilance, a protection of tangible and intangible heritage (patents, brands, drawings, models, etc.) as up to date, are a necessity in this context.

2) The client’s power in negotiation: the larger the share a customer represents in a company’s revenue, the more power this customer has in negotiation, and all the more if the customer has a considerable number of alternative suppliers at their disposal. Therefore, customer concentration represents an important criterion to evaluate the competitive intensity of a sector, completed by the possibility of diversifying the customer portfolio or not.

3) The supplier’s power in negotiation: similarly, the smaller the share a company represents in a supplier’s revenue, the more powerful the supplier is in negotiation. Here again, the competitive intensity of the sector depends on the ability to easily change suppliers.

4) The existence of substitute products: these are products whose use can harm the use of other products on the market (e.g. tablets instead of PCs). The main risk is losing sales to products that benefit from lower product costs or more attractive functions.

Substitute products offered by competitors can be an advantage for the company, insofar as these products bring value to the market. Thus, the business has interest in understanding and working within the new strategic space that has been opened up. It can also readjust its strategy and politics according to the new situation. Products and services originating from new technology (digital books, automobiles, agribusiness, logistics and transportation) are examples of opportunity to be pursued.

5) As shown in Figure 1.5, these four determining forces determine the fifth force: the competitive intensity that the company is subjected to. It will greatly condition attainable margins on the market.
This dimension requires that the company focuses its attention on it in order to differentiate itself from the competition. Its management capabilities and global quality (organizational, social and economic) will be major assets in innovating or reinforcing its position. This intrinsic distinction will be its “trademark”. A frequently cited example is Coca-Cola with its recipe, which remains an absolute secret. The brand’s immense power, built on over generations, is just as much a source of competitive advantage.

Some authors add a sixth force: the influence of public power.

Figure 1.5. Intensity of competition (Porter 1982)

In the second publication, Competitive Advantage, Michael Porter (Porter 1985) laid the foundation for modern strategic thought with:

– The description of three generic strategies:

- differentiation: this strategy aims to obtain a competitive advantage by offering a product or service of high value to a large target audience, with low volumes but high margins;
- domination by costs: this strategy aims to obtain a competitive advantage by offering a product with a low cost to a strategically large target, with low margins but high volumes;

- focus: this strategy assumes that a competitive advantage has already been obtained, by either differentiation or domination by costs. It aims to obtain a decisive competitive advantage by exploiting this advantage for the benefit of a restrained strategic target.

- The stalemate that results from a middle path:

  - without showing interest in any of the three strategies, the company finds itself without any true competitive advantage in its industry segment: on one hand it is dominated by costs from other entities that have more clearly developed a low-cost strategy, and on the other hand the quality of its products or offerings is not as high as that of the entities that have explicitly chosen differentiation;

  - the return on investment lags behind. A choice must be made: leave the industry or obtain a competitive advantage. The longer the period of non-strategy, the more difficult and costly it will be for the company to obtain a competitive advantage.

There are, of course, other tools for strategic analysis: BCG matrices, D. Little, SWOT, etc., to mention just a few of them. These tools aim to structure reflection for identifying key factors of success within various segments of offering in its markets and from them deduce the appropriate strategy and its implications on the offer evolution. Obviously, this evolution will be very different based on the adopted strategy.

These approaches, and notably those developed by Michael Porter, illustrate the importance of logical and rational reasoning in the development of a strategy of differentiation and value creation.
1.2.5. **Actors**

How well the enterprise’s vision and the strategy, which is put in place to attain it, are developed in a timely fashion relative to criteria of good governance, mainly relies on:

– how exhaustively the environment is taken into account and notably how the stakeholders’ expectations concerning the enterprises are considered;

– the implication of the right people making decisions in the right place, at the right time.

The actors mainly involved in strategy development are:

– the Executive Committee that defines the strategy and organizes its process of continuous adjustment;

– the Board of Directors that validates the strategy as well as envisaged evolutions to continuously adjust it.

To account for the importance of technology (artificial intelligence, blockchain, robotics, IoT, etc.) in the development of new products or services, the enterprise must organize a technology and opportunity watch so that heavy tendencies can be detected and taken into account while developing the strategy.

Whether this technology watch is operationally entrusted to the Chief Information Officer (CIO) or to the Chief Digital Officer (CDO), it must be placed under the responsibility of a member of the Executive Committee, who will ensure that strategic orientations benefit from it.

1.3. **Taking into account corporate social responsibility: the governance process**

1.3.1. **CSR: a sustainable performance lever for enterprises**

Corporate social responsibility (CSR) is about taking into account the impact that the enterprise has on the environment so that it can be
preserved in a long-term vision. It is a key component of corporate
governance and also of the strategy in that it complements stakeholder
satisfaction.

According to ISO 26000, CSR covers the following domains:

– governance: the organization’s degree of *transparency* regarding
stakeholders’ interests;

– respecting *human rights*: discrimination, social and economic
rights, labor rights, human rights abuse at all levels, etc.;

– observation and respect for their relationships and *work
conditions*: social dialog, health and security at work, etc.;

– respect for *environmental constraints*: reducing fossil energies
thanks to reducing carbon footprints, pollution prevention, respecting
biodiversity, water savings, etc.;

– emphasizing loyal practices: fighting against corruption,
encouraging loyal competition, etc.;

– promoting the study and analysis of all questions relative to
consumers and clients: *private life protection* and safety, etc.;

– taking into account communities and *local development*:
involvement and investment in local life, access to culture, etc.

Since the so-called Grenelle II law – supporting French national
commitment to the environment – the major contractors have
implemented many internal measures and codes of conduct and have
constantly “empowered” their suppliers and various partners with their
purchase and subcontracting policies. The latter are thus made aware
of the CSR approach and, whatever their size, they become aware of
its importance and take initiative in this direction.

The approach has been optional, but the integration of CSR into
enterprises may become mandatory in a few years. This integration
presents challenges as well as opportunities.
1.3.2. Companies are more and more concerned

1.3.2.1. What major contractors require from their suppliers

In this day and age, where business ethics is becoming a key aspect of the social side of CSR, major contractors’ needs tend to become more demanding. Decree 225 of the Grenelle II law asks large enterprises to account for the social and environmental impact of their activities. This is done directly, and also indirectly, by integrating clients, suppliers and partners.

To anticipate the potential risks related to the bad environmental and social practices of their suppliers, the public and private actors elaborate questionnaires that are more and more precise with requests for supporting documents (code of conduct, politics of sustainable development, definition of quantified objectives, establishing indicators, independent testimonials). A company that has not adopted a CSR approach will have trouble justifying itself and will be weakened over time when compared to its competitors. The contractor sometimes uses eliminatory points which can eventually blacklist a company (e.g. not responding to questions, not presenting a certain certificate, not having supporting evidence), as ORSE (French network aimed at researching and promoting CSR) reminds us.

This is the case for Air France Industries, one of the world leaders in aircraft maintenance for numerous airlines, who established a checklist that holds for all projects. This way, sustainable development aspects converge with business aspects.

1.3.2.2. The demands of capital investment funds

Investors and lenders are show a growing interest for environmental, social and governance criteria (ESG) in their financial investment choices and are also invited to do so by European regulation. In 2018, the European Commission revealed its strategy of bringing the financial system to support the European Union’s actions regarding climate and sustainable development. The main elements of the action plan are the creation of labels for green financial products, clarification of obligation for asset managers and institutional investors, taking into account aspects of sustainability, integration of sustainability in prudential
requirements, and reinforcement of transparency regarding an enterprise’s publication of non-financial information.

Every year Novetich analyzes the performance of socially responsible investment funds in France and distinguishes funds based on social responsibility: the 123 funds classified by Novethic as SRI in 2017 showed stronger dynamic growth (+42.5%) than the totality of 404 SRI funds distributed throughout the French market (+14%).

1.3.3. The challenge of CSR for enterprises

Now that enterprises have become aware of the importance of CSR for their continuous development, they are starting to integrate it into their strategy.

In order to do this, they must analyze the impact they might have on each major stakeholder from the environment, as shown in Table 1.2.

<table>
<thead>
<tr>
<th>ACTORS</th>
<th>Clients</th>
<th>Customers</th>
<th>Employees</th>
<th>Stakeholders</th>
<th>Competitors</th>
<th>Suppliers</th>
<th>Partners</th>
<th>Public sphere</th>
<th>Financers</th>
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<tbody>
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<td>Socio-cultural</td>
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<td>Working conditions</td>
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<td>Ecological</td>
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<tr>
<td>Local environment and communities</td>
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</table>

Table 1.2. Impact of the company on environmental actors in the context of the company’s social responsibility

For example, in April 2018, the French government presented its roadmap for a circular economy. This first axis of this roadmap is extending the lifespan of products and developing reparation. In order
to do this, the government wants to establish a “reparability” rating for electric and electronic products and furniture. The second is product recycling, once they can no longer be reused. In order to compensate for France’s delay, the roadmap not only relies on simplifying sorting habits but also on developing deposit return systems for glass bottles and widening the “the polluter pays” principle. One of the key objectives is to reach a 100% recycling rate of plastic waste in 2025.

Mobilization is international, as seen in the launch of March 18th as a Global Recycling Day. Created on the initiative of the Bureau of International Recycling (BIR), the objective of the event is to reunite citizens, experts and professionals in the industry around a single message: today’s waste is tomorrow’s resource, with particular attention given to rare metals that are essential to the development of innovative high-tech industries, notably those associated with green energy.

The adoption of a CSR approach happens through the enterprise’s strategic choices and can imply large organizational changes. Indeed, large strategic revisions that aim to better account for the enterprise’s impact on the environment can have a heavy impact on the method of production, distribution or communication. Enterprises are demanding when it comes to experience and good practices relative to the achievement of CSR approaches, but they have to face information dispersion and the fact that these statistics most often only concern large companies.

Beginning in 2018, Coca-Cola, McDonald’s and Evian will take action on the path to recycling and eco-design.

– Coca-Cola: by 2030, one Coca-Cola bottle recycled for every one sold.
– Evian: only recycled plastic in bottles by 2025.
– McDonald’s: packaging is now the first environmental concern of McDonald’s customers.

**Box 1.1. The circular economy: a growing matter of reputation and competitiveness**
1.3.4. **The opportunities of CSR for enterprises**

Adopting CSR politics at the heart of a company promotes an approach that creates value, notably for all stakeholders thanks to its very large scope of influence. Furthermore, it is through the hereafter described opportunities that it constitutes a performance lever.

1.3.4.1. **Optimization of resource and energy consumption**

CSR is often a factor of cost reduction thanks to the resource savings that it enables. For example, if we reduce energy or water consumption in buildings, machines or methods of transport through more efficient management, the costs will automatically reduce.

This is also the case for clean energy research. For example, Apple recently announced that all of its sites around the world are now powered by 100% clean energy. The enterprise also announced that 23 partners in the production chain have taken action to power all of their production for Apple with clean energy.

1.3.4.2. **Modernization and innovation of enterprises’ operation**

CSR is also a factor of modernization and innovation, for example, technological, social or related to management, without forgetting wellness in the workplace (Workplace Wellness Indicator (WWI)). It progressively prompts us to revisit and adapt the enterprise’s organization and operations as well as its manner of conceiving and manufacturing products and services. Thus, the enterprise adapts to the growing demands of its customers and consumers, modifies its brand image, wins new markets and improves its margins.

After the social crisis that the French telecom operator Orange faced in 2009 as a result of unhappiness in the workplace, Orange has adopted a strengthened approach that listens to its employees and takes innovative measures: a 900 million euro project for understanding uneasiness, becoming aware of employee opinions during transformations, addressing employee wishes and mobilizing for a new business project that reconciles economic performance and social quality. In 2016, a study showed that 93% of employees were
proud to work for Orange and 87% of them would recommend Orange as a good place to work (Orange, 11th social barometer).

1.3.4.3. Better risk management

CSR allows the business to manage risks more efficiently, be they environmental, legal, financial, social or related to reputation. It reassures investors and various financial partners. By accompanying suppliers in this type of approach, the supply chain is improved.

Risk reduction and prevention and their impact on image are considered important motivations by seven out of ten executives.

This is also the case with Bureau Veritas, where the evaluators’ integrity is fundamental for the business’ reputation in various diverse countries with cultures that vary in terms of risk of corruption. Thus, Bureau Veritas adopted an ethnical approach in a multicultural context.

1.3.4.4. Competitive advantage over major clients

Major clients, who have developed their own responsible approach, have introduced CSR criteria in their reference manuals and their calls for tender.

It is with this goal in mind that Bouygues Construction created sustainable Construction Clubs that all stakeholders participate in, in order to favor builders’ and sub-contractors’ CSR awareness by responding to major clients and to consumers.

1.3.4.5. Strategy of differentiating the offer

One out of two business leaders believes that the application of such actions favors competitiveness by allowing a company to set itself apart from the competition. A CSR approach allows the enterprise to find new customers that adhere to good CSR practices while maintaining older customers whose satisfaction will increase all the more when they become aware that products are more respectful of the environment and more “responsible”.
Fleury Michon, a group in the food industry, brings CSR to the foreground in order to fight against attacks on the food industry and also to present itself as a supplier that is respectful of CSR.

**1.3.4.6. Strategy of differentiating hiring**

It is also differential advantage in operations with regard to hiring new employees, notably young people who consider an enterprise’s social responsibility approach more and more as a determining factor when comparing jobs with equal salaries.

CSR is important for hiring as well as for keeping talents. Google just tested this at its own expense with the Maven project for the Pentagon and the resignations that resulted from it.

**1.3.4.7. Better social and societal cohesion**

CSR will also bring the company closer to its employees and motivate them because it responds to their growing expectations as citizens, notably in environmental and social matters. A CSR approach participates in reinforcing cohesion throughout the company.

The other interest of CSR is bringing the company closer to territories where it is developing its activities, especially when these territories are already engaged in their own sustainable development projects that the company might take part in. Reinforcing the company’s placement in its local economic fabric often conditions its “social license to operate”.

For example, Marsh, an international broker for insurance and risk management, has developed CSR politics centered on the three fundamental aspects: philanthropy and employee volunteering, sustainable development, and business ethics. Marsh’s employees are consequently invited to get involved in the well-being of their communities.

The integration of CSR is increasingly noticeable in our businesses, but with a maturity that still has significant margins of progress. A CSR approach that is well adjusted and properly communicated to various stakeholders now constitutes recognition
from the enterprise’s ecosystem and a competitive advantage, which becomes a lever for global and sustainable performance.

1.4. Translation of strategic objectives at the level of operational processes

The enterprise’s operational processes play a key role in the governance process because they also help to:

– shape strategic objectives into operational objectives;

– mobilize the enterprise’s resources to achieve objectives.

Once again these objectives must be translated into process-improving projects, and in order for that to happen, executives must integrate it into their management approaches. Here, we are referring to “management by processes”.

1.4.1. Management by processes

The difficulty of this translation of strategic objectives exercise arises from the following fact:

– strategic objectives are concerned with “finished products” that the company provides to its customers and that are developed thanks to contributions, at varying degrees, from the actors grouped by

![Figure 1.6. Operational business processes and resource mobilization](image-url)
functional departments according to the abilities and missions that characterize them;

– and thus the executives of the company, who will be in charge of executing actions that are indispensable for meeting strategic objectives, belong to a structure, most often hierarchical, that is organized by function (production, commercial, marketing, design, development, human resources, finances, etc.).

In order to facilitate the management of this entirety that crosses client-oriented objectives and domains of expertise that the business has grouped together in a structured organization system, it is necessary to implement the key notion of operational “macro-processes” that:

– are defined by the types of products/services in order to respond, if possible, to needs for clearly defined customer categories;

– can be described as the entirety of operations, activities, competences and resources that must be implemented in order to realize these products/services.

Macro-processes favor a “transversal” enterprise image that is “customer-oriented”. The resulting “knocking-down of silos” allows us to set concrete objectives that favor a better understanding of customer expectations, be they present or future, sometimes unpredictable, and thus to progressively improve the enterprise’s operational performance in terms of:

– quality: through improving the level of service provided to the client by type of Product/Project/Service/Solution. It is possible to rely on ISO 9000 standards, or even other standards, ISO 14000, ISO 26000, etc.;

– costs: through constantly researching better use of accessible means for the purpose of improving margins;

– delivery time: by following and reducing the time it takes to deliver products/services to the clients. Time becomes a critical element that imposes agility within smaller and smaller periods of time.
For example, when applying discriminatory criteria to typologies of products/services, clients or the length of the process cycle of operation, it may be appropriate to distinguish:

– the logistic process of the “supply chain”, ranging from establishing quotations for taking orders to manufacturing and collecting revenue, going through supply and production;

– the “offer creation” process, beginning with strategic marketing and ranging up to launching the production of a prototype, going through phases of conception, development and industrialization.

The “supply chain” process has to do with providing customers with products and services under conditions that satisfy their steadily increasing demands. “Offer creation” provides prototypes for the “supply chain” process according to a multi-monthly, even multi-annual rhythm. These two processes obviously do not have the same performance indicators in terms of quality/cost/delivery times, or even the same information system needs. Nevertheless, it is necessary to ensure their coherence in order to sustain high performance, this coherence being one of the keys to performance in that it reduces the number of redundant tasks and the number of ruptures or round trips that penalize the offer’s positioning on the market.

In the same way, “support” processes (management, hiring, training, financing, etc.) and the process of “managing customer expectations” (accounting for dissatisfactions but also future needs) will have indicators of performance and information system needs that are very different from other more operational business processes. Despite these differences each process has a positive contribution to the overall performance and it is interesting to be able to clearly identify this contribution so that everyone feels invested in the construction of global and sustainable performance.

The correlation between indicators, notably strategic indicators and indicators of performance, renders visible each macro-process’
contribution in the enterprise’s performance and reinforces the pertinence and priority of actions to take in order to, as quickly as possible, achieve objectives aligned with the enterprise’s strategic objectives. A certain number of decisions that are easy to identify and follow result from these objectives. “Process intelligence” tools allow almost immediate analyses of sensitivity or correctives if needed. Management is carried out as closely as possible, in the execution of operational excellence.

For every type of “macro-process”, decisions to be made are very different whether they belong to the operational, economic or strategic level.

For example, to illustrate the nature of decisions to be made based on different levels, we cite:

– the “operational” level: the optimization of a planned production workload, the knowledge of the shelf availability of products for supermarkets, the stock evaluation based on planned restocking, the analysis of customer purchase habits, the indicators of suppliers’ level of quality and so on;

– the “economic” level: do better and spend less with the aim of optimizing the return on capital employed (ROCE) and therefore capital invested (ROCI);

– the “strategic” level: information about the competition, market shares, the proportion of new products in sales revenue, the structure of costs and margins with a vision that is likely more global than the economic “mesh”; these decisions can follow a step-by-step plan that aligns with the vision.

In a nutshell, the decisions that an enterprises makes in order to execute its strategy are characterized at the same time by the type of process and by the level of the decision (operational, economical/tactic or strategic). It is therefore possible to segment them according to the following matrix:
Table 1.3. Decision-making characteristics

<table>
<thead>
<tr>
<th>Level</th>
<th>Supply chain</th>
<th>Offer creation</th>
<th>Managing customer expectations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Economical/tactical</td>
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<td></td>
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<tr>
<td>Operational</td>
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</tbody>
</table>

The translation of strategic objectives at the operational level is carried out as part of a plan according to their length in time (short term, medium term, long term). The resulting decisions must mobilize the company’s resources with the aim of achieving objectives. These decisions become reality through the identification of projects or action plans during the budgetary process.

Management by processes involves identifying who is responsible for achieving every single one of the objectives and identifying who is responsible for managing the quality and compliance of the processes. To ensure that various actors are animated in doing this, there should be a team in charge of the coherence and integration of the processes as well as the continuity with changes relative to the enterprise’s strategic objectives.

1.4.2. Projects for improvement and resource mobilization

Improvement goals that are initially associated with the enterprise’s macro-processes and can be deemed “result objectives” (reducing the time it takes for a product to enter the market for the “supply creation” process, reducing production costs for the supply chain, improving the customer satisfaction rate for the “managing customer expectations” process, etc.) must at this stage be translated into “activity objectives” attributed to executives in charge of operations that contribute to the process’ functions (optimizing the planned production workload, shortening response times to customer questions, coming up with ideas for better targeted new products or services, faster conception of new products or services, etc.).
The realization of the “activity objectives” will then result in the mobilization of the resources needed to achieve them, for example:

– establishing telephone assistance (help desk) to shorten response times to customer questions;

– developing “concurrent engineering” or parallel projects in order to speed up the conception of new products or services;

– developing economical intelligence in order to identify ideas for better targeted new products and services;

– establishing “intelligence process automation” or “robotic process automation” approaches by observing the process phases that could benefit from automatization, but leaving to the human the job of concentrating on certain points that require analyses that machines struggle with;

– and so on.

The company’s resources (or partner companies’ resources as part of, for example, “extended enterprise”) are classified into four types.

**Organization**

– Optimizing activities within a processes by business process re-engineering (BPR) operations, process redesign.

– Clarifying the role of operations in order to avoid, for example, “duplication” or “gaps” in the realization of activities.

**Internal and external competencies**

– Training or reallocating internal competencies that result from the reconception (re-engineering) of processes.

– Constructing, internally or by acquisition (partnership or purchase), the new competencies necessary for the development of emerging products/services that the enterprise wants to position itself on.

– As competencies become more and more targeted, this valorizes the management of talents that must be conducted in accordance with the enterprise’s orientations. When the competencies needed by the company are not easily available on the market, it may be wise to
develop these competencies internally by training or by the acquisition of start-ups. This can become a decisive competitive advantage.

– Considering people in their entirety allows us to enhance competencies that were previously not considered in the enterprise: creativity, animation, parenthood, well-being in the workplace, etc. The latter, for example, can be measured with the Well-being at Work Index (WWI) index. Some surveys show that this consideration can allow the business to progress its performance, during implementation, by 5 to 15 points – for example, the APICIL group and Mozart Consulting published such a survey in 2017.

The information system

– This becomes an inescapable resource that is necessary for all processes to work well (even the creation of new processes, for example those related to sales or distribution via the Internet) and to capitalize on the enterprise’s competencies.

– The management of the customer relationship is experiencing upheavals that derive from “customer journeys” aiming at anticipating more closely all the potential reactions of customers, or prospects. It is about predicting reactions and providing appropriate responses. The contact times being shorter and shorter, it is essential to be reactive and in phase with the expectations. For this, the data is essential. Processed with artificial intelligence, Big Data and “continuous analysis” tools, it makes the most of the information available to make the proposal.

– Computer-aided design, artificial intelligence associated with Big Data, connected object management, 3D printers, etc. can make industrial crafts. They allow the combination of the ready-to-wear and the tailor-made;

– The tools of production management are more and more integrated and offer the ability to personalize according to client expectations. It is possible to produce “without stock”, anticipating client needs, notably thanks to connected objects, and by automating production to be able to personalize the product as far down the production chain as possible in order to match the demand.
– Another evolution is the integration of the increasingly important number of targeted partners, who will allow for the production of less expensive components with a higher quality.

– The decisional tools of analysis are more open and integrate internal and external data in order to manage more closely collected data instantly or within several hours’ delay.

– These tools allow us to deal with target managers who will have to make use of indicators in order to take corrective action in the case of any slippage. The analyses must support decisions with elaborated and targeted visuals with answers to questions like why? How? By whom? For which product?

**Finances**

Financial resources are important, which goes without saying. What was perhaps recognized more recently is that these resources must assure a certain sustainability and continuity. The short term is necessary but not enough to transform the enterprise and build for the long term. It is necessary to reconcile speed and vision. The shareholders must give the enterprise enough time for transformation in increasingly unstable conditions. It is a challenge and a necessity. Evolutions arrive more and more frequently but the business must be assured of stable resources for investing in ever larger markets. That, among other things, will push back the competition that can come from geographic or sectoral horizons that were unimaginable before. Hence, the shareholder structure is so important; shareholders must, during their engagement, be well informed of the initial situation, and also of evolutions in order to correct or alter trajectories as soon as possible, if necessary.

1.4.3. **Human resource, skill and talent management**

Human resources are an essential key for global performance. Employee well-being not only allows involvement but also offers talent stability and development in conjunction with core business. Human resources management should consider the employee in their globality: janitorial service, day care, aid for parenting, rest and
conviviality are all considered parts of the whole. It is imperative to attract new talents and young talents, hence the ties with the employer brand, which should be the preoccupation of numerous managers.

Human resource management should involve all actors (executives and colleagues) concerned during the hiring process of various profiles, but should also retain talents by allowing them to provide recognized added value to transformation projects. Human capital, its composition, its diversity, its origins and its expertise, is increasingly important and is one of the most essential resources for the enterprise’s value. If human resources are not well managed, there is a risk of discouraging these key potentials and not being able to attract the profiles the enterprise may need. This can even have devastating effects that would hinder the achievement of objectives. This management should focus on the human resources needed for the transformation of the enterprises’ processes.

1.5. Monitoring objective achievement and risk control

If the preceding steps in the governance process are more “dynamic”, in that they allow the business to adapt and develop sustainably while creating value, it is just as essential to prevent the business from losing value. This destruction of value can be controlled in the process “loop” by a “monitoring” step, which allows us to enter a process of continuous improvement all while avoiding obstacles that the business is susceptible to encountering on the way.

1.5.1. The “balanced scorecard”

The “balanced scorecard” is a common way of pertinently presenting various performance indicators (financial or not) within operational macro-processes, namely:

– the “offer creation” process;

– the “product or service production” sometimes called “quote to cash”;

– the “taking into account client expectations” and “handling client dissatisfactions” processes;
– “support” processes.

Once the all of the macro-process performance indicators (results and activity) have been identified, and improvement objectives have been assigned to them by the Executive Committee, the enterprise will possess an extremely powerful tool for monitoring its long-term performance.

So that the Executive Committee can easily follow them, it will be important to place these indicators on a monitoring dashboard called the “balanced scorecard”; proposed by Kaplan and Norton in 1992, which classifies them in a balanced manner into four sections articulated around the enterprise’s strategy:

– customers;
– internal processes;
– training and preparation for the future;
– finance.

Figure 1.7. The four sections of the balanced scorecard
What is interesting about this approach is that the financial aspects result from the consideration of client expectations, process optimization and anticipatory competency management in order to prepare for the future all while seeking coherence with the enterprise’s strategy.

The “balanced scorecard” gives the business a much more interesting and operational vision than one that is limited to financial aspects. As shown in Figure 1.8, it puts factors back into the right order: we must act on operational objectives in order to obtain financial results, and not the opposite, as some people tend to believe.

![Figure 1.8. From internal processes’ performance to financial results](image)

Nevertheless, and despite all pedagogical interests, this approach alone could not result in progress for the business. As a matter of fact, in order to be efficient and concrete, the business must rely on the “process approach” in order to establish coherence between performance indicators. With their transversal character, processes allow us to relate indicators to one another and establish cause-and-effect relationships between them, notably by distinguishing activity objectives (those that we can act on) and result objectives (which verify the attained progress).
Since macro-processes are transversal to the “balanced scorecard”, each one of them will have indicators attributable to the four sections. For example, for the “quote to cash” process, we can classify the previously identified indicators as follows:

- Customers: indicators of the “sales” and “client service” functions.
- Internal processes: indicators of the “purchase/procurement”, “production” and “customer service” processes.
- Training and preparation for the future: this section will mainly be supported by indicators of enterprise governance including CSR and offer creation.
- Finance: in the case of the “quote to cash” process, in this section we will mainly find indicators of production costs for goods and services delivered by the process to the customers of the enterprise. In order to define, foresee and monitor costs, we must take interest in the ABC–ABB–ABM (activity-based costing/budgeting/management) methodology formalized by Cooper and Kaplan in 1988.

1.5.2. Risk mapping and the COSO framework

Governance monitoring consists of two distinct but complementary sections. The continuous improvement process involves verifying that goals assigned to operational processes are met, for the purpose of establishing the necessary preventative or corrective measures for current projects, capitalizing on acquired experience, learning from possible failures to give future projects the maximum chance to succeed, and even changing the trajectory if it shows that goals cannot be met or are no longer up to date.

This is the level where risk control intervenes in order to identify and limit the impact and the occurrence of threats confronting the business. It is therefore an approach that is symmetrical to value creation, touching on aspects of governance, strategy development, operational processes and supply creation – but with a “pessimistic” attitude.
Figure 1.9, adapted from the ISO framework of reference, explains the various notions of control in the risk analysis.

Figure 1.9. Security element relationships

Risk management includes internal financial control and also covers more operational risks. The scope, the actors, the analysis methodologies, etc. are all collected in the COSO 2 framework (Committee of Sponsoring Organizations of the Treadway Commission), revised in 2013, which today has authority on the international scale. COSO 2 is represented by the cube shown in Figure 1.10.

Figure 1.10. The COSO 2 framework. For a color version of this figure, see www.iste.co.uk/leignel/enterprise.zip
COSO 2 suggests a frame of reference for business risk management (the “Enterprise Risk Management Framework”), which is a process that is executed by the Board of Directors, the executives and the staff of an enterprise with the aim of:

- managing risks so that they remain within organization’s “risk appetite” limits;
- identifying elements that could potentially affect the enterprise;
- providing reasonable assurance relative to the enterprise’s goals.

The synthesis of risk analysis is a risk map, which should be set for all large enterprises and discussed by the Board of Directors. It is developed through the following five steps.

**Process review**

This method consists of taking inventory of different threats to which the enterprise’s activities could be exposed (prospective analysis) in order to assess operational risks originating from the analysis of process vulnerability. This review of processes assumes the existence of a description of the enterprise’s processes with a relatively macro granularity allowing emphasis on risk zones and existing controls. In order to identify risk zones, we must establish classification for operational risks: inadequate procedures, business risks (dangerous products, difficulties in production, obsolescence, etc.), human risks (probity, competency, engagement, etc.), external threats (natural disasters, sabotages, regulatory constraints, etc.) and technological risks.

**Risk analysis and consequences**

The goal is to analyze risk events related to each process according to the mapping drawn in the previous step. Causes and consequences are analyzed in order to identify impacts (financial, reputation, etc.) and afterward to develop action plans to be implemented based on causes of dysfunction. For this reason, there must be a mapping between risk events and causes of dysfunction.
In order to define the causes, we need a framework like Basel II in the banking industry, which suggests four types of causes:

– information systems: hardware failure, software bugs, technological obsolescence (hardware, programming languages, etc.);

– processes (incorrect entries, non-compliance with procedures, etc.);

– people (competencies, education and training, absenteeism, fraud, social movements and also the enterprise’s ability to ensure succession in key positions);

– outside events (terrorism, natural disasters, regulatory environment, etc.).

Controls associated with risk events must be identified in order to measure their effectiveness in terms of both frequency and impact.

**Risk evaluation**

Risk evaluation is carried out by taking into account the occurrence probability of each threat, its potential impact on the business’ assets (in terms of finance but also reputation or image) and also the protections put in place to face it. A risk scale must be created and documented for all to use.

**Risk reduction plans**

According to the enterprise’s risk appetite level, certain risks must be reduced, an action plan will be implemented and new risk measures will be established.

**Updating risk mapping**

The enterprise has to regularly go back through the steps to account for potential new risks and also to measure the effectiveness of risk reduction plans.
1.5.3. Compliance

The governance process accounts for the business’ environment and notably respect for laws and regulations. This conformity, one of the four objectives of the COSO 2 cube, becomes important when we see the fines of several billions of euros inflicted upon certain firms in the name of respect for laws and practices that are more and more supranational and have sometimes become anti-competitive weapons.

Yet, in a context of constant and very rapid change, like the current context made up of digital revolutions, the law is established and applied with delay. Thus, professional practices redefine themselves among actors and are finally reapplied or rendered mandatory by the law. This was the case of the European Data Collection Regulation, the Sarbanes–Oxley Law, the Foreign Corrupt Practices Act (FCPA), the UK Bribery Act, Sapin II and many others.

The supranationality of these laws should be noted. Certain laws are interconnected, which makes their application difficult. For example, respect for the protection of intellectual property and respect for embargos can result in blocking European airplane sales because of the presence of American parts.

“Tainted” technology is a trap to avoid: technology that has been created by the U.S. for military or mixed use is subject to U.S. export control. Even though this technology is incorporated into a much more significant entirety, this entirety will then be subject to U.S. export control. Similarly, the use of U.S. parts or services, or more simply U.S. citizen’s participation in a research and development team, can subject the product to U.S. export control, even though all development was carried out outside of the United States.

When specific laws do not exist, rules for good conduct are defined by professional institutions or by businesses themselves. For example, the current debate on the transparency of algorithms is making the
French National Commission on Information and Liberties think about ethics and some enterprises are taking an edge on the competition by showing a good code of conduct for satisfying their ecosystems.

Large enterprises have a Council of Ethics and Compliance that addresses all of these aspects. To illustrate this, the domains that these councils most particularly deal with are:

– corruption prevention and respecting international laws in the field (FCPA, UK Bribery Act, Sapin II, etc.);
– respect of international embargoes;
– competition law;
– export control;
– European General Data Protection Regulation (GDPR) and respecting good cybersecurity practices;
– intellectual property for business assets as well as the use of outside technology;
– transfer prices;
– labor laws and their adaptations according to local legislation;
– the environment and sustainable development;
– internal control in a global manner.

Failing to comply is a major risk. However, through respecting good codes of conduct, enterprises emphasize their ethics and compliance with laws and regulations across their entire ecosystem and can thus transform constraints into competitive advantages.

1.6. The role of decision-makers in the governance process

Throughout the previous chapter relative to the decision chain, main actors were identified. The objective of this chapter is to question their role with regard to enterprise governance.
1.6.1. Executives: what are they for?

In dealing with this study on enterprise governance, our goal is not to define the level and variety of qualities and competencies that executives who are directly or indirectly involved should have in governance, but to highlight, over the course of this chapter, certain aspects and imperatives of the governance process which are critical to the future of the enterprise. These include:

– the challenges with which the company is constantly confronted;
– the means it has to be provided with in order to face them;
– the strategic choices to be able to face all situations, particularly in a time of crisis;
– the collection of actions and reactions, initiatives and engagements required in order to ensure not only its development but also the transformations and adaptations necessary for its continuity.

These are the various aspects of an enterprise’s life that are addressed in this chapter. They are the base of our research and proposals.

In order to highlight them, we have attempted to create the most exhaustive inventory possible of the responsibilities that governance and its network of decision-makers must assume using:

– operational systems that are constantly upgraded and inspected;
– and indicators originating from these systems, providing indispensable insight into the operations and regulations of various organs within the enterprise, so that nothing serious can disturb or counteract its advances.

Thus, governance and its network of decision-makers, informed by real-time instruments of possible diversions versus the strategic goals, will be able to keep permanent control, which will reinforce the collective engagement of all those who have a stake in the enterprise’s performance.
Therefore, the backbone of this sustainable economy appears to originate from win–win collective projects.

1.6.2. The Executive

In this context, the quality and performance of a leader depend largely on their personality, culture and experience, plus a strong will and a true humanism.

They must have the charisma to become a leader, a boss who inspires confidence.

Taking into consideration the particular business, market and characteristics of the enterprise that they will lead, the executive will acquire the necessary competencies at a different rate depending on their personal adaption qualities. However, this consideration will be a compulsory step in order to take control of the mission and get a good grasp on the means at their disposal to ensure success. The risk associated with taking up these duties is a major element in judging the leader’s aptitude to effectively govern, conscious of the responsibilities that they must assume in order to establish continuity in the business’ life through projects where ethics will challenge collective performance.

Concerning the action an Executive should take:

– they appreciate and develop the value of the tangible and intangible assets entrusted to them by implementing the appropriate processes that they will be able to follow, analyze and even monitor, in order to reach the enterprise’s objectives.

– they have a strong command of consistency in governance processes tied to their activity and underlying operational processes. They have the ability to x-ray and transparently view the business they govern;
– in order to adapt the enterprise, they must quickly understand operational information and process performance indicators, take into account the environment, sometimes including public opinion, and interpret financial data to ensure the business’ continuity.

They identify possible scenarios and various trajectories, they are sensitive to NYIH (“Not Yet Invented Here”) innovation and their behavior is structured around three dimensions:

![Figure 1.11. Dimensions of an Executive Manager](image)

They will apply these qualities to the business’ projects, favoring one or the other according to the situation at hand: strategy definition, market analysis, negotiation, dialog with staff bodies, internal or external communication, etc.

**Executive Committee**

The Executive Committee defines the strategy based on incoming signals (“inputs”) from stakeholders and the environment and takes care that the strategy is permanently adapted according to the
evolution of the environment and the stakeholder inputs regarding how the enterprise is progressing towards achieving its strategic objectives. It takes on the central role in the conduct of the enterprise governance and is responsible for making sure that operations respect the rules of internal control.

Administrators

Administrators participate in defining and validating the strategy and suggestions for evolution. They must consider their knowledge of the environment and the industry, as well as their vision for the future of the business.

Operational managers and process monitoring

Operational managers participate in developing strategic objectives and identifying means to be used for their achievement. In order to put means together to work towards strategic objectives, the management usually has to make arbitrations, constantly keeping the enterprise’s and other departments’ general interest in mind:

– they achieve strategic objectives through action plans and short- and long-term projects in order to adapt processes according to resources;

– they make processes work efficiently and effectively, with quality and risk control;

– they report on strategic objectives’ achievement, performance in everyday functions and risk management.

The Chief Information Officer (CIO)

Since information systems (IS) are becoming increasingly important for improving the performance of processes that they support, the CIO contributes to translate the strategy in operational terms on the same basis as operational managers.

The CIO helps the operational departments to structure and then realize the “IS component” of the process performance improvement projects.
They participate in strategy development with regard to appropriating means in order to achieve target objectives, notably when the means have strong IS implications.

In certain cases, particularly when IS plays a major role in the operation of the business’ processes, he or she can fuel strategic reflection with contributions regarding the information system such as IS flexibility, security of intangible assets embedded in IS systems and the ability to absorb information systems of other firms with which closer ties are on the agenda.

**Chief Finance Officers and management controllers**

Chief Finance Officers and management controllers give the Executive Committee elements and analysis based on financial data to help in making decisions to monitor the governance process.

They set up measurement instruments that offer objective and professional insight concerning strategic objectives’ achievement, financial and economic performance, and risk management.

They help operational staff in identifying and structuring corrective action plans.

They make sure that operations are carried out with respect for internal control rules.

**Internal auditors and compliance officers**

Internal auditors and compliance officers play a key role in the “monitoring” section of the governance model, notably concerning the following aspects:

– respect for internal control rules in the financial, operational and compliance processes (separation of functions in order to avoid risks of fraud, financial information alteration, communicating confidential information, quality norms violation, etc.);
risk control of the enterprise’s recurring processes (availability, integrity, confidentiality) and of projects (their execution and ability to achieve target objectives);

– respect for regulations.

They report on all these aspects to the Executive Committee and the Board of Directors, and also to the audit committee, of which they are the first information source for evaluating internal control, providing an independent insight that is as objective as possible, which allows the audit committee to:

– define and adapt, if necessary, action plans and ongoing projects;

– get the most out of “project assessments” in order to give future projects a better chance to succeed;

– potentially adapt the strategy if it turns out that the objectives were not or are no longer achievable for some reason or another, internal or external.

Statutory auditors

Although they are not part of the business’ internal control system, statutory auditors have a role akin to that of internal auditors. While respecting their non-interference obligation, they focus on:

– the quality of financial information;

– internal control and respect for regulations;

– equality among shareholders.

1.7. Case studies: assessing the maturity of the governance process

1.7.1. Gexpertise Group: assessing the maturity of the governance process without CSR

The Gexpertise Group agreed to test the questionnaire by evaluating its maturity in terms of sustainable development. The
The following rubric concerning the governance process is provided to illustrate the method.

The test was conducted by the authors, in the form of discussions with representatives from the company, whom we thank sincerely. The maturity evaluations obtained this way correspond to perceptions, which would obviously need to be supported by precise audits for their confirmation.

The Gexpertsie Group is a true crossroad of skills, concentrating the expertise of 220 employees dedicated to geotechnical engineering, topographical and property engineering, construction engineering and real estate data engineering, accompanying its clients through the entire lifespan of a building.

Gexpertsie has management approaches aligned with the good practices described in the Académie’s guide for global performance, since they take into account technological, digital and sociological evolutions of the economic environment in which the enterprise is evolving.

As for the strategic side, Gexpertsie has a clear vision in the medium or long term, namely developing an engineering department of real estate data. It aims to develop abroad in order to accompany its clients wherever they may operate.

In order to maintain these strategic orientations, Gexpertsie relies on stakeholders that do not focus solely on short-term profitability. The right balance must be found between short-term management and the necessary resources to be implemented for the medium-term strategy.

The diversity of points addressed shows not only a good level of control, but also that many points still have to be explored in order to progress in terms of sustainable development, notably in a professional context that is in the middle of evolving.
<table>
<thead>
<tr>
<th>Gexpertise: Overview of the governance process (without CSR)</th>
<th>Non-existent</th>
<th>Discovering</th>
<th>Deploying</th>
<th>Under control</th>
<th>Optimized</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>The role of committees in charge of making strategic decisions (Board of Directors, Supervisory Board, management committee) has been defined.</td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
<td></td>
<td>The organs of governance are defined: COPROD, Executive Management Committee (by sector) and COMEX. From 2016–17 strategic seminars were held so that members of these committees shared the same strategic vision. These seminars resulted in the strategy’s formalization so that it can be transmitted and shared.</td>
</tr>
<tr>
<td>The business has defined objectives in its strategy, taking stakeholder expectations and its ecosystem into account.</td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
<td></td>
<td>Gexpertise has adopted a mid- to long-term vision of becoming a “real estate engineering firm” without losing its base of traditional activities. In order to do this and define its strategy, Gexpertise has taken stakeholders’ expectations into account, who are: employees, customers, the Land Surveyors Association, unions, suppliers/sub-contractors, the town and their elected officials, colleagues and the State.</td>
</tr>
<tr>
<td>Strategic objectives are translated at the macro-process level (operating process, offer creation process, process of accounting for customer expectations/dis satisfactions) and action plans for achieving them show a clear designation of managers as well as other available means and meeting deadlines.</td>
<td></td>
<td></td>
<td>✓</td>
<td></td>
<td></td>
<td>Defining and sharing the strategy has produced the business “inclusive growth” project which relies on the company’s values (which makes sense for internal teams and the firm at the same time) in order to set rules of conduct for all teams, particularly sales teams.</td>
</tr>
<tr>
<td>Project completion is measured regularly with activity and result indicators; corrective action plans are implemented in the case of slippages.</td>
<td></td>
<td></td>
<td>✓</td>
<td></td>
<td></td>
<td>Administrative management has been developed for the execution of new monitoring tools with the aim of reinforcing an approach for global and sustainable performance.</td>
</tr>
</tbody>
</table>
The business carries out systematic and formalized reflections on the competencies and technology that it must develop internally or externally in order to differentiate itself from the competition. Notably the role of the “innovation pole”. Monitoring digital technology leads to concrete projects that differentiate themselves from the competition, such as the ADDEL project (Assistance à la diffusion de documents en ligne) or even the HappyHand project (identifying areas not accessible for wheelchairs).

Current transformation projects are monitored by audits adapted for their purposes. As part of the ISO approach, audits are realized with the help of external inspection. This approach predicts didactic training coupled with exercises and continuous assessment.

Legal constraints or professional norms are closely monitored. The Association of Land Surveyors regularly inspects internal processes, which can sometimes translate to restraints for growth. In terms of conflict of interest management for example, France has a very restrictive vision based on a set of prohibitions, whereas English-speaking countries have a much more versatile approach based on “transparency”.

Risk mapping has been done to guarantee good operational functioning and trustworthy financial information. As for or operational processes, an ISO approach is in place to guarantee functioning and quality.

The business regularly audits the controls in place (both manual and automatic) to protect against the risk of fraud.

The business has established monitoring for its governance process. A project has been launched to define indicators that are directly operational for the organs of enterprise governance.

<table>
<thead>
<tr>
<th>The Governance Process</th>
<th>Table 1.4. Gexpertise: overview of governance process maturity. Summary of results of the detailed evaluation grid from the guide “Performance durable de l'entreprise : quels indicateurs pour une évaluation globale ?”¹</th>
</tr>
</thead>
<tbody>
<tr>
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</tbody>
</table>

¹ “Sustainable business performance: what are the indicators for a global evaluation?” Available at: http://lacademie.info/content/download/9355/146165/version/1/file/Cahier_Academie_33.pdf.
1.7.2. L’Oréal: assessing the maturity of the governance process with CSR

The L’Oréal Group agreed to test the questionnaire by evaluating its maturity in terms of sustainable development. The following rubric concerning the governance process is provided to illustrate the method.

The test was conducted by the authors in the form of discussions with representatives from the Group, whom we thank sincerely. The maturity evaluations obtained in this way correspond to perceptions, which would obviously need to be supported by precise audits for their confirmation.

The L’Oréal Group, a world leader in cosmetic products with an impressive portfolio of brands such as L’Oréal Paris, Lancôme, Vichy, Yves Saint Laurent, Kérastase, etc., has been engaged in sustainable development for more than 25 years, beyond its solid economic performance in the long term.

Sustainable innovation relies on several levers for action: reduction of the environmental footprint of formulas, respect for biodiversity via sustainable and responsible supply politics for raw materials, ecodesign of packing, etc.

Industrial performance integrates objectives for sustainable production: reducing CO₂ emissions, water consumption and waste generation, as well as diminishing impacts related to transportation. L’Oréal set the goal of reducing 60% of the environmental footprint of their factories and distribution plants by 2020 compared to 2005.

The goal is to progress towards “dry factories”. In 2017, the factories and plants reduced their water consumption by 48% compared to 2005.
<table>
<thead>
<tr>
<th>L’Oréal Overview of the governance process (with CSR)</th>
<th>Non-existent</th>
<th>Discovering</th>
<th>Deploying</th>
<th>Under control</th>
<th>Optimized</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>The executives have defined values in line with the principles of sustainable development and regularly follow the indicators (environmental, social, economic) for monitoring the entity’s activities.</td>
<td>×</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>The L’Oréal Group’s engagements and actions in terms of sustainable development are formalized and structured on a strategic level as part of the Sharing Beauty With All project, which is based on four pillars: innovate, produce, consume sustainably and share growth.</td>
</tr>
<tr>
<td>The business has identified risks associated with human rights violations in its value chain (e.g. suppliers, lenders, sub-contractors) and the territories in which it operates.</td>
<td>×</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>L’Oréal’s goal is to allow its employees, wherever they are in the world, access to health coverage and financial protection and education/training, all as part of a workplace with an improved environmental and social impact. L’Oréal considers its suppliers’ activity as part of its greater environmental and social footprint.</td>
</tr>
<tr>
<td>Employer–employee relations are balanced, based on respect for each other’s rights and duties. They make an effort to limit insecurity.</td>
<td>×</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Appropriate education and training assure personal development for all employees and adapted communication allows L’Oréal to share results and advancements in social matters.</td>
</tr>
<tr>
<td>The business has identified different types of pollution caused by its activities, products and services, as well as resources that it consumes. It takes necessary measures to prevent or reduce them.</td>
<td>×</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>All advancements in terms of sustainable development are quantified and measured. For example, for product improvement, more than 80% of products launched in 2016 have an improved environmental or social profile. Every time a new product is created or updated, its contribution to sustainable development is taken into account beyond its performance or profitability.</td>
</tr>
</tbody>
</table>
All along its value chain, the business promotes principles and practices of societal responsibility, fighting against corruption and avoiding conflicts of interest.

<table>
<thead>
<tr>
<th>An ethics chart from L’Oréal is available in 45 languages. It covers, among others, the fight against corruption and insists on the engagement of each and every employee in order to guarantee the quality and safety of all products offered to consumers.</th>
</tr>
</thead>
<tbody>
<tr>
<td>×</td>
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</table>

Commercial practices are loyal, and contracts and information provided to consumers or users are clear and encourage sustainable consumption.

<table>
<thead>
<tr>
<th>L’Oréal encourages its consumers to make sustainable choices by communicating the environmental and social profile of its products and by deploying plans for continuous improvement among its brands.</th>
</tr>
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<tbody>
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<td>×</td>
</tr>
</tbody>
</table>

The entity takes into account specific local contexts. It participates in the life of the territories in which it operates, seeks to develop jobs and takes care of the health of the local inhabitants.

<table>
<thead>
<tr>
<th>L’Oréal is also launching sharing programs to give more than 100,000 people in struggling communities access to a job by 2020, nearly as many jobs as internal personnel within the group. These programs involve solidarity purchases, professional education and training, and the inclusion of people with disabilities. In 2016, more than 67,000 people in the world gained access to a job in this way. The program engages regional managers, brand managers, all departments such as procurement and human resources, all within a dynamic of overall and sustainable performance.</th>
</tr>
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</tr>
</tbody>
</table>

### Table 1.5. L’Oréal Group: overview of maturity of governance processes and CSR practices. Summary of results of the detailed evaluation grid from the guide “Performance durable de l’entreprise : quels indicateurs pour une évaluation globale ?”

2 “Sustainable business performance: what are the indicators for a global evaluation?” Available at: http://lacademie.info/content/download/9355/146165/version/1/file/Cahier_Academie_33.pdf.
Sustainable development benefits from strong support from employees. These dimensions are also accounted for by financial analysts that follow the Group’s activity. They notably appreciate economic efficiency, valorization and ROI calculations in this domain.

Reports on performance in terms of sustainable development are developed by external stakeholders. In 2016 and 2017, the Carbon Disclosure Project (CDP) distinguished L’Oréal for its leadership in environmental matters, with a triple A for its fight against climate change, water management and fight against deforestation.

L’Oréal would like to offer consumers responsible consumption choices, which means giving them information about the environmental and social impact of the products and heightening awareness of the environment in which they live.

L’Oréal set ambitious and quantified goals in all CSR domains and produces a measurement report each year for achieving these goals.