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*In collaboration with Nedcommunity*

# Non-financial information as a driver of transformation

Evidence from Italy

2018

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## Abstract

1. Non-financial reporting
2. Non-financial at the board

## 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.<sup>1</sup>

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.

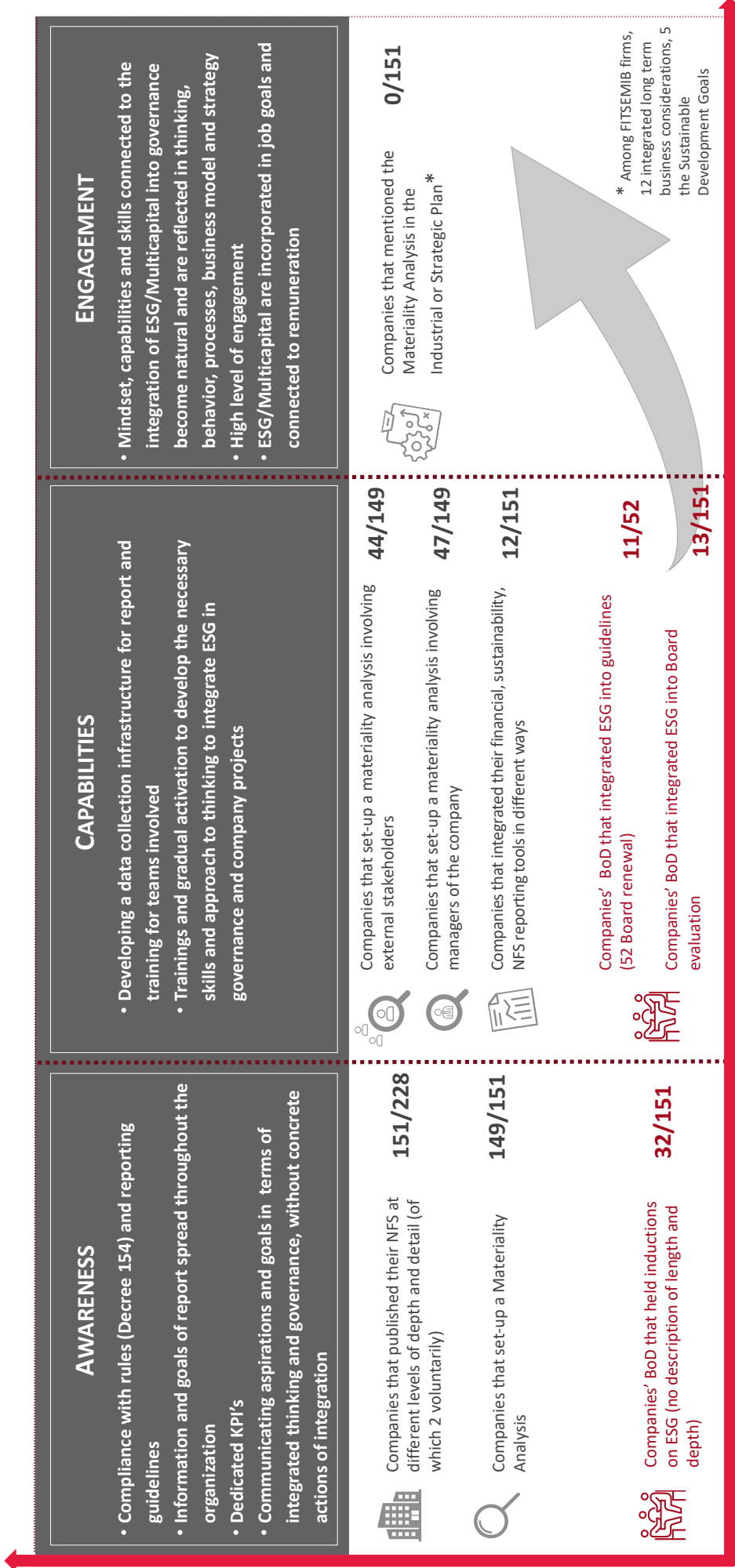
The chart below summarizes and classifies the findings of the analysis by identifying three progressive steps marking the transformation process: awareness, capabilities, engagement.<sup>2</sup> The evidence gathered in this Report shows that while a few large companies are now starting to integrate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

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<sup>1</sup> 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).

<sup>2</sup> 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.

# THE THREE STEPS OF ESG/MULTICAPITAL INTEGRATION INTO GOVERNANCE



\* Among FITSEMIB firms, 12 integrated long term business considerations, 5 the Sustainable Development Goals

## Compliance

● Company Board of Directors ● Company Infrastructure and Culture

## Transformation

Adapted from: the ACE Transformation Curve – Methodos-the Change Management Company-2018

Levels of Cultural Change