CONSOB
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METHODOS
THE CHANGE MANAGEMENT COMPANY

In collaboration with Nedcommunity

Report on non-financial reporting of Italian companies

Non-financial information as a driver of transformation

2018

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Sintesi del lavoro

La direttiva 2014/95/UE, recepita in Italia con il d.lgs. 254/2016, sta contribuendo a una trasformazione culturale dei modelli di *corporate governance*. La rendicontazione delle informazioni non finanziarie può infatti dare impulso a un'integrazione dei fattori ESG (*enviromental, social and governance*) in molte diverse aree dell'attività aziendale, i cui effetti possono riguardare la missione, l'attivazione di comportamenti e progetti traversali e di lungo periodo, la progressiva considerazione delle connessioni tra elementi finanziari e non finanziari negli strumenti di rendicontazione, il coinvolgimento di *stakeholder* interni ed esterni nell'analisi di materialità, l'inclusione dei rischi non finanziari nell'analisi dei rischi.

In questa prospettiva, il presente documento esamina l'impatto dell'entrata in vigore della direttiva sotto due distinti profili. Il primo riguarda le modalità attraverso cui le società italiane con azioni ordinarie quotate sull'MTA hanno dato attuazione alle nuove disposizioni, alla luce dei documenti pubblicati come dichiarazione non finanziaria (DNF), ulteriori eventuali documenti pubblicati in materia di sostenibilità e le analisi di materialità predisposte. Il secondo profilo attiene al coinvolgimento degli organi di amministrazione nelle tematiche ESG, così come emerge sia da un'analisi documentale sia da una Survey rivolta agli amministratori indipendenti membri di Nedcommunity.

Nel corso del 2018, 151 società con azioni ordinarie quotate hanno pubblicato una DNF, inclusi due emittenti che avrebbero potuto non pubblicarla in quanto controllati da una società madre soggetta agli obblighi di legge. Sette società hanno pubblicato un Report Integrato, presentando le informazioni non finanziarie richieste dalla disciplina insieme alle informazioni finanziarie. Inoltre, alcune società hanno diffuso, oltre alla DNF, anche il Report di sostenibilità (cinque casi) o il Report Integrato (un caso).

Quasi tutte le società (tranne due) hanno realizzato l'analisi di materialità, coinvolgendo frequentemente nel processo di identificazione dei temi rilevanti gli *stakeholders* interni (129 emittenti dichiarano di aver coinvolto gli organi interni e 47 i *top managers*) e più raramente gli *stakeholders* esterni (44 casi). Nessuna impresa ha menzionato l'analisi di materialità nel piano strategico, laddove pubblicato. Tuttavia, nel campione del Ftse Mib, 12 imprese hanno integrato nei piani strategici tematiche di lungo periodo e il relativo impatto sulla creazione di valore, mentre cinque hanno integrato i propri impatti sugli Obiettivi di Sviluppo Sostenibile (SDG's dell'ONU) rilevanti.

Con riguardo alle risultanze dell'analisi documentale relativa al coinvolgimento del *board*, le tematiche non finanziarie sono richiamate in 13 casi su 151 nell'ambito della *board evaluation* e in 11 linee guida rilasciate dal consiglio uscente su un totale pari a 52. Inoltre, 32 imprese hanno organizzato programmi di *induction* a favore dei consiglieri su temi non finanziari. Infine, 45 imprese hanno istituito il comitato di sostenibilità, assegnandone le funzioni ad altri comitati in 38 casi.

La Survey, rivolta ai membri di Nedcommunity (in prevalenza amministratori indipendenti), mostra che vi è una forte consapevolezza da parte del *board* della rilevanza delle tematiche non finanziarie e dell'impatto dirompente che possono avere sulla *governance*, sui modelli di business e sulle strategie adottate dalle società. Tuttavia, l'effettivo *engagement* e coinvolgimento dei consiglieri nelle attività cruciali per la realizzazione di tale cambiamento sono limitati.

In conclusione, dall'analisi emerge che la maggior parte delle imprese ha operato in un'ottica di *compliance*, mentre pochi emittenti, prevalentemente di maggiori dimensioni, hanno colto l'occasione offerta dalla direttiva per avviare un processo di trasformazione in grado di coinvolgere modelli di business, *governance* e strategie. Tale evidenza tuttavia non sorprende, visto che si riferisce al primo anno di applicazione della nuova disciplina sulle informazioni non finanziarie.

Abstract

The EU Directive on disclosure of non-financial and diversity information (2014/95/EU), transposed in Italy by the Legislative Decree no. 254 of December 30, 2016, in force since January 25, 2017, is contributing to a cultural transformation of corporate governance models. By triggering a growing consideration of all stakeholders' needs, this transformation may influence the processes at the board level, the behavior of board members as well as companies' culture, strategy and business models.

The 2017 CONSOB Report on Corporate Governance of Italian listed companies provided a first review of governance behavior of Ftse Mib companies on the verge of the 2014/95/EU Directive, focusing on the inclusion of non-financial matters in reporting and at the board level.

This Report extends the previous analysis by including all Italian firms with ordinary shares listed on the MTA at the end of 2017 and delving deeper along three dimensions. First, it reviews how Italian listed firms have implemented the Directive 2014/95/UE by referring to the publication of a non-financial statement (NFS), whether they have realized the materiality analysis and whether they have applied a process including both an internal and an external assessment. Second, the Report explores whether companies consider non-financial issues relevant also at the board level, by referring to the guidelines issued by companies prior to the 2018 board appointment, the board evaluation process and the board induction programs organised in 2018. Finally, the findings of a Survey involving the members of the Italian community of non-executive and independent directors (Nedcommunity) are presented. The documental analysis aimed to ascertain whether non-financial topics are deemed important also for the selection of the board members', while the Survey focused on the independent directors' engagement in the board activity concerning the governance of non-financial issues and the compliance with the Decree 254/2016.[1]

The goal of the analysis is to detect whether, beyond compliance, companies reporting on environmental, social and governance (ESG) are also undergoing a strategy and business model transformation. Integration of ESG factors into many different areas of company's organization and processes may in fact trigger a cultural transformation of governance models: from the company's purpose to the activation of cross-functional and forward thinking behaviors and projects; the progressive consideration of ESG into monitoring and reporting tools; the engagement with internal and external stakeholders and their contribution in defining the relevance of non-financial issues in the materiality analysis; the inclusion in the risk governance of non-financial risk management.

The chart below summarizes and classifies the findings of the analysis by identifying three progressive steps marking the transformation process: awareness, capabilities, engagement.[2] The evidence gathered in this Report shows that while a few large companies are now starting to integrate ESG into governance, the majority of firms (predominantly small ones) are still focused on compliance.

1 This Report refers to the third wave of the Survey run on an annual basis by Nedcommunity (the Italian community of non-executive and independent directors) and Methodos (the Change Management Company) on the 550 members of Nedcommunity (May 2018).

2 Depending on the behaviors observed, companies can be positioned at different levels of the cultural transformation of governance. In addition, as it happens in complex transformations, some companies could at the same time show behaviors, of the boards or of the organization itself, connected to different steps of what can be named a Transformation Journey.

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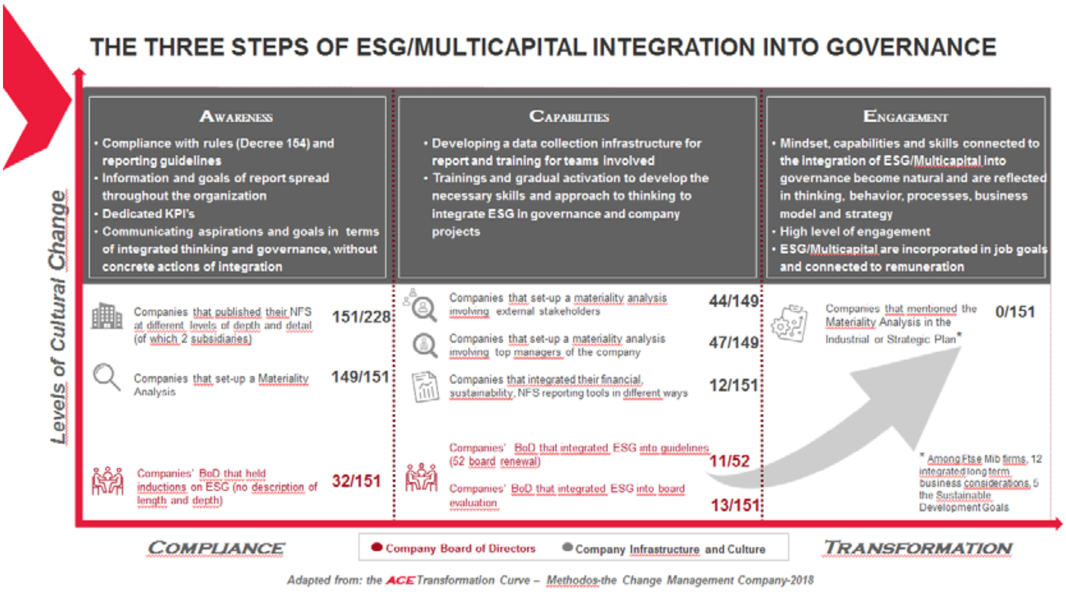
The three steps of transformation to integrate ESG/Multicapital in company governance



Non-financial reporting

According to the Legislative Decree no. 254 of December 30, 2016, large public interest entities[3] shall draw up, for each financial year, a statement aimed at providing the public with a correct information on the business activity, its performance, its results and its impact on energy, environmental, social and employment aspects, as well as on those regarding human rights and anti-corruption both active and passive. Firms other than large public interest entities are excluded. In addition, firms included in the non-financial statement prepared by their parent company can be exempted. However, exempted firms can anyway publish an individual non-financial statement.

According to these criteria, at the end of 2017, 149 out of the 228 Italian firms with ordinary shares listed on the main market fell within the scope of the Law 70 were exempted due to their size and nine subsidiaries could opt for publishing an individual statement. Considering that two controlled firms decided to publish an individual statement, in 2018 the NFS was released by 151 issuers. 83 of them had already voluntarily published a report on non-financial information in 2017 (Fig. 1.1).

The 151 firms publishing the NFS in 2018 have followed different approaches. Only a few companies have tried to integrate financial and non-financial information either in a single document or in multiple, partially overlapping documents. In particular, 139 companies have only published the information required by the Decree, either in a stand-alone document (called Sustainability Report in 53 cases) or into the management report; six firms have published an Integrated Report (IR), embedding the NFS; two issuers have published both an Integrated Report and a separate Sustainability Report (SR); one firm has released an Integrated Report and a Sustainability Report as a NFS; three companies have circulated both a NFS and a Sustainability Report (Fig. 1.2).

Materiality analysis allows companies to obtain a clear view of the areas that matter most to both them and their stakeholders, and to prioritize and take the right actions to improve their performance in those areas. The process of labelling material topics requires a comprehensive framework that allows systematic identification and prioritization of issues, risks and opportunities. To this respect, there are two main frameworks of reference. The first one is developed by the Global Reporting Initiative (GRI) in its G4 Reporting Principles and Standard Disclosures, according to which material aspects are identified by analysing their relevance to both the firm and its stakeholders, such as customers, employees, NGO's and suppliers. The final output can be the materiality matrix, which ranks each matter under consideration both by the importance to the organization itself and by the relevance to the organization's stakeholders. The alternative approach comes from the Integrated Reporting (IR) guiding principles and framework, which selects material aspects by taking into account their capacity to create value over time. Matters related to value creation, strategy, governance, performance or prospects are considered relevant. The point of view of key stakeholders (providers of financial capital, in particular) is critical. Among the 151 firms considered, all companies but two performed the materiality analysis. In 39 cases, the materiality matrix is not provided and material issues are mainly described in a table. It is worthy to notice that 73% of the Ftse Mib firms had already realized the materiality analysis in 2017 on a voluntary basis (Fig. 1.3).

3 The public interest entities involved are those which have, on an individual or consolidated basis, during the financial year, an average number of employees greater than 500 and which, at the end of the financial year, have exceeded (with respect to individual or consolidated data) at least one of the following limits: (a) 20 billion of euros of total net asset value and (b) 40 billions of euros of total net income from sales and services.

In line with the best practices outlined above, the materiality analysis should be based on both an internal (i.e., from the firm's perspective) and an external (i.e., from the stakeholders' perspective) evaluation. 129 firms involved internal bodies and 47 involved the top management in the identification of the material issues. However, only 113 companies highlight the instruments used, mainly interviews, questionnaires and workshops. In addition, several firms declare to have established working groups including different functions in order to assess the relevance of the topics. As for the stakeholders involvement, 44 issuers declare to have carried out an external assessment, with 39 of them also explaining the practice followed (workshop, interviews, questionnaires, multi-stakeholders forum). Many companies evaluate the stakeholders' point of view indirectly, from the managers perspective (Fig. 1.4).

To the purpose of this Report, best practices in the materiality analysis have been defined on the basis of both the involvement of internal and external stakeholders and the disclosure of the instruments used for their engagement. In detail, companies were classified according to whether they had performed the following actions: involvement of the internal bodies and/or the top managers and description of the instruments used on one side, and involvement of stakeholders and description of the instruments used on the other side. Overall, 29 firms, representing 19% of the total, performed both actions. Best practices in the materiality analysis are more frequent among largest companies (involving 53% of Ftse Mib, versus 19% of Mid Cap, 10% of the Star and 3% of small firms) and service firms (32%, followed by 20% in the financial sector and 15% in the industrial sector; Fig. 1.5).

Finally, no firm has mentioned the materiality analysis in the strategic plan. Among Ftse Mib firms, 12 companies integrated long-term business issues and their impact on value creation in their strategic plans, whereas 5 have integrated relevant Sustainable Development Goals.

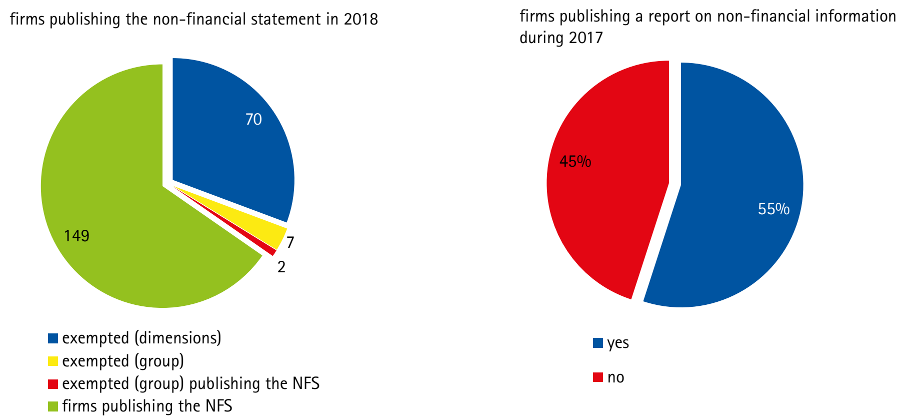
Abstract

1. Non-financial reporting

2. Non-financial at the board

In 2018, 149 companies have published the Non-Financial Statement (NFS), pursuant to the regulatory requirements envisaged by the Legislative Decree 254/2016 (Decree, henceforth). In addition, two subsidiaries published the NFS. 83 out of the 151 companies publishing the NFS (55% of the total) had voluntary released a report on non-financial information also in 2017.

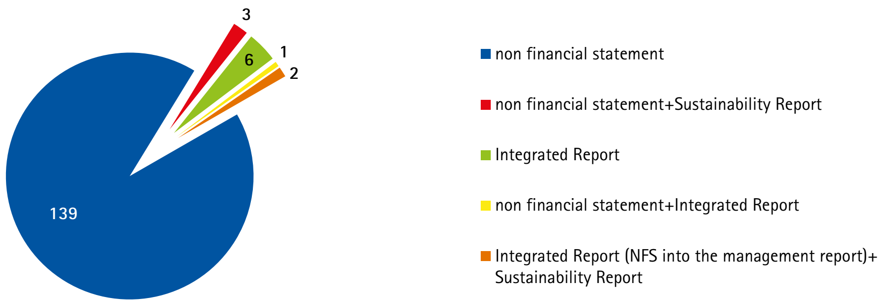
Fig. 1.1 – Italian listed companies publishing non-financial information



Source: Consob. The analysis refers to all Italian companies with ordinary shares listed on the MTA at the end of 2017, apart from two firms that have been delisted during 2018 and one firm that by the end of 2018 had not held the annual general meeting yet. 70 out of 228 listed firms are exempted from the non-financial disclosure obligation because they do not meet the dimensional criteria. Nine firms can be exempted because their parent company is subject to the non-financial disclosure obligation.

In 139 cases the NFS was the only document published. A few firms have released additional documents on non-financial issues, such as the Sustainability Report and the Integrated Report. In six cases the Integrated Report includes the NFS.

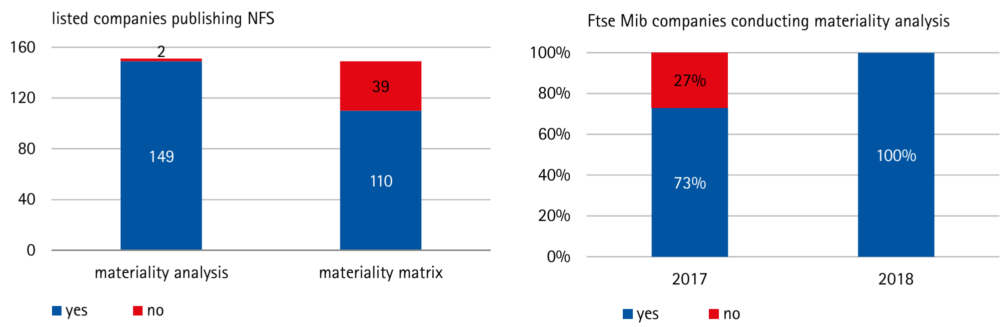
Fig. 1.2 – Reports on non-financial information published by Italian listed companies subject to the Decree in 2018



Source: Consob.

All companies but two realized the materiality analysis. In 39 cases material issues are mainly described in a table rather than in the materiality matrix (which is not provided). It is worthy to notice that 73% of the Ftse Mib firms had already conducted the materiality analysis in 2017.

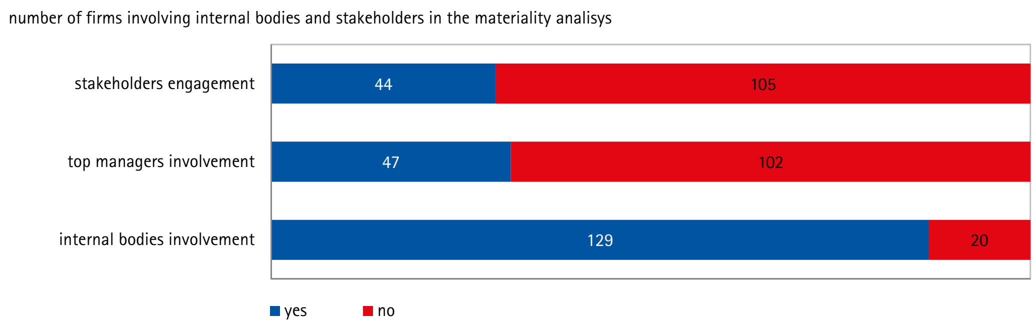
Fig. 1.3 – Materiality analysis by Italian listed companies



Source: Consob. The figure on the left-hand side refers to the Italian listed companies that have published a NFS in 2018. The figure on the right-hand side refers to the Italian listed companies included in the Ftse Mib in 2017 and 2018.

The materiality analysis involved internal bodies in 129 cases and the top management in 47 cases. 44 firms declare to have also carried out an external assessment.

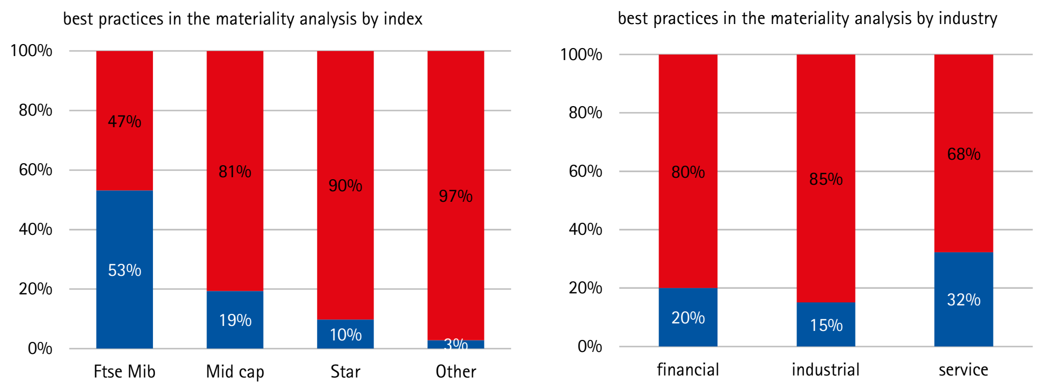
Fig. 1.4 – Internal bodies and stakeholders involvement in the materiality analysis



Source: Consob. Data on Italian listed companies that have conducted the materiality analysis in 2018.

29 firms, representing 19% of the total, carried out the materiality analysis by meeting both the following best practices: *i)* involvement of the internal bodies and/or the top managers and description of the instruments used; *ii)* involvement of the stakeholders and description of the instruments used. These practices are more frequent among the largest companies and service firms.

Fig. 1.5 – Best practices in the materiality analysis by industry and index



Source: Consob. Data on Italian listed companies that have conducted the materiality analysis in 2018. Best practices refer to the case when the materiality analysis has been carried out by: i) involving the internal bodies and/or the top managers and describing the instruments used, and ii) involving stakeholders and describing the instruments used.

Non-financial at the board

Documental analysis

Documental analysis

The relevance of non-financial issues at the board level was investigated through the analysis of the 2018 Corporate Governance Reports, providing a description of the board evaluation eventually performed[4] and of the induction programs organized during the year[5], and of the guidelines[6] issued in 2018 by the board in charge in the occasion of directors' appointment. Based on the information provided by these documents, the analysis focused on the consideration of ESG factors in the evaluation process, in the induction sessions organized by the firms for their corporate boards, and in the board guidelines. In addition, the establishment of the sustainability committee is also recorded.

The board self-assessment refers to non-financial issues in 13 cases out of 151. References to ESG into the guidelines issued by companies prior to the 2018 board appointment are present in 11 cases out of 52. Finally, 32 firms have organized training programmes for corporate boards on non-financial topics during the year. However, corporate documents usually do not provide information neither on the length nor on the depth of the induction programmes developed (Fig. 2.1).

As for the issues covered by the guidelines, the board evaluation and the inductions, digital innovation is the most cited (27 quotes), followed by the topic of sustainability (24 quotes). Human capital is mentioned four times during the board self-evaluation process and is the topic of two inductions. Finally, 16 inductions aim to provide directors with information on the content and effects of the new Directive on non-financial information (Fig. 2.2).

Among the listed companies publishing a Corporate Governance Report in 2018 (225 cases), 45 firms have established a board sustainability committee, which in the majority of the cases (38 firms) is combined with one or more other committees (predominantly with the internal control and risk management committee; 29 firms).

Among the firms publishing a NFS in 2018, the sustainability committee is more frequent in Ftse Mib companies (23 out of 32), followed by Mid Cap (11 out of 32) and Star issuers (6 out of 51; Fig. 2.2).

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4 According to the Corporate Governance Code (article 1, criterion 1.c.1 let. g)) '*the board of directors shall perform at least annually an evaluation of their performance, as well as their size and composition, taking into account the professional competence, experience, (including managerial experience) gender of its members and number of years as director*'.

5 The art. 2, criterion 2.c.2 of the Corporate Governance Code states that '*The chairman of the board of directors shall use his best efforts to allow the directors and the statutory auditors, after the election and during their mandate, to participate, in the ways deemed appropriate, in initiatives aimed at providing them with an adequate knowledge of the business sector where the issuer operates, of the corporate dynamics and the relevant evolutions, of the principles of proper risk-management as well as the relevant regulatory and self-regulatory framework*'.

6 According to article 1 criterion 1.c.1 h) of the Corporate Governance Code, the board of directors, '*taking into account the outcome of the evaluation (...), report its view to shareholders on the managerial and professional profiles, deemed appropriate for the composition of the board of directors, prior to its nomination*'.

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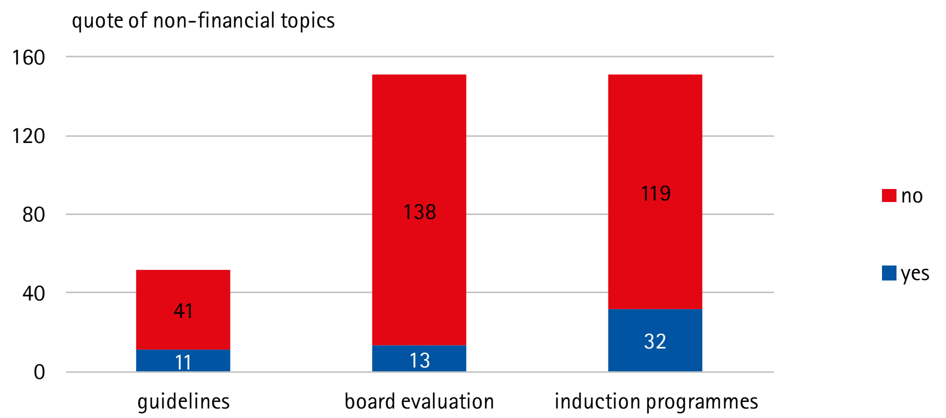
2. Non-financial at the board

The relevance acknowledged to non-financial issues at the board level was assessed with respect to: the guidelines issued by companies prior to the 2018 board appointment, where they are mentioned in 11 cases out of 52; the board evaluation, where they are referred to in 13 cases out of 151 cases; the board induction programs, that concerned non-financial topics in 32 firms.

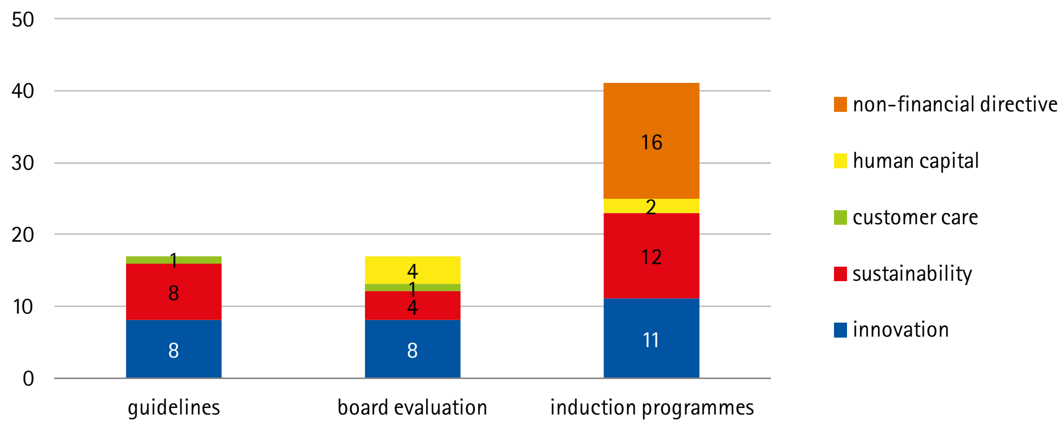
Fig. 2.1 – Non-financial matters at the board



Source: Consob. The documents analyzed include the guidelines issued by the board in charge in the occasion of directors' appointment in 2018 and the 2018 Corporate Governance Reports, where firms provide a description of the board evaluation eventually performed and of the induction programs organized during the year.

The topic of digital innovation is the most cited one (27 quotes), followed by the more general theme of the sustainability (24 quotes).

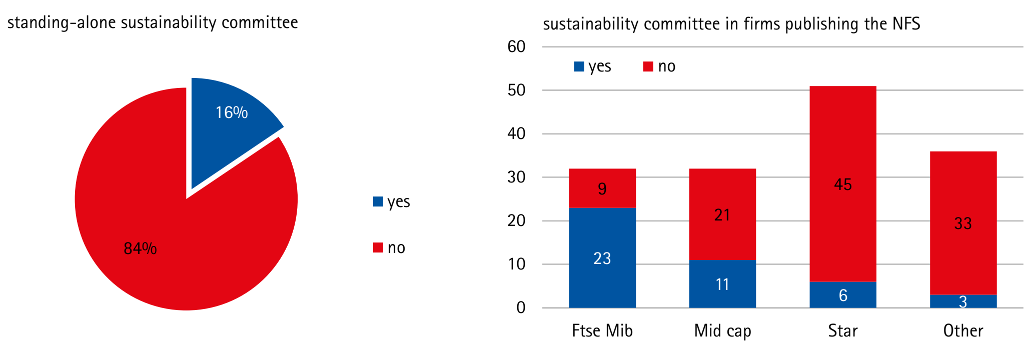
Fig. 2.2 – Key words cited in the board of directors' guidelines



Source: Consob. The documents analyzed are the guidelines issued by the board in charge in occasion of directors' appointment in 2018 and the 2018 Corporate Governance Reports, where firms provide a description of the board evaluation eventually performed and of the induction programs organized during the year.

Among listed companies, 45 firms have established a sustainability committee, which in the majority of the cases is combined with other board committees (38 firms, representing 84% of the total). Among the issuers publishing a NFS in 2018, the sustainability committee is more frequent in Ftse Mib companies (23 out of 32), followed by Mid Cap (11 out of 32) and Star companies (6 out of 51).

Fig. 2.3 – Italian listed companies establishing the sustainability committee



Source: Corporate Governance Reports of Italian companies with ordinary shares listed on Borsa Italiana spa - Mta Stock Exchange, where available (225 firms). The figure about the firms establishing the sustainability committee does not include 6 companies stating that either the committee will be established or is not within the board. In addition, the figure includes 38 companies that have combined the sustainability committee with one or more other committees (the most frequent combination is between the sustainability committee and the internal control and risk management committee, occurring in 29 cases).

Survey 'Board leadership and sustainability: the view of non-executive directors'

Non-executive directors may play a major role in prompting the consideration of non-financial issues at the board level. This section presents the evidence gathered through a Survey involving the members of Nedcommunity, the Italian association of non-executive and independent directors. Nedcommunity counts 550 associates, including both directors and members of boards of statutory auditors (about 66%), and experts in corporate governance. The Survey was carried out through a questionnaire aimed at ascertaining the awareness and engagement of respondents in the design of long-term company growth strategies incorporating also non-financial factors. The questionnaire is composed of 21 questions grouped into the following areas: awareness of the changes that the introduction of the NFS is triggering in the role and responsibilities of the boards of directors (BoDs) and of Non-Executive Directors (NED); engagement of the board in the implementation of the Legislative Decree no. 254 of December 30, 2016; personal attitudes of board members towards ESG issues; interest of board members in the different ESG forms of capitals/value; composition and organization of the BoDs regarding ESG issues, including a specific focus on NED's.

Overall, 69 members responded to the Survey (59% independent directors, 75% board members, 12% statutory auditors and 10% chairpersons of the board), representing listed companies in 84% of the cases and non-financial firms in 71% of the cases. The response rate, equal to 10% of the members surveyed, although statistically relevant for such an in-depth questionnaire, highlights that there is room for an increase in the attention that NEDs and other board members put on ESG issues in the definition of long-term growth strategies.

Almost all respondents are aware that BoDs should play an active role in overseeing the implementation of Legislative Decree 254/16 (Fig. 2.4). Even if the majority of respondents agree on the need to rethink the business model to include a long-term scope, 56.5% of them do not see it as a priority (Fig. 2.5). Most respondents believe that the role of BoDs in the design of long-term growth strategies of the company and the reporting of non-financial information should change and be enhanced (Fig. 2.6). Board diversity in term of professional background and competencies is considered consistent by most of respondents. Nevertheless, almost half of the interviewees cannot clearly state if their own BoDs is suitable to manage all forms of value creations, thus outlining the need to increase their awareness of the issue (Fig. 2.7). The forms of value creation considered are: profit and losses; assets; reputation and stakeholder trust; environmental impacts; innovation; people engagement and capabilities. 84% of respondents (representing non-financial companies in 62% of the cases and listed companies in 75% of the cases) also think that independent directors more than other members should direct and monitor strategic decisions in order to promote long-term growth; however they also believe that they are not proactive on these issues in their daily activity (Fig. 2.8).

The level of engagement of BoDs on the key activities originating from NFS is not yet well developed. In particular, 35% of respondents state that they are not involved in benchmarking analysis on comparable companies or competitors, while 25% declare that they do not participate in the analysis of scenario and mega trends (Fig. 2.9).

Going more in depth, it is interesting to note that independent directors, although being the most aware of the new role and implications of NFS, feel less engaged in the process, even less than other board members and the chairpersons do (Fig. 2.10).

2. Non-financial at the board

Commitment to sustainability issues is strongly linked to behavioral and psychological personal attitudes. Hence, before committing to incorporating ESG into long-term value creation strategies and transparently communicating policies, impacts, results and risks, board members need to be personally sensitive to sustainability issues. They should be committed to sustainability related actions not only professionally, but also in their personal lives, strongly believing that these actions can generate value for both themselves and others. By adapting some measurement scales proposed by the sustainability literature, this Report analyses the personal attitudes of respondents towards environmental, social, employee well-being and innovation issues (the four intangible capitals). The results show that the average respondent has a high commitment to sustainability, especially to innovation, and that members of the Risk Committee (often incorporating sustainability issues) are the most engaged towards social and innovation matters (Fig. 2.11).

A concrete commitment of BoDs towards long-term growth strategies is strongly linked to the belief that ESG forms of values have a positive impact on financial performance. More than 64% of respondents (48% from non-financial companies and 58% from listed companies) agree on the positive effect of ESG oriented strategies on financial performance, while 36% are doubtful (Fig. 2.12). The low perception of the existing relation between non-financial strategies and financial results is also reflected by the fact that only 14% of respondents declare that the remuneration of CEOs and top managers is linked to ESG goals (in half of the cases since 2017; Fig. 2.13).

Respondents think that corporate disclosure has improved following the introduction of Decree 254/16 especially regarding results and risks (Fig. 2.14).

Human and intellectual capitals are considered the most relevant resources within the value creation process. As a whole, all respondents agree that each of the 6 capitals contribute to value creation (with manufactured and natural capital ranked as the least impactful). These results are quite encouraging because they mirror a significant level of awareness of the transformation development (Fig. 2.15). Financial companies show the highest level of attention toward human capital (Fig. 2.16).

Among the key risks, those relating to the quality of products, service, health and safety are still considered to be the most significant. This perception suggests a quite traditional approach to risk management and a significant focus on internal stakeholders (Fig. 2.17).

Amongst the stakeholder engagement tools, those implying a personal interaction with stakeholders are considered the most effective, starting with multi-stakeholder meetings and progressing to company meetings and focus groups (Fig. 2.18).

The extent of the change arising from the ESG guidelines and from the decree 254/16 may also require a revision of the composition, organization and working methods of the board.

About one fourth of the interviewees state that board composition and organization have been modified to accommodate the need of improving the management of ESG factors, whereas 74% of respondents have not observed any changes (Fig. 2.19).

Off-site inductions to elaborate long-term value creation strategies have significantly increased over time (2016/1018). These issues are mostly discussed by committees and progressively more in the occasion of the strategic planning (Fig. 2.20).

The integration of ESG into governance may entail the development of a new model of leadership for the board. Respondents declare that the 'leading' approaches of BoDs in orienting long-term value creation strategies have increased over the last three years. Nevertheless the role of executives remains central, thus suggesting that BoD still has more formal than substantial responsibilities in the development of long-term value creation strategies (Fig. 2.21).

Abstract
1. Non-financial reporting

2. Non-financial at the board

Board members consider to have mainly contributed to: ERM, in depth analysis of non-financial statements before their approval, stakeholder governance and disclosure, and reputational risk management. Other relevant areas in ESG management have rarely been mentioned (Fig. 2.22).

As for the gap between expected and actual role of independent directors in the promotion of the integration of an ESG/multi-capital approach into strategies and governance, 84% of interviewees believe that independent directors should, more than any other, direct and monitor strategic decisions in order to foster long-term growth. However, more than half of the respondents think independent directors actually do not (52%; Fig. 2.22).

In addition, independent directors feel less committed today than they did in 2016: this might mirror the belief that engagement should be a responsibility shared by all board members. Nevertheless, 52% of respondents (twice as much as in 2016) believe that NEDs should proactively commit to the design of long-term value creation strategies.

To sum up, based on the Nedcommunity/Methodos Survey, board members are well aware of the upcoming transformation of the board role in fostering sustainability. However activation and engagement in the implementation of the change are limited.

2. Non-financial at the board

Almost all respondents strongly agree on the active role that the board of directors (BoDs) should play in overseeing the processes required by the compliance with the Legislative Decree 254/16...

Fig. 2.4 – The board of directors should have an active role in the governance of the implementation of the Decree 254/16 on non-financial disclosure (Decree)

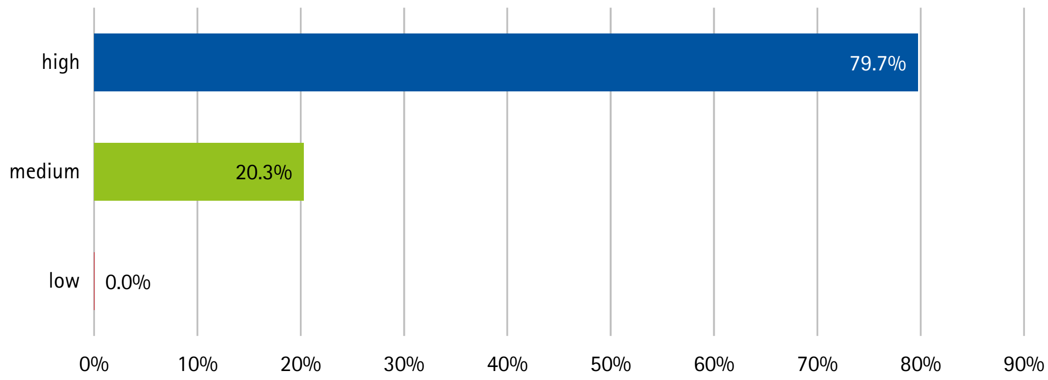


Figure refers to respondents' opinion to the statement reported in the title (scale type: 7-point Likert, from 1 – 'strongly disagree' to 7 – 'strongly agree'). 'High' ranges from 6 to 7, 'Medium' ranges from 3 to 5, 'Low' ranges from 1 to 2.

... while slightly more than one third fully agree that the business model should be rethought in order to include a long-term scope regarding the ESG issues as a priority.

Fig. 2.5 – The business model should be modified following the Decree

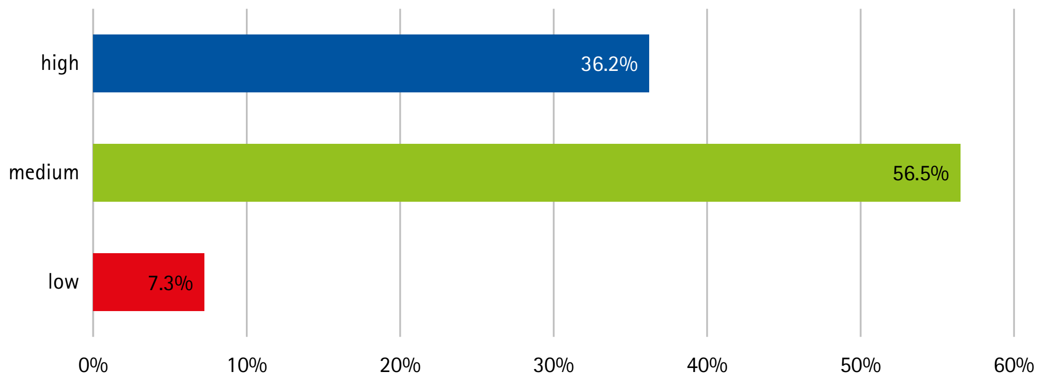


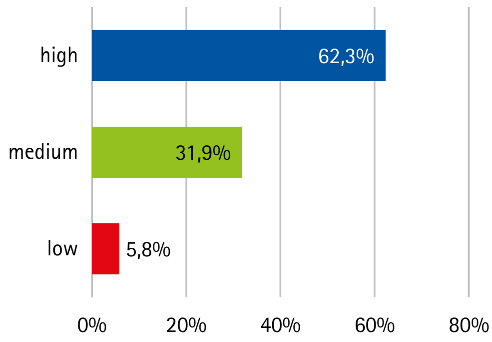
Figure refers to respondents' opinion to the statement reported in the title (scale type: 7-point Likert, from 1 – 'strongly disagree' to 7 – 'strongly agree'). 'High' ranges from 6 to 7, 'Medium' ranges from 3 to 5, 'Low' ranges from 1 to 2.

2. Non-financial at the board

While the majority of the interviewees think that the role of the board of directors should change with respect to the design of long-term growth strategies and the reporting of non-financial information ....

Fig. 2.6 – Changes in the role of the board of directors triggered by the Decree

The role of the BoDs will change with respect to the developments of the company's long-term growth strategies



The role of the BoDs will change with respect to the reporting on non-financials

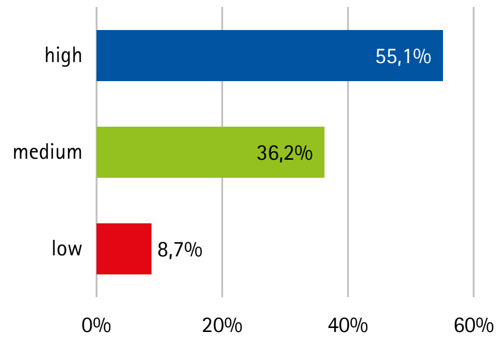


Figure on the left and right hand side refer to respondents' opinion on the statement reported in the title (scale type: 7-point Likert, from 1 – 'strongly disagree' to 7 – 'strongly agree'). 'High' ranges from 6 to 7, 'Medium' ranges from 3 to 5, 'Low' ranges from 1 to 2).

... only 48% of them fully agree that board members have the professional background needed to manage all forms of corporate capitals.

Fig. 2.7 – The professional background and competences of the members of the board of directors are fit to manage the different types of capital

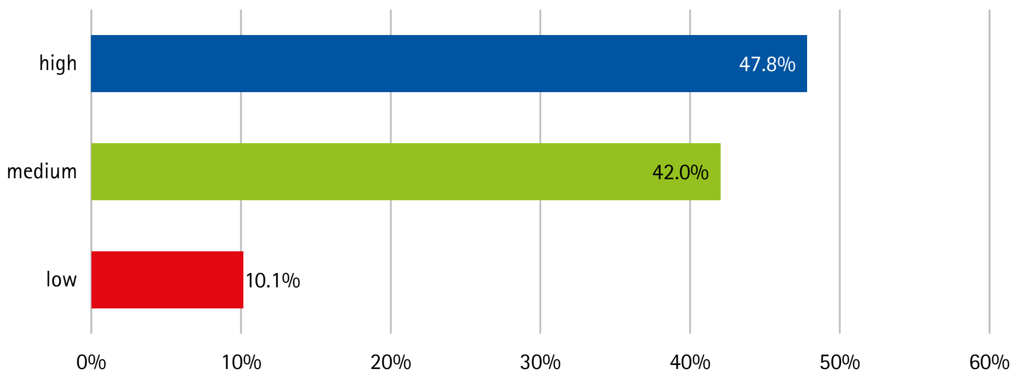


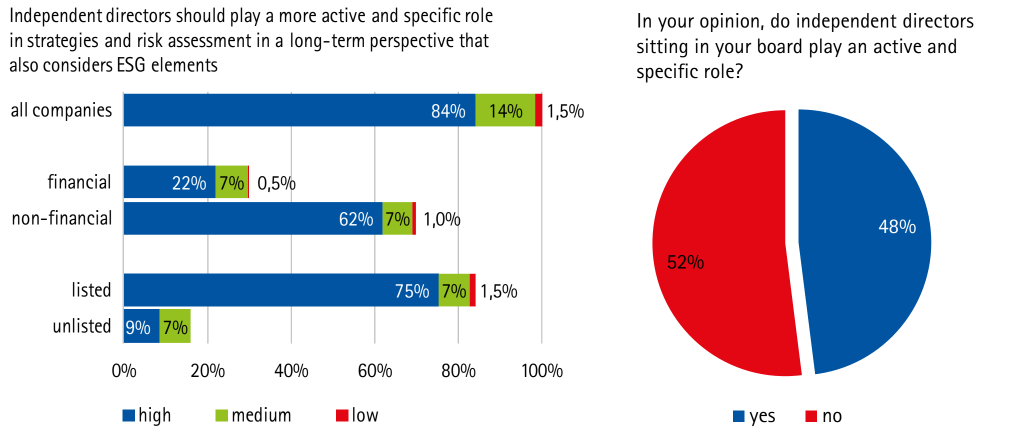
Figure refers to respondents' opinion to the statement reported in the title (scale type: 7-point Likert, from 1 – 'strongly disagree' to 7 – 'strongly agree'). 'High' ranges from 6 to 7, 'Medium' ranges from 3 to 5, 'Low' ranges from 1 to 2).

2018

2. Non-financial at the board

According to 52% of the respondents, independent directors are not currently playing an active role in the integration of ESG factors into long-term growth strategies, although they should do more than any stakeholder/actor (84% of interviewees).

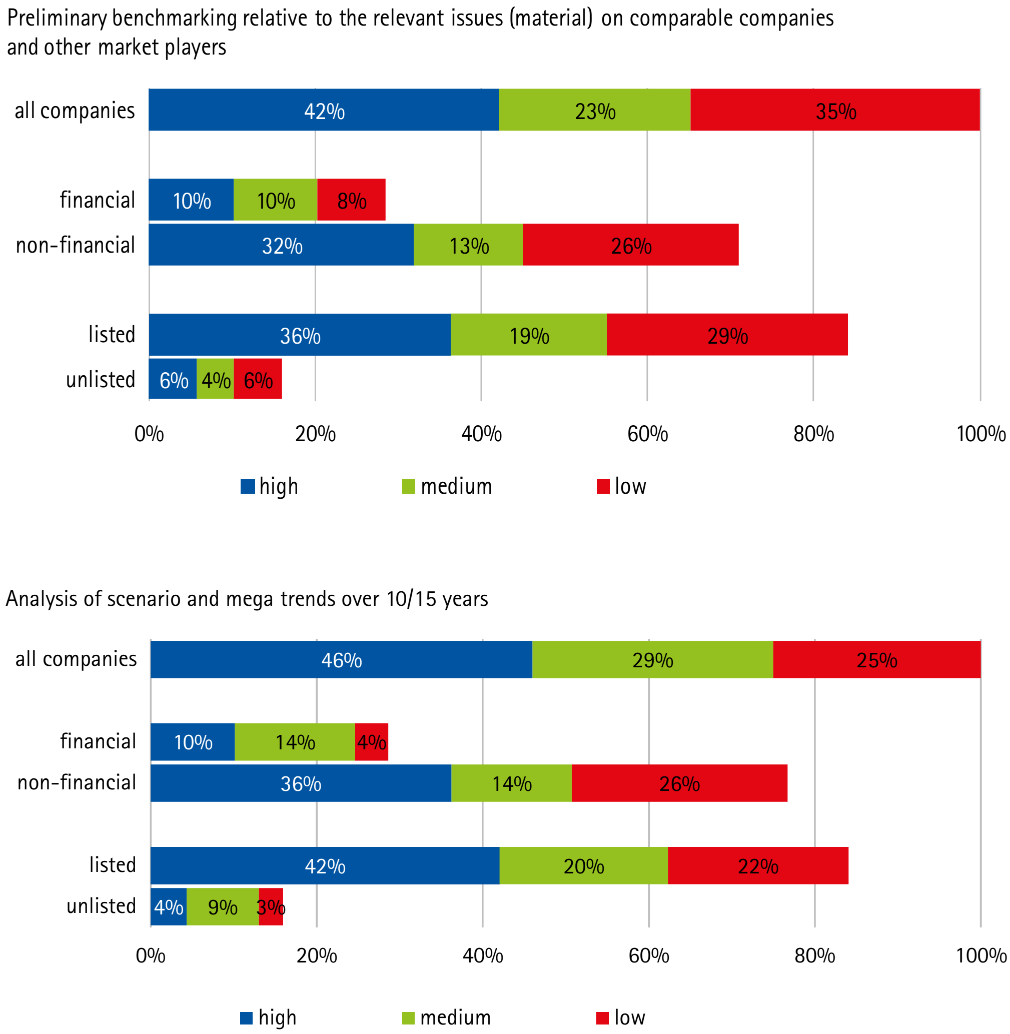
Fig. 2.8 – The role of independent directors in the integration of ESG/multi-capital strategies into risk governance: expectations and judgements



Figures refer to respondents' opinion on the statements reported in the titles (scale type: 7-point Likert, from 1 – 'strongly disagree' to 7 – 'strongly agree'). 'High' ranges from 6 to 7, 'Medium' ranges from 3 to 5, 'Low' ranges from 1 to 2).

The level of engagement of BoDs on the key activities originating from NFS such as benchmarking, on one hand, and scenario and mega trends analysis, on the other hand, is stated to be low by 35% and 25% of the respondents, respectively.

Fig. 2.9 – Engagement of BoDs in benchmarking and scenario analysis



Figures refer to the level of engagement of the respondents in the activities reported in the titles. (scale type: 7-point Likert, from 1 – 'not engaged' to 7 – 'fully engaged')

2. Non-financial at the board

Independent directors, although being the most aware of the implications of NFS, report a lower level of engagement and feel less engaged than other board members and the Chairpersons do.

Fig. 2.10 – Awareness and engagement with respect to NFS and definition of long-term ESG strategies by roles of respondents

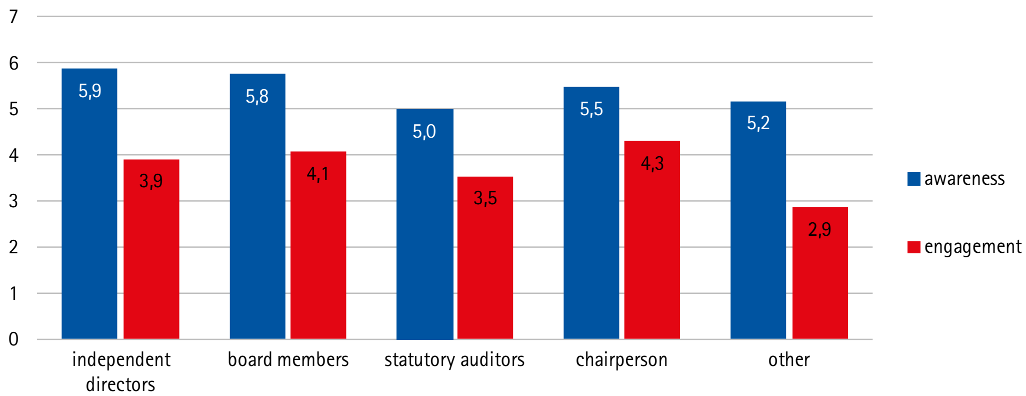


Figure refers to awareness and engagement of different clusters of respondents with the issues reported in the title (scale type: 7-point Likert, from 1 – 'strongly disagree' to 7 – 'strongly agree' for awareness and from 1 – 'not engaged' to 7 – 'fully engaged' for engagement).

On average, respondents display a high commitment to sustainability, as shown by their attitudes towards some ESG areas. Interestingly, the highest commitment relates to innovation.

Fig. 2.11 – Attitudes toward sustainability of BoDs

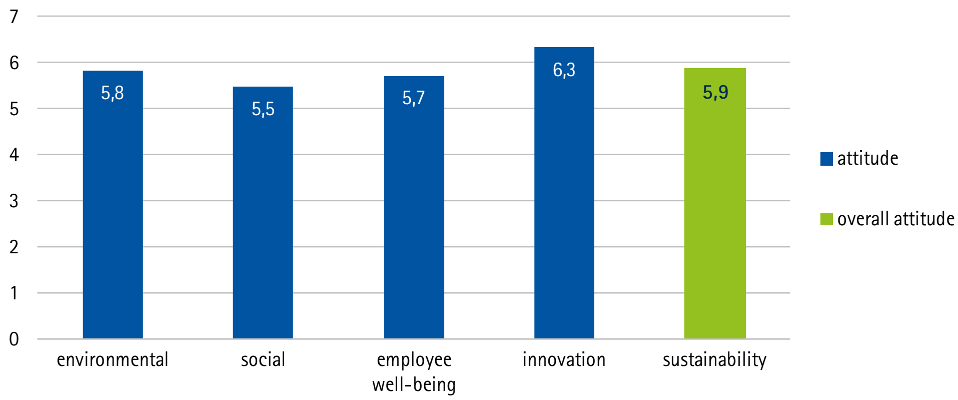


Figure refers to respondents' opinion on the statements (items) reported for each construct. **Environmental attitude**: 'Companies have to spend more on environmental protection; Banks have to mainly finance and invest in 'sustainable' companies; Resources should not be dedicated to environmental protection because the company's profitability would be damaged; In the future, environmental protection should be considered part of the business' 'final result'; Company leaders should be driving environmental protection efforts; We have to protect the environment even if it means that jobs in our communities will be lost'. **Social attitude**: 'Companies have to spend more on social welfare; Resources should not be dedicated to social welfare because the company's profitability will be damaged; In the future, social welfare should be considered part of the business' 'final result'; Company leaders should be committed to improving social welfare. **Employee Well-Being Attitude**: Companies need to spend more on employee welfare; Resources should not be dedicated to employee welfare because the company's profitability will be damaged; In the future, employee welfare should be considered part of the business' 'final result'; Company leaders should be committed to improving employee welfare. **Innovation Attitude**: Companies need to spend more on research and innovation; Resources should not be dedicated to research and innovation because the company's profitability will be damaged; In the future, the innovation produced should be considered part of the business' 'final result'; Company leaders should be committed to improving innovation. The environmental, social, employee well-being attitudes are measured using the scale proposed by Pagell & Gobeli, (2009), i.e. by a score averaging the respondents' level of agreement to the items reported above, rated on the 7-point Likert scale type ranging from 1 – 'strongly disagree' to 7 – 'strongly agree'. The Innovation attitude construct was added to the original constructs to reflect all 4 intangible capitals and is evaluated using an adjusted scale. The last construct, 'Attitude toward sustainability', averages over the scores of the previous attitudes values.

2018

2. Non-financial at the board

A concrete commitment of BoDs towards long-term growth strategies is strongly linked to the belief that ESG engagement creates value. More than 64% of respondents fully agree that ESG oriented strategies have a positive impact on financial performance (this opinion is more frequent among non-financial companies and listed firms).

Fig. 2.12 – ESG positively impacts on financial performance

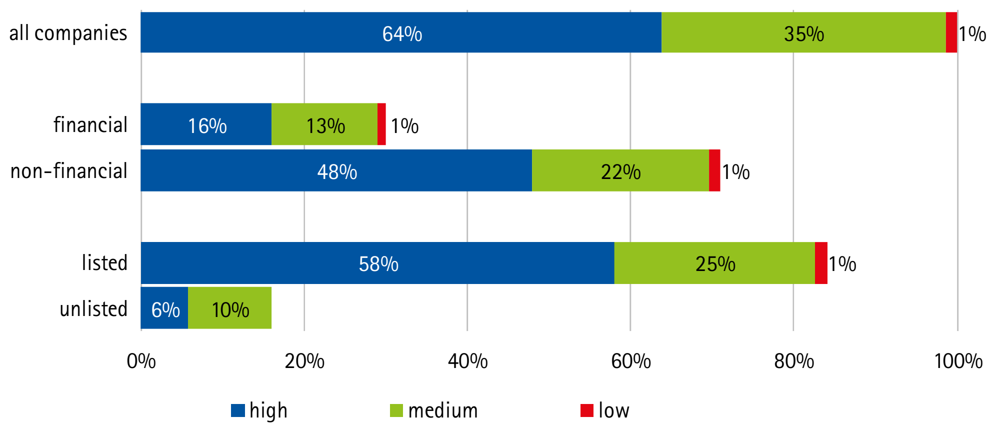


Figure refers to respondents' opinion to the statement reported in the title (scale type: 7-point Likert, from 1 – 'strongly disagree' to 7 – 'strongly agree').

Only about 15% of respondents declare that the remuneration of CEOs and top managers is linked to ESG goals.

Fig. 2.13 – The remuneration of the CEO and top managers is linked to the ESG objectives

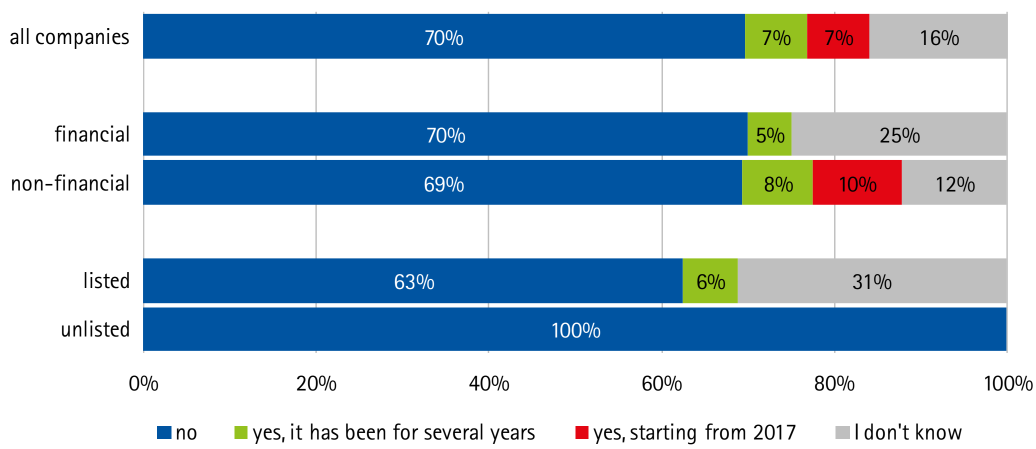


Figure refers to respondents' opinion on the statement reported in the title.

2. Non-financial at the board

The interviewees believe that, following the introduction of Decree 254/16, disclosure has improved especially with respect to achieved results and risk, less in terms of business model and long-term growth strategies.

Fig. 2.14 – Improvements in public disclosure over time by thematic area

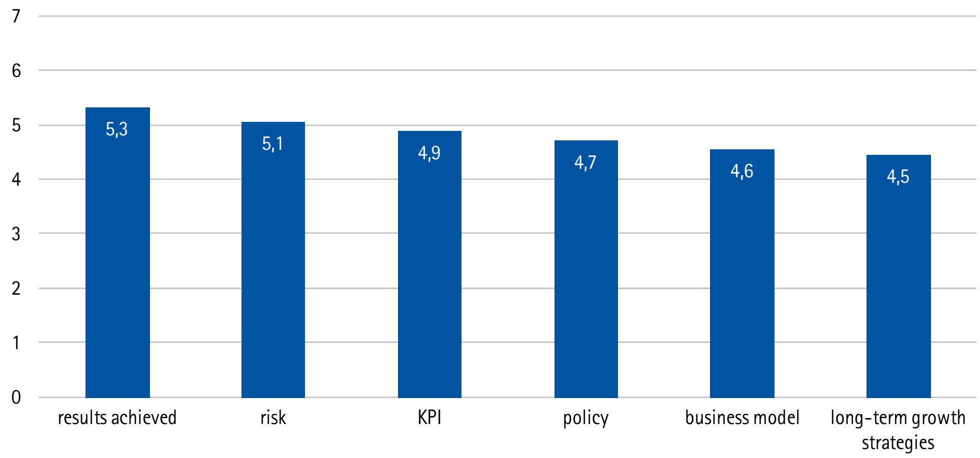


Figure refers the average scores of respondents' opinion on the statement reported in the title by each thematic area (scale type: 7-point Likert, from 1 – 'strongly disagree' to 7 – 'strongly agree').

Human and intellectual capitals are considered the most relevant contributors to the value creation process, while natural capital is ranked as the least impactful.

Fig. 2.15 – Capitals' contribution to business' value creation

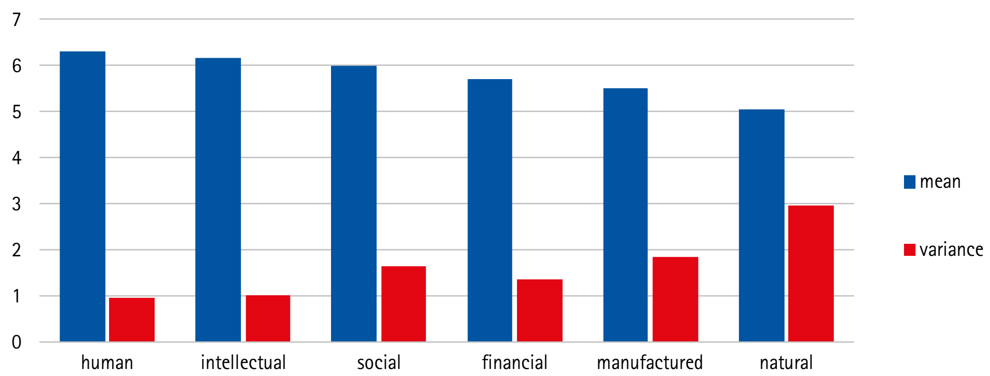


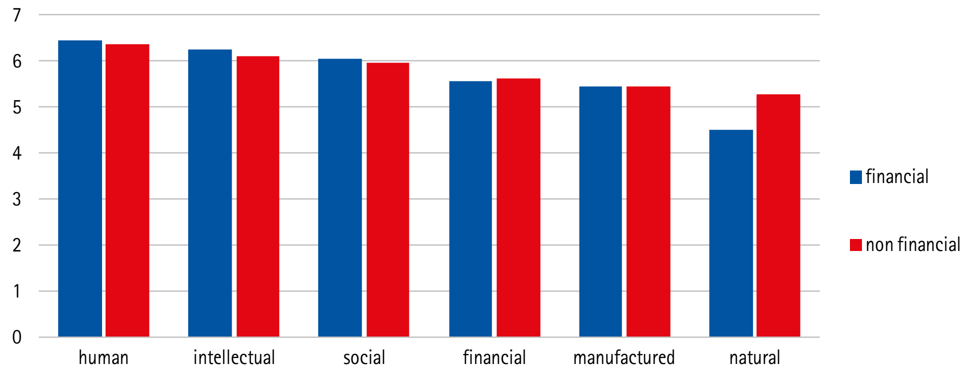
Figure refers to respondents' opinion on the contribution of each reported capital to the business value creation (scale type: 7-point Likert, from 1 – 'strongly disagree' to 7 – 'strongly agree').

2018

2. Non-financial at the board

Financial companies show the highest level of attention toward human capital.

Fig. 2.16 – Opinions on capitals' contribution to business' value creation



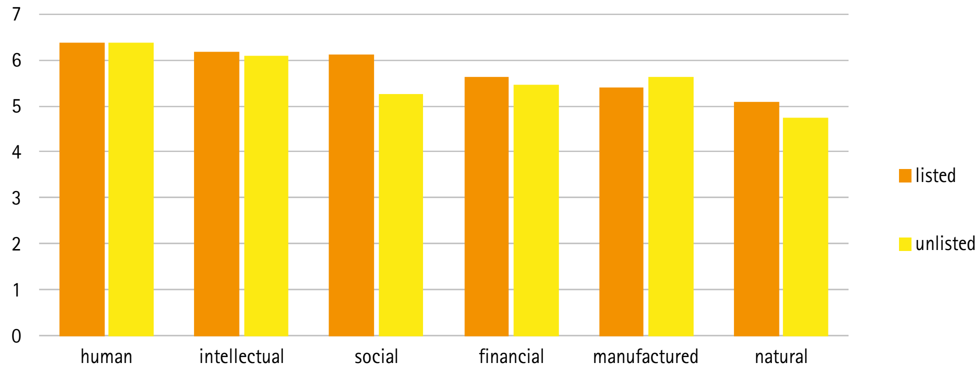


Figure refers to respondents' opinion to the question reported in the title for each capital/value described in the picture (scale type: 7-point Likert, from 1 – 'strongly disagree' to 7 – 'strongly agree').

Among the company's key risks, those relating to the quality of products and service, and to health and safety on the workplace are considered to be the most significant. This perception suggests quite a traditional approach to risk management coupled with a focus on internal stakeholders.

Fig. 2.17 – Company's key risks

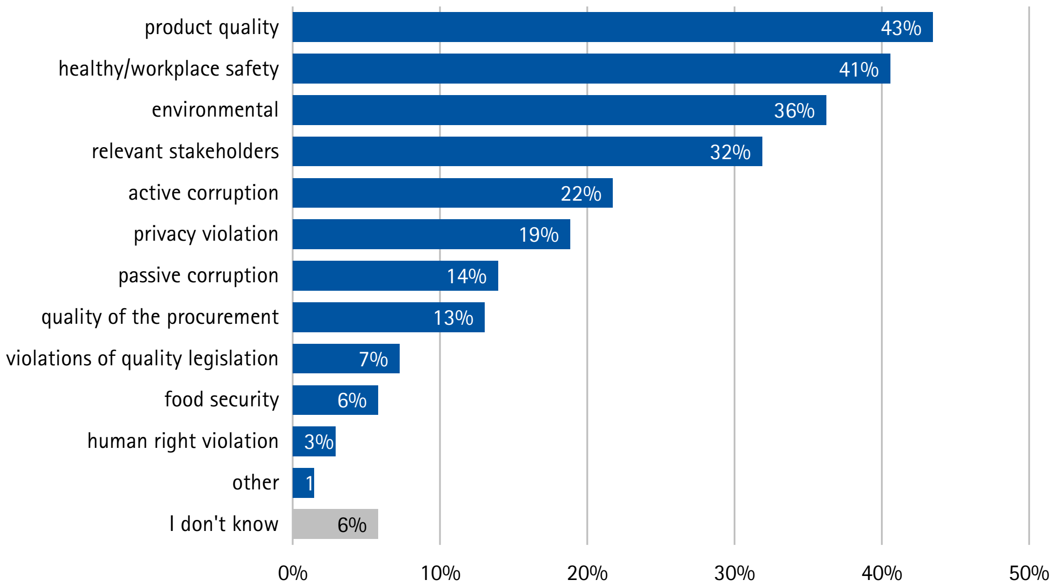


Figure refers to respondents' ranking of the reported risks (three answers allowed, on a 1 to 3 scale).

2. Non-financial at the board

The stakeholder engagement tools considered to be the most effective imply a personal interaction with the stakeholders (i.e., multi-stakeholder meetings, company meetings and focus groups).

Fig. 2.18 – Effective tools for stakeholder engagement

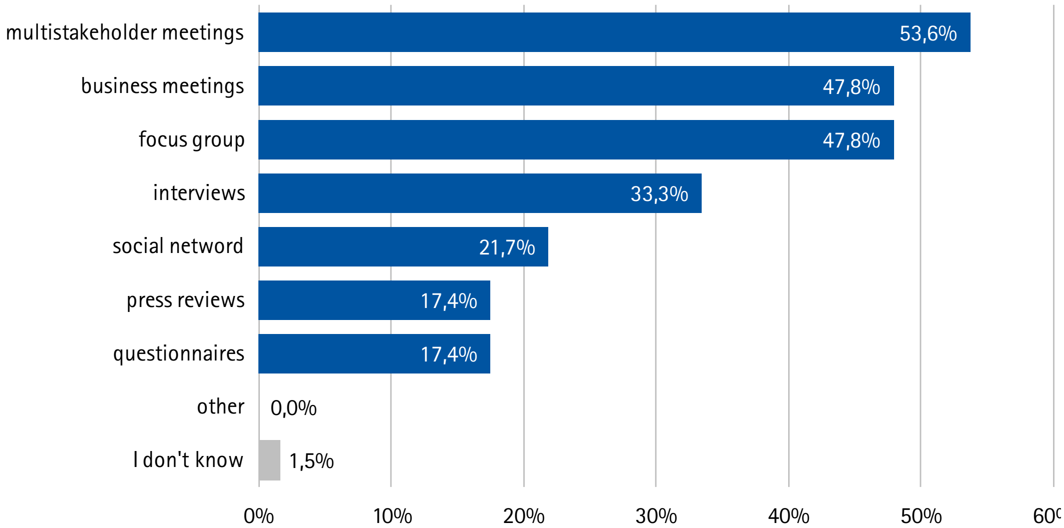


Figure refers to respondents' ranking of the reported engagement tools (three answers allowed, on a 1 to 3 scale).

Board composition and organization have not recorded any change following the implementation of the Decree 254/16 in 74% of the cases.

Fig. 2.19 – Did board composition and organization change following the Decree?

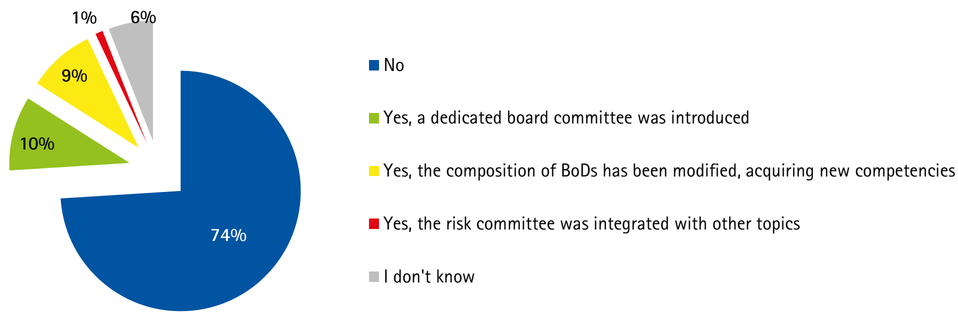


Figure refers to respondents' answers to the question reported in the title.

Off-site inductions to elaborate long-term value creation strategies have significantly increased over time, mainly in the strategic planning stage and within board committees.

Fig. 2.20 – Induction sessions about long-term business sustainability and supervision of Decree 254

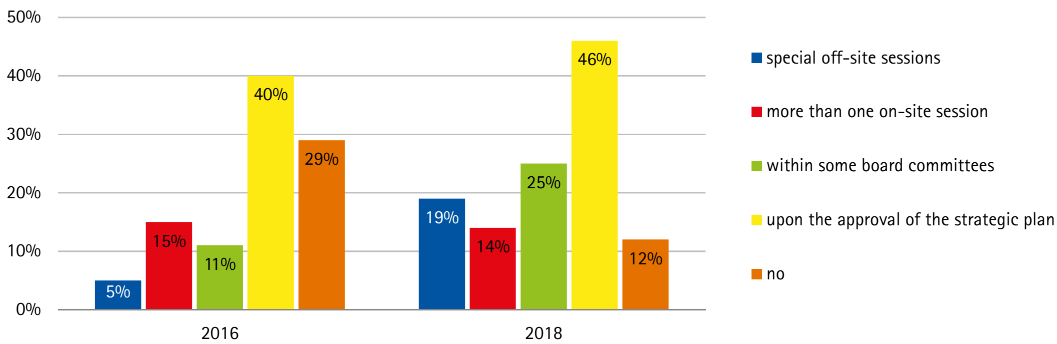


Figure refers to respondents' answers to the following questions, asked respectively in 2016 and 2018: 'Does the board spend specific sessions to the process of developing the corporate vision to ensure long-term business sustainability?'; 'In the last year, has the board of directors dedicated one or more sessions specifically to the process of elaboration of the company vision to ensure the supervision of all the areas of Decree 254 within the business model and strategies?'

2018

2. Non-financial at the board

Although the 'leading' role of the BoDs in orienting long-term value creation strategies has increased over the last three years, the executives' contribution remains crucial.

Fig. 2.21 – Board of directors' supervision of long-term strategies

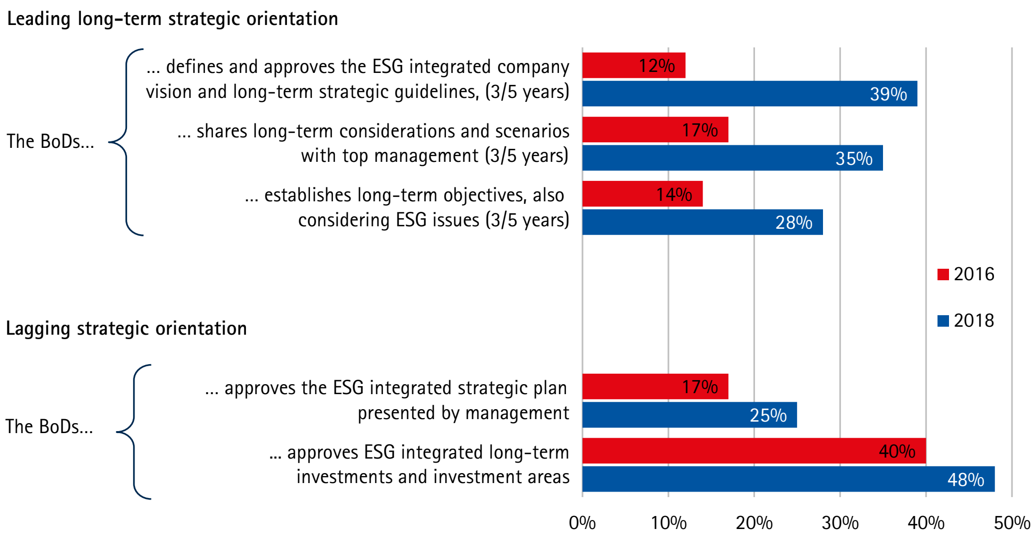


Figure refers to respondents' agreement with the reported statements (multiple answers allowed).

Board members believe to have contributed mainly to ERM, analysis of non-financial statements before their approval and stakeholder governance and disclosure, while relevant areas in ESG management (eg: procurement, investments, HR strategy) have rarely been mentioned.

Fig. 2.22 – Areas where the board members' contribution is perceived to be more relevant

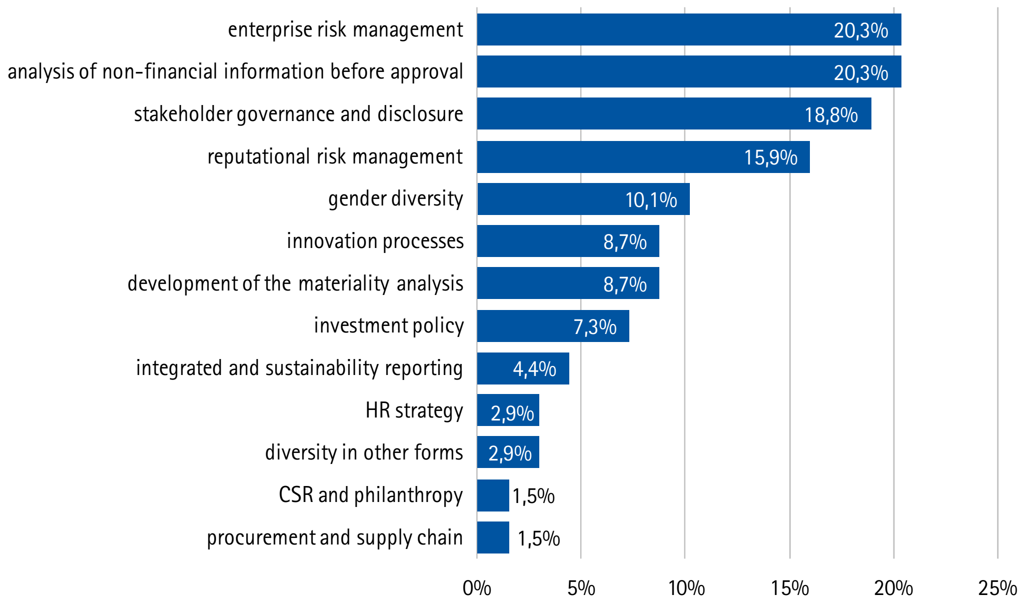


Figure refers to respondents' opinion on the reported items (multiple answers allowed).

Independent directors, who should lead the way more than others in integrating ESG into strategies and business models, feel less committed today than they did in 2016.

Fig. 2.23 – Evolutionary trend in the independent directors' commitment to the integration of ESG in strategies into business models

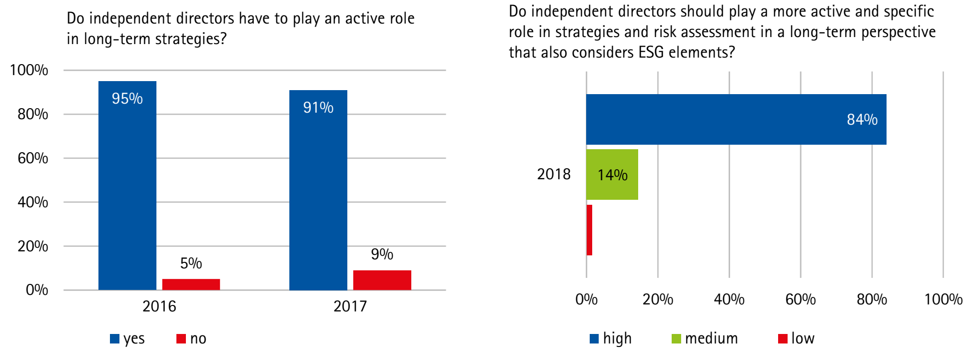


Figure refers to respondents' opinion to the questions reported in the titles in the years 2016/2017/2018