REFLECTION GROUP
BOARD LEADERSHIP
AND SUSTAINABLE
BUSINESS

Board and sustainable success: a new leadership model for the director

How to integrate financial and pre-financial values in board decision making and company governance

Editors: Livia Piermattei and Paola Schwizer

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effectivegovernanceoutlook

nedcommunity
amministratori non esecutivi e indipendenti

AIDC Associazione Italiana Dottori Commercialisti ed Esperti Contabili Sezione di Milano
CENTRO STUDI

The aim and scope of the **Effective Governance Outlook (EGO)** is to develop increasing awareness and skills of board members, and specially non executives and independent directors, on how to effectively apply the principles of good governance in companies, depending on the specific features of individual business models and strategies, and on how to improve market disclosure on governance practices. EGO deals with governance issues relating to specific economic sectors and market segments, and addresses current governance aspects in a national, international and comparative perspective.

L'obiettivo culturale e formativo di **Effective Governance Outlook (EGO)** è di sviluppare una maggiore sensibilità degli amministratori, in particolar modo i NED, sulle modalità con cui declinare effettivamente, all'interno di ciascuna società, i princìpi di buona governance, adattandoli alle specificità di ciascuna di esse e su come accrescere l'informativa al mercato sulla governance effettiva. EGO affronta problematiche di governance relative a specifici settori economici o segmenti di mercato e a singoli profili di governance di rilevanza e attualità, in una prospettiva nazionale, internazionale e comparata.

Maria Luisa Di Battista
Director of EGO

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EGO n.5/2018 – Non Financial Information: Roles and responsibilities of corporate bodies
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NEDCOMMUNITY – Reflection Group Board Leadership and Sustainable Business

HANDBOOK

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BOARD AND SUSTAINABLE SUCCESS:
A NEW LEADERSHIP MODEL FOR THE DIRECTOR

WHY, HOW, WHAT TO INTEGRATE FINANCIAL AND PRE-FINANCIAL VALUES IN BOARD DECISION MAKING AND COMPANY GOVERNANCE

Index

ABSTRACT

Why this Handbook (Livia Piermattei and Paola Schwizer)

Sustainable development of the global economy and society is the main goal for governments and companies. In light of the increased awareness of the disrupting consequences of climate change, inequality and other global issues, investors and other stakeholders are asking companies and their boards to provide more information on long term strategic goals and to set up governance systems and processes aimed at assessing and managing emerging risks and opportunities arising from a fast changing and complex scenario. As a result, systems thinking and anticipatory knowledge within boards has developed into a key issue in view of more effective governance models. Nedcommunity, the Italian Association of Non Executive and Independent Directors, addressed this challenge by setting up in 2014 a Reflection Group on board leadership leadership and sustainable business, with the aim of bringing directors to enhance their commitment and skills in steering long-term strategies, and driving sustainability policies and practices. The activity carried out by the Group entailed workshops, surveys, conferences, webinars and training, at national and international level.

This Handbook is the collection of the main reflections and findings of several years of work, promoted by the members of the Reflection Group on Board leadership and Sustainaible Business: Sabrina Bruno, Simona Cosma, Maria Pierdicchi, Francesca Prandstaller, Marta Rocco, Paola Schwizer, Valentina Zadra with the coordination of Livia Piermattei. The activities involved tens of directors, managers, consultants and professionals. We would like to thank them all for their time, contribution and very valuable insights into the topic and its many facets.

The Handbook provides a guideline for board members on how to play an active role in integrating sustainability issues in governance and strategic management, and help companies in the purse of sustainable development goals.

The Handbook is structured as follows. Four forewords report the view of some of the main national and international players and institutions, which lead the change in rules and practices towards a more sustainable corporate governance system: ecoDa, the European Confederation of Directors' Associations, The Value Reporting Foundation, ESMA, the European Securities and Markets Authority, and CONSOB, Commissione Nazionale per la Borsa. Nedcommunity Reflection Group had many opportunities for discussing and sharing opinions with their members and cooperated in many projects and consultations on new pieces of regulation relating to governance and sustainability.

In the **introduction**, Livia Piermattei describes the origins of the Reflection Group, the methodology followed in its activity, based on multistakeholder co-generation, and the ideas behind it, which led to the development of a new leadership model for board members aimed at mastering sustainable success.

Chapter 2 illustrates the results achieved by the Reflection Group. The Section "Why", written by Livia Piermattei and Paola Schwizer, explains the opportunity behind the integration of financial and pre-financial capitals in board decision-making, risk management and strategic planning, and presents the main questions a director should ask the board in order to assess its ability to look for and detect connections between different resources and different types of capital (economic and financial, manufacturing, social and relationship, natural, intellectual and human). The Section "How", written by Livia Piermattei, outlines the Nedcommunity New Leadership Model for Board Members, which is founded on three pillars: Board composition; Board culture, mindset and behaviors; Board processes that could be integrated with ESG. The Section "What" provides a summary of the activity carried out by Nedcommunity directors in dedicated workshops aimed at exploring the role of the board in driving sustainable governance practices. The coordinator of each of the four meetings, focused on human, social, intellectual and natural capitals, respectively, summarise here the key questions and actions which were identified and agreed upon, in order to lead to a more effective steering role played by the board in the transformation towards sustainable business models. In particular, Sabrina Bruno is the author of the Section on Natural Capital; Francesca Prandstaller wrote the Section on Human Capital; Paola Bonomo authored the Section on Intellectual Capital and Livia Piermattei the section on Social Capital. In each Section, opportunities and risks are detailed, as assessed by the participants to the discussion, as well as a set of tools which may be used to introduce the topics in the boardroom. A final section, written by Carolyn Dittmeier and Patrizia Giangualano, leader of the Nedcommunity Reflection Group on Risk Governance and Controls, share their opinion on how to integrate ESG into risk culture.

Chapter 3 provides a summary of the surveys carried out on Nedcommunity members over the years in order to assess how ESG is being integrated into governance processes and the way of doing business. First, the 'Board leadership and sustainability' Survey, reported by Simona Cosma, aimed to gauge the awareness and the engagement of board members in the design of corporate long-term growth strategies that incorporate non-financial factors. Second, in light of the outbreak of pandemic, the pulse survey "Board Leadership Challenged by Covid-19", reported by Valentina Zadra and conducted with the support and assistance of Valore D/In the Boardroom, investigated how Italian company boards handled the event. Both surveys draw a thin red line throughout the transformation process towards more long-term and sustainable business-oriented boards.

In **Chapter 4**, "What is Still Missing Today?", Livia Piermattei and Paola Schwizer draw some conclusions by elaborating on the outcome of a last workshop involving an international group of stakeholders called to reflect on whether and how they see boards and directors today acting a leadership role in integrating ESG into strategy and business models, and on how they expect them to act in 5 years.

FOREWORD

Valerio Novembre
Senior Policy Officer
ESMA

In recent times, EU policy makers have increasingly been pursuing the ESG agenda with a number of actions that may materially affect the area of corporate governance, including the functioning of the boardroom.

Following up to the European Green Deal, the Commission announced a Sustainable Corporate Governance Initiative for 2021, aiming to ensure that sustainability is further embedded into the corporate governance framework with a view to better align the long-term interests of management, shareholders, stakeholders and society. The underlying idea is that corporate boards should be provided with better incentives to properly integrate stakeholder interests, sustainability risks, dependencies, opportunities and adverse impacts into strategies, decisions and oversight.

The Sustainable Corporate Governance Initiative is complementary to the recent proposal for a Corporate Sustainability Reporting Directive (CSRD), as it aims to enhance the reliability of the ESG information that is disclosed to the market by ensuring that reporting obligations are paired with adequate corporate and director duties. In parallel, ongoing work on the Taxonomy also requires a re-assessment of the business by the board and other relevant corporate governance structures.

As a result, issues such as board duties, composition and remuneration may become key areas of focus from a policy perspective. Several policy tools may be designed going forward and more evidence and research will be pivotal in better identifying any market and regulatory failures as well as clear-cut concepts and definitions to improve the new regulatory infrastructure. In this context, this handbook by Livia Piermattei and Paola Schwizer is to welcome as an initiative that can help to collect evidence on board functioning and to codify board practices, thereby bringing further clarity to the discussion.

FOREWORD

Nadia Linciano
Head of Economic Studies
CONSOB

The consideration of non-financial issues at the board level crucially depends on two features: first mindset, competences, and skills of individual board members and second engagement by the whole board in driving the cultural transformation journey leading to the integration of ESG factors into the many, relevant areas of company's organization and processes.

As for the first point, important triggers can be found both in the legislation and in self-regulation. In transposing the Non Financial Reporting Directive, all EU big firms must disclose their diversity policy (this obligation is confirmed by the new Corporate Sustainability Reporting Directive proposal). In addition, the new Italian Corporate Governance Code recommends companies to apply diversity criteria (also by considering the professional background and the expertise of directors) in the composition of the Board of Directors (BoDs).

As for the second point, attention should be paid to activities of the whole board in the process of the board evaluation or in the appointment of new members or in the context of board induction programmes. As pointed out in the new Italian Corporate Governance Code, "sustainable success" is in fact a task that concerns the whole board.

To this regard, the evidence available for Italian listed companies publishing a non-financial statement (NFS) shows positive signals, although there is still room for improvement (see the Report on non-financial reporting of Italian listed companies available on CONSOB website). In 2020, among the 50 firms publishing the NFS and renewing the BoDs, 28 companies published guidelines for the appointment of new directors, mentioning ESG factors in 19 cases (38% of the total vs 28% in 2019). In the board evaluation, non-financial features are referred to in 37 cases (21 in 2019), while board induction programmes included non-financial topics in 32 cases.

These are very encouraging signs of the transformation journey that Nedcommunity Handbook fosters by showing that the whole board should be intensively involved to gain leadership and to prompt a risk culture that should inform all the areas of the organisation.

FOREWORD

Béatrice Richez Baum
Director General
ecoDa

As a result of a concomitant impetus from European and national regulators as well as pressure from the whole society, a revolution is taking place within boards of directors. Business as usual, as we know it, is no longer an option. ESG matters and integrated thinking are disrupting directors' mindsets and the correlation between short and long term.

The pursuit of profit can no longer be done at all costs, on the contrary, directors are invited to integrate the notion of collective well-being into their strategic choices. It is obvious that the change that is taking place is radical both in terms of the scope of responsibilities and the urgency that is required.

However, the new requirements imposed on board members do not provide a recipe on how they should perform the different balancing acts. Currently, there is no workable doctrine for the implementation. If board members will have to make sure that they have the resources to deliver, what matters even more is their ability to rethink their leadership.

There is a great risk that, in the event of unpreparedness, board members will fall back behind a certain conformism. Defining processes to facilitate the consideration of multi-factorial dimensions is certainly key. In addition, ensuring that the contradictory has its place in the decision-making and establishing different scenarios for thinking the improbable and the impossible are clear prerequisites.

Board members must approach these new subjects in a positive way but with methodology and conviction, being ready for a collective permanent learning. ecoDa, The European Confederation of Directors Associations, supports its member institutes in this journey. We welcome the initiative taken by Nedcommunity as it will help inspired leaders inspire themselves first.

FOREWORD

Cristiano Busco
Co-chair Integrated Thinking and Strategy Group

Jeremy Osborn
Director of Business Relationships & Networks

The Value Reporting Foundation

«The Pandemic spread of coronavirus has transformed our world and overtaken our lives, presenting unprecedented medical and human challenges that have led policymakers to react promptly in their efforts to save people's lives. At the same time, we know only too well that the COVID-19 outbreak has been threatening the survival of thousands of companies on a global scale as its profound economic implications are likely to reverberate for years to come.

While these elements will inform the post-pandemic scenario and the daily agenda of national governments and supranational institutions for the years to come, analysts, commentators and civil society have increasingly turned to business organizations, urging companies to respond to these challenges by playing a more central role and making a significant contribution in search of tangible solutions to these post-pandemic problems.

In this context, the notion and functioning of capitalism, the ultimate purpose of the business, and the concept of value creation itself have been questioned and placed under the spotlight. This has made the identification and execution of sustainable strategies, as well as the search for impactful innovations, a must for contemporary organizations as we enter the so-called "Decade of Action" of the UN's 2030 Agenda for Sustainable Development.

The new Corporate Governance Code for the organisations listed on the Italian Stock Exchange that came into effect in January 2021 introduces the concept of "Sustainable Success" as a priority for the company's top management, and calls on boards to integrate their strategic plans, business models, control practices, risk management systems and remuneration policies with appropriate sustainability goals. Needless to say, as companies embrace the journey towards sustainable success, boards are increasingly required to master the metaphorical loop from purpose to impact, integrating a multi-capital approach into governance, planning and performance management.

The Value Reporting Foundation welcomes this handbook by Nedcommunity for these reasons, among others, as it offers the multi-capital approach that is indeed needed to support purposeful leaders as they make sustainable success meaningful».

1. INTRODUCTION

1.1 Our hypothesis back in 2015: a new leadership model for board members is needed to master sustainable success (Livia Piermattei)

In 2014 at Nedcommunity we began a new Reflection Group, to start thinking about a new leadership model for board members that could help them achieve sustainable success. Our basic idea was that without an active role played by the board of directors and especially by non executive independent directors, sustainable business transformation would be stuck, in particular where senior managers were less prone to adopt sustainability policies whose returns might be visible only in the long term. A new leadership model for boards could significantly contribute to unlocking the change affecting the management team and the whole company, and give the board of directors the key to sustainable success. This had already become evident when initially thinking about the transformation that Integrated Reporting could imply for governance bodies in the context of a development toward a stakeholder governance model (Piermattei, 2010).

It was also increasingly clear that companies should soon learn to integrate short- and long-term strategies and that knowing and considering stakeholders' interests could help companies mitigate risks and grasp new opportunities to generate value. Both international academic literature and a (very) few international successful experiences were there to confirm it.

Back in 2014, we had a number of signs that the Reflection Group was an opportunity to build innovation which could generate value for both the companies led by Nedcommunity administrators and our communities:

- A report of the University of Oxford and Arabesque Partners published in 2014, based on the review of more than 200 academic studies, industry reports, newspaper articles, and books, told us that "90% of the studies on the cost of capital show that sound sustainability standards lower the cost of capital of companies. 88% of the research shows that solid ESG practices result in better operational performance of firms. 80% of the studies show that stock price performance of companies is positively influenced by good sustainability practices. Based on the economic impact, it is in the best interest of investors and corporate managers to incorporate sustainability considerations into their decision-making processes. Active ownership allows investors to influence corporate behavior and benefit from improvements in sustainable business practices".

- The weight of international institutional investors on the Italian market had grown markedly since 2010. In many cases, they accounted for a very significant component of the shareholders and in some cases even the majority. In 2015, institutional investors owned 31,64% on average of FITSE MIB companies, and over 40% in the 10 top FTSE Mib (Morrow Sodali 2015).

• As far back in his letter of 2014, Larry Fink of Black Rock asked CEO's: *to help us, and other shareholders, to understand the investments you are making to deliver the sustainable, long-term returns on which our clients depend*. The following year, in 2015, for the first time he explicitly referred to board leadership as management's first line of defense against short-term pressures.

• CSR was evolving into sustainability but mainly with an environmental focus and without considering its potential to integrate all forms of value into strategy and business models.

• Management was focused on the short-term success of the company because performance was usually appraised on the basis of quarterly results. Furthermore, executives' remuneration packages were mainly linked to short-term KPIs.

• Sustainability or CSR functions started to be set-up in some companies but, without an explicit mandate from the board of directors towards the integration of long-term performances, they worked in parallel and in the background (often were third or fourth level reports to the CEO), focusing on philanthropy rather than sustainable business transformation, and on communication rather than strategy or risks.

• The professional background of board of directors was usually financial or legal, and competencies and past experience linked to capitals other than financials were rarely considered relevant in board composition.

• Behaviours and mindset on board of directors (henceforward also BoDs) were usually very formal and did not allow for active, fluid interaction among its members, or between BoDs and management or other stakeholders. Forward thinking scenario analysis was rarely used, and board members were often overloaded with day to day work.

• Social/sustainability reporting (and related materiality analysis) were mainly considered aspects of compliance, while at the same time the potential of integrating non financial/intangibles KPIs into reporting was not yet fully recognised and practiced, or understood in its strategic outcome.

• Risks considered relevant were those related to financial impacts short-term, and the approach focused on immediate mitigation rather than opportunity generation. ERM was not yet considering non-financial risks.

Putting all these elements together, we designed our hypothesis for a New Leadership Model for board members, and drafted an intense multi-year activity program. The Reflection Group was to discuss it, test it, and create awareness and engagement on it with a roaster of different stakeholders.

1.2 How we worked: multistakeholder co-generation (Livia Piermattei)

The goal of Nedcommunity Reflection Group "Board and sustainable business: New Leadership Models for the Board member", active from 2014, is to create awareness and progressive engagement among board members and governance professionals on the leading role of board in the planning and promotion of sustainable business strategies and business models with a long-term view. The aim is to integrate all forms of value (financial and non-financial) in decisions, behaviours and processes of boards and companies.

Nedcommunity New Leadership Model for Board Members was designed by Livia Piermattei with the contribution of Paola Schwizer and is described in the Section "**HOW**" of this Handbook. A preliminary version was published in Piermattei et al (2016).

Since 2015 a number of initiatives were originated by the Reflection Group, including the conferences Global stakeholder relationship governance (2014); Sustainable Business and the Luxury Industry (2015); the conference and research on Integrated Governance (2016/17/18); Non Financials & Italian Board of Directors: a relationship to improve (2018); Governing sustainability: the role of independent directors (2019).

Between 2018 and 2021 a number of multistakeholder workshops and laboratories were held under the Chatham House rules, including detailed discussion with the active co-generation of all participants on some of the main issues relating to board leadership on sustainable business. The focus was on Why it should be a goal for the Board and What a Board should do to make it become a company goal and fully govern ESG without cross-bordering management responsibilities. From 15 to 50 Nedcommunity members took part in each of these workshops, with an increasing participation when meetings were held both in Milan and Rome in videoconference. The workshop involved top managers, regulators, the Stock Exchange, investors, head-hunters, general counsels, and members of the ecoDa ESG Working Group. Active and supportive partners of this initiative were the companies Methodos-the Change Management Company and Morrow Sodali. The outcomes of the individual workshops are described in Sections "**WHY**" and "**WHAT**" of this Handbook, authored by the Reflection Group members who coordinated them.

In 2015, the first round of the Survey "Board leadership and sustainable business" was sent to Nedcommunity members, and has been repeated annually. Since 2018, its results have been published in the CONSOB report: Non financial information as a driver of transformation, and results 2016- 2020 are described in the Section "A THIN RED LINE" of this Handbook. In 2020 a Survey on Board Leadership and Covid-19 was also launched in collaboration with ValoreD-In the Boardroom, to assess Italian Board reactions to the first and largest non-financial crisis. It is a pulse survey and the preliminary findings are summarized in the same Section.

2. THE INTEGRATION OF FINANCIAL AND PRE-FINANCIAL CAPITALS IN BOARD DECISION MAKING AND COMPANY GOVERNANCE

2.1 WHY

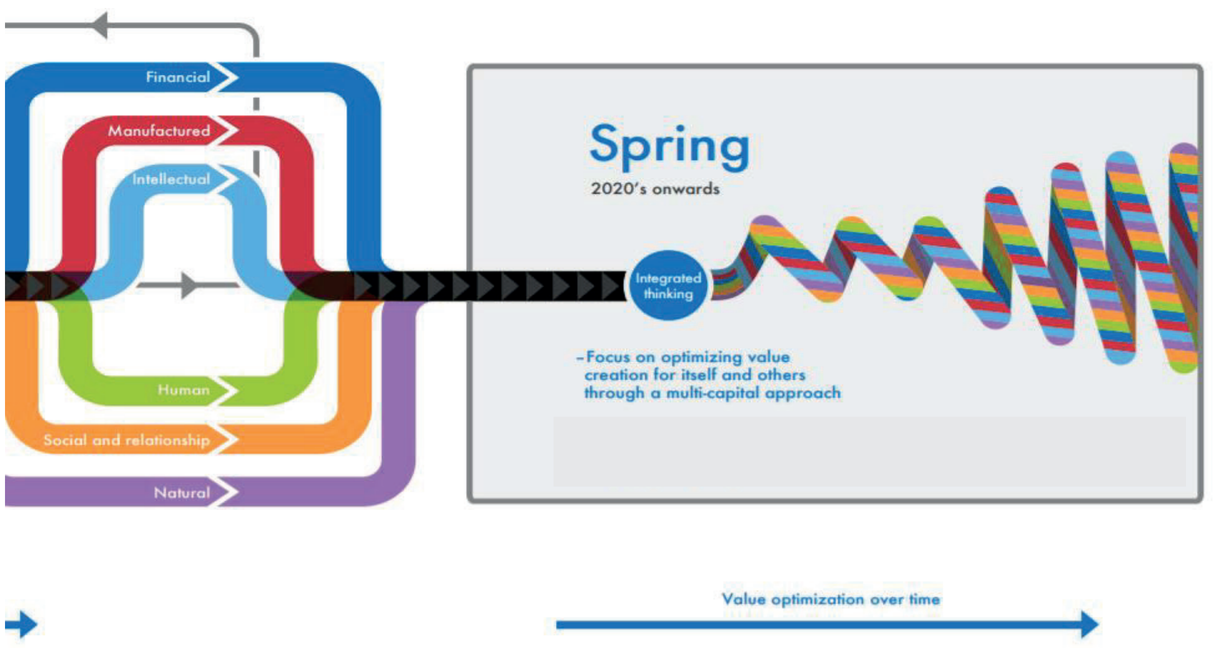
2.1.1 Why non-financial becomes pre-financial in this handbook
(Livia Piermattei)

All three pillars of Nedcommunity Board Leadership Model are built on a multi-capital decision making approach that integrates financial capitals with the so-called "non financials".

We decided to refer to the IIRC Integrated Reporting multicapital Framework and its 6 capitals (Figure 1). Four of these are non-financial (intellectual, social and relationship, human, natural) and here we call them "pre-financial". This is because we hold that these capitals create the pre-conditions for financial performance to occur in a sustainable business perspective, and thus this term makes it easier for "newcomers" to the ESG area to perceive and experience their full potential in terms of value creation.

Knowing, classifying, measuring, and governing the 4 pre-financial capitals, their interactions, and interactions with financial capitals can allow boards and companies to extract more value from their decision-making and - ultimately - from the corporate governance system. Adopting integrated thinking and applying it to governance can allow boards to achieve sustainable success and multiply the potential outcome of company strategies and business models.

Figure 1. **Integrated Thinking: The Spring model**



Source: Integrated Thinking & Strategy: State of Play Report-IIRC, 2020.

To describe the exponential value that integrated thinking can drive, the metaphor of a spring is used in the diagram. Financial and pre-financial capitals are represented by 6 strings tied and connected with each other thus magnifying the value creation process over time (IIRC, 2020).
In fact, such is the importance of the four pre-financial capitals is so relevant that today analysts attribute 90% of the value of stocks to the pre-financial capitals, compared to 20% of the value of stocks 40 years ago (Source, Ocean Tomo, Intangible Asset Market Value Study, various years). Unfortunately, the decision-making process in companies still focuses mainly on the tangible components of value (10%). So, the potential value creation of decisions, behaviours, actions and strategies is not currently being maximized if decision making is not based on the integrated thinking approach (Piermattei et al, 2016).

2.1.2 Why to integrate pre-financial capitals into risk and company strategy (Paola Schwizer)

The translation of sustainability strategies and related pre-financial capital management into concrete business goals, and thus into consistent individual and social behaviours, requires the former to be covered by, and integrated into, corporate strategies and management policies.

On the basis of a literature review, Oertwig et al (2017) provide an overview of all the factors which motivate the integration of sustainability requirements into the corporate reality. Although a thorough analysis of these factors lies out of the scope of this Handbook, we can note that these include internal and external drivers, among which legal compliance, reputation, quality management, cost reduction and economic performance, competitive advantage, innovation, risk management, stakeholder engagement, organizational learning and knowledge, transparency and communication, etc. The result of this integration can be multifold, as found by Oertwig et al (2017): A pure adjustment of the corporate strategy to include objectives regarding economic, ecological and social performance; a specific sustainability strategy as part of the corporate strategy, and a brand-new holistic sustainability strategy. Once the integrated strategy has been designed, in order to concretely achieve the sustainability objectives, consistent change is needed in governance and business processes, and in the resources deployed.

Appropriate actions need to be planned, implemented and monitored. These include understanding the business model, defining sustainability KPIs to be embedded in MBO, monitoring and integrated reporting, engaging and communicating with relevant stakeholder.

However, to achieve sustainable success, the company must not only identify concrete objectives, but also challenge its corporate values and the consequent organisational mindset and behaviours, in order to make sure that it is able to support the new strategic direction.

Indeed, a substantial response to the Sustainable Development Goals (SDGs[1]), beyond formal compliance and reputation management, can be achieved only if the organisational culture supports such an integration and drives management practices, mindset and behaviours in a consistent direction. In these terms, culture is the fundamental link between a formal approach to sustainability and an effective and concrete change of the firm business model. This was clearly identified by the directors involved in the Reflection Group, who started reasoning on risks and opportunities of forward looking, good quality materiality analysis and risk assessment based on 4 different company datasets prepared ad hoc and presented by Donato Calace of Datamaran. This analysis allowed them to pinpoint the central role of culture in steering the transformation process towards sustainable businesses (Figure 2).

Figure 2. **Key words identified by the working group of board directors**

[1] The seventeen Sustainable Development Goals of the 2030 Agenda for Sustainable Development were adopted by all United Nations Member States in 2015 (https://sdgs.un.org/goals). See also Cosma et al, 2020.

Culture, a set of behaviours and of tangible and intangible elements, is a very significant variable for the creation of corporate value. It is an essential force in shaping individual and group behaviour. Corporate culture is often considered as the missing link in the full understanding of how organizations work (Deal and Kennedy, 1982).

Culture "holds together" the organization: it is the result of shared values, basic underlying assumptions and business experiences, driving conduct and strategy itself. Thus, managing culture can influence the likelihood of success in strategy implementation (Peters and Waterman, 1982).

Risk culture, which is one component of corporate culture, can be defined as an organisation's norms, attitudes and behaviours related to risk awareness, risk taking and risk management, that determine the way in which people identify, understand, discuss, and act on the risks the organization confronts and the risks it takes (IIF, 2009; FSB, 2014; Carretta et al, 2017).

A sound risk culture will provide an environment that is conducive to ensuring that emerging risks that will have material impact on an institution, and any risk-taking activities beyond the institution's risk appetite, are recognized, escalated, and addressed in a timely manner (FSB, 2013).

Hence, culture plays a key role, because of its ultimate impact on behaviours of individuals and groups within the organisation, relating to how they deal with risk in their decision-making.

During our workshop, directors discussed the kind of risk culture necessary to support the desired transformation. They identified certain traits and values which shape a "360° risk culture". While long-term strategic orientation is usually recognised as a premise for sustainable development, a 360° risk culture should be based on values and beliefs relating to the importance of assessing and managing all risks the company may face both in the short- and in the long-term. These include emerging risks and challenges linked to fast changing scenarios and internal and external stakeholders' expectations towards the firm and its business model. So, the effective governance of multiple capitals, beyond pure financials, requires a deep evolution of corporate culture and board culture towards this "360° risk culture". This enhances the capability of the company to face new opportunities and threats, to perceive weak signals of incipient changes in a timely manner, to innovate and get prepared to cope with new competitive trends, in order to protect and develop its tangible and intangible value in the long run. This specific risk culture is the fundamental tool on which to base the integration of pre-financial capital management into strategic planning, risk management processes and other key processes of the company, such as remuneration and human capital management, innovation, and communication, etc.

The development of this risk culture needs to be accelerated in the light of the rapid technological development which is leading to a more flexible and less hierarchical system. In this situation, the 360° risk culture is the fundamental glue, which allows an effective risk governance where faster and more autonomous decision-making processes may cause less cooperation and sharing. Knowledge and strong beliefs about the importance of sustainable business, risk management, compliance management and internal controls should be embedded in the organisational culture.

Cultural change should always start at the top. The board of directors and the senior management should lead the process, and behave accordingly, from the very beginning. They have to set expectations for the company risk culture, assess consistency with expectations and take the appropriate remedial actions to lead further developments of the prevailing culture towards the desired model (FSB, 2014).

The need to lead by example, in order to enforce the new cultural standards, should motivate the board and the executives, in the first place, to "demonstrate adherence" to the new culture as their behaviour will be emulated by the rest of the organisation (FSB, 2014). "Non-executive directors", in particular, "are often able to bring a fresh perspective and sage advice about issues such as behaviours in relation to overall culture" (FSB, 2014), but they have to find a similar commitment and engagement in senior managers, who have the power of leading the company according to the same values and beliefs. But although management sets the tone and clearly defines the features of the new desired culture, it is of utmost importance to bring all the organisation on board and make sure that everybody shares the same values. To achieve this, those behaviours which adhere to the new risk culture must be recognised, promoted, monitored and rewarded.

In our workshops, directors worked in small teams and subsequently discussed in a plenary session the threats and opportunities which might arise in the process of setting up a 360° risk culture, supporting the inclusion of emerging risks governance into strategic planning and business management (Figure 3).

Figure 3. **Threats and Opportunities in the set-up of a 360° board risk culture**

OPPORTUNITIES	THREATS
Long-term value creation	Box ticking (pure compliance)
Get prepared to create value in a changing scenario	Short-termism
Ineluctability of this transformation	Conflicts and disagreement in the boardroom
Use of all board skills	Lack of integration in the long term
Design of an integrated strategy	«To always seeing the glass half empty»
Increase in directors' engagement and commitment	Wrong tone from the top
Reputation	Difficulties in change management
Innovation	Confusion within the organisation
Competitiveness	Resource allocation (costs)
Resilience	Resistance to change
Talent attraction	Reputation
Positive social impact	Value distribution
Board leadership of the change process	Inconsistency
Focusing and simplification of business goals	Loss of value
	Conflicts of interests

Although cultural change provides numerous opportunities, there can be resistance, which may require further actions. Overall, persistency and consistency in carrying out the appropriate steps in change management and monitoring may help overcome the difficulties faced in the cultural transformation process. An appropriate error management approach, based on open communication and transparency, may help create a valuable experience also out of failures and difficulties, and reinforce the foundations of the new culture (Carretta et al, 2020).

How can the cultural change process be started and led in the boardroom? Figure 4 shows the result of the debate between directors about this question, and provides several options. These can be customised on the basis of the specific company characteristics and needs, and the stage of maturity in their sustainability practices.

Figure 4. **Board committees to involve and appropriate initiatives to carry out in order to develop a 360° board risk culture**

HOW TO DEVELOP A 360° BOARD RISK CULTURE

BOARD COMMITTEES TO BE INVOLVED

At the beginning of the transformation process (T0), it would be suitable to create an ad-hoc committee or to involve the risk or the strategy committees; in subsequent phases, the whole board should be intensively involved because the topic affects board leadership, and risk culture should pervade all the areas of the organisation.

- Plan a Strategy Day: to promote focus and commitment by the board on long-term strategies
- Plan an induction program for the board on key risks and scenario, mega-trend analysis and benchmarking, in order to build awareness of the need to change
- Promote dialogue and interaction with stakeholders, and particularly with external experts, advisors, professionals in scenario analysis
- Design a clear project on the topic at the board and committees' levels
- Promote an active role of independent directors as leaders in the development of a 360° risk culture
- Promote cooperation and connections between board committees
- Monitor new trends in regulation in order to anticipate possible opportunities for transformation
- Appoint new directors with ESG skills
- Promote dialogue with investors, based on their engagement and stewardship policies, to develop further knowledge and awareness on their expectations regarding this issues

2.1.3 Why to integrate financial and pre-financial capitals into board decision making: the powerful questions for a board of directors
(Paola Schwizer)

Directors do not need to be all expert in sustainability issues in order to contribute to an enhancement of integrated governance and integrated thinking in the boardroom. Indeed, both features support a governance system in which sustainability is embedded into the business rather than being seen as a separated topic to be addressed for pure compliance or reputational reasons. Integrated governance is "the system by which companies are directed and controlled, in which sustainability issues are integrated in a way that ensures value creation for the company and beneficial results for all stakeholders in the long term" (UNEP, 2014). This governance model requires the board to develop a new approach to problem-solving, based on "integrated thinking". Accordingly, they have to develop the ability to look for and detect connections between different resources and different types of capital (economic and financial, manufacturing, social and relationship, natural, intellectual and human). This approach helps achieve more effective risk management, limiting siloed thinking and promoting a broader view of potential future challenges. It also leads to a clearer identification of the organisation's key internal and external stakeholders.

Although new competences in digital technology, environmental and social matters may positively add to the board skill-mix and foster innovation, every director can lead the process of transformation towards more sustainable governance and business models by being proactive and raising awareness of the topic among other board members.

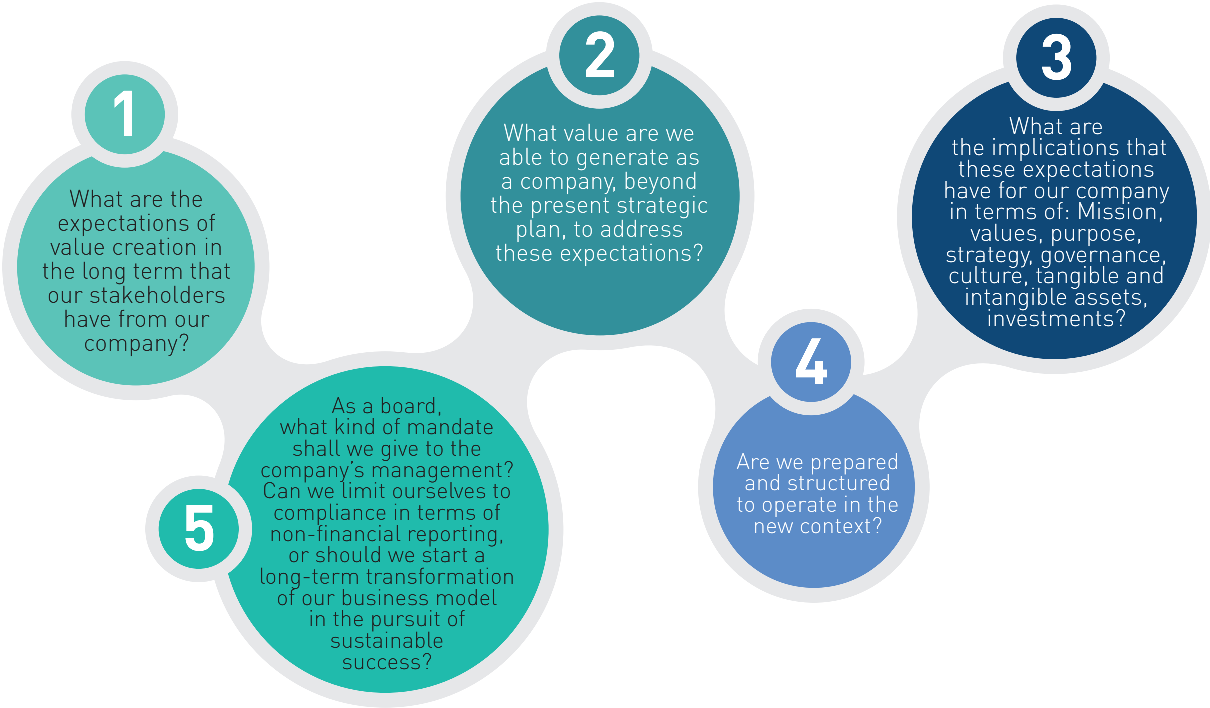
Usually, the best way to start is to ask the right question. A good question is often better than a great answer. We, as directors, are aware of the incredible power of "open questions", especially on new emerging topics.

Brooks and John, in an article published in the Harvard Business Review in 2018, pointed out that "*asking questions is a uniquely powerful tool for unlocking value in organizations: It spurs learning and the exchange of ideas, it fuels innovation and performance improvement, it builds rapport and trust among team members. And it can mitigate business risk by uncovering unforeseen pitfalls and hazards*" (Brooks and John, 2018, abstract).

As for other strategic topics, questions on sustainability issues often drive a debate in the boardroom and promote brainstorming, hopefully relying on different ideas, opinion, and ultimately on divergent thinking. If the board agenda does not allow for in-depth discussion, dedicated sessions, in- or off-site, can be requested to address such key strategic topics.

Which are the key issues a director should raise in the boardroom in order to enhance awareness on the need for a sustainable business transformation? Directors involved in the Reflection Group workshops collected many important questions, which may be summarised as in Box 1.

Box 1. **The powerful questions a board director should ask**



The answers to the questions in Box 1 can reveal whether or not the board of directors is ready to face the new challenges and steer the company's transformation process towards the goal of sustainable success. They can also drive new initiatives aimed at improving the resilience and the innovative capabilities of the company.

To enhance the effectiveness of this brainstorming process, it is also very important to elaborate on the topics addressed, and discuss them on the basis of concrete examples, relating to what has been done or could be done with regard to the different issues raised by the questions. So, when the answer to one or more of the "key questions" may seem to come too quickly, or looks naïve, just add a second question to your first one, and ask: "Could you, or we, give examples of this?"

However, executives and managers should be able to answer these questions in order to allow for a progress in sustainability governance. A missing answer to the first question listed in Box 1 itself, may hinder a further development in the discussion at board level and negatively affect the efforts made by directors in driving a transformation towards a more sustainable business model and corporate culture.

2.2 HOW The 3 drivers (composition, culture and mindset, processes) of the model for board leadership and sustainable success
(Livia Piermattei)

The Nedcommunity New Leadership Model for Board Members is founded on three pillars: Board composition; Board culture, mindset and behaviors; Board processes that could be integrated with ESG (See Figure 5).

Figure 5. **The New Leadership Model for Board Members**

Composition

Diversity of:
- gender,
- race,
- demography,
- skills and expertise

covering also ESG, transformation, crises and turnaround, new and cross market, digital and media

Culture
(Mindset/Behaviours)

1
A forward looking and beyond compliance attitude, through scenario analysis
(Strategic Focus and Long Term Orientation)

2
Committees working together, able to catch and manage connections and interrelations of all forms of value
(Connectivity)

3
Materiality analysis with active stakeholder listening to look for challenges and innovation opportunities
(Stakeholder Inclusiveness)

4
Informal relationships, teamwork
(Cross-collaboration)

5
Openness to all forms of diversity,
Trust, transparency, independent thinking
(Open Mind)

Processes
w/ESG integration

- Board Materiality Statement
- Stakeholder governance and disclosure
- ERM-Enterprise Risk Management
- Remuneration-Long-term vesting periods for MBO's (KPI's+incidence rate)
- Board evaluation
- Board succession guidelines
- Integrated and sustainability report in depth analysis before approval
- Affiliations
- Inductions and off-site meetings for scenario analysis and long term strategy envisioning

Source: Nedcommunity, the Italian Association of Non-Executive and Independent Directors first published in "Integrated reporting, focus on Integrated Thinking. A Handbook for the Change Journey"-NIBR 2016

The first pillar is **diversity in board composition**. In order to reach sustainable success, board composition should be as diverse as possible, integrating backgrounds, competencies, soft and hard skills, genders, generations, races. It also makes the board into a sort of "antenna", capturing the mood of different stakeholder clusters of the industry and community in which the company operates. This makes it possible to pick up on new challenges in advance, easily synergize experiences, and extract more value from board decisions.

Culture is the central pillar. Mindset and behaviours connected to integrated thinking can become the key drivers of an accelerated transformation of the board leadership towards mastering sustainable success. The exponential challenges of today's world require exponential thinking and stakeholder governance in decision-making. The 5 mindset traits of Nedcommunity leadership model can determine specific behaviours and have positive transformational effects on the board dynamics in a sustainable business perspective and on its ability to lead sustainable business transformation (Figure 6).

Figure 6. **The cultural elements of the board leadership model**

The 5 foundation mindset/behavioural traits of the Integrated Thinking Mindset...	...have specific characteristics and connected change approaches...	... and outcomes
Strategic Focus and long term orientation	Beyond compliance, exponential thinking as an answer to exponential challenges, forward thinking approach, megatrend and scenario analysis, cultivate purpose	Able to inspire, Be inspired/see the Why of strategy, Activation, acceleration of change
Connectivity	Able to connect different forms of capitals and values, risks and opportunities, with a system thinking approach	Complexity Management, Innovation
Stakeholder inclusiveness	Map, listen, include in day to day operations, create win-win partnerships, with a stakeholder governance approach	Catch new challenges, Innovation
Cross Collaboration	Teamwork with agile and lean thinking approach	Acceleration of change, Speed, Activation, Agility
Open Mind	Trust, Transparency, and openness to changing the environment and the unexpected. Independent thinking with communicative leadership	Walk the talk, Trust in the long term, Take advantage of the Unexpected

Last but not least some **board processes** need to be transformed and others introduced, if the board intends to achieve sustainable success with an integrated strategy. Integrated strategy implies that short- and long-term issues, goals, risks and opportunities, financial and pre-financial KPIs are connected into the strategy of the company, which helps the board clarify the company's purpose.

Taking the time to reason about scenarios and long-term strategic goals envisioning with off-site/experiential inductions can allow the board to actively contribute to the materiality analysis of relevant (non) pre-financial issues, draft a board materiality statement, cross check it with the heat risk mapping, monitor the multi-capital integration in strategic planning.

Emerging risks have to be integrated into ERM company processes. Clear long-term goals have to be transformed in KPIs and linked to long term variable remuneration schemes and MBO's with longer vesting periods and higher incidence of the non-financial vs financial components. They can also impact on the ability of a board to review and contribute to the reporting process before its approval, and they can change the board succession guidelines and the annual board evaluation.

These processes, integrated in a multi-capital perspective, help make the board aware and able to respond to investors' and regulators' engagement on integrated strategic planning. As stated in Larry Fink's 2016 Letter to CEOs: *"… because boards have a critical role to play in strategic planning, we believe CEOs should explicitly affirm that their boards have reviewed those plans"*.

Ultimately, substance over form has to be achieved in carrying out those governance processes which may lead to concrete integration of sustainability issues and goals into board and management decision-making.

2.3 WHAT. Strategic governance of pre-financial capitals: the point of view of Nedcommunity directors (focus on natural, human, social, intellectual capitals)

The following Sections provide a summary of the activity carried out by Nedcommunity directors in dedicated workshops aimed at exploring the role of the board in driving sustainable governance practices. Four meetings were held on human, social, intellectual and natural capitals, respectively, where directors discussed with experts and managers of the corporate functions in charge of the selected issues at stake, with the aim of identifying some key questions and actions leading to a more effective steering role played by the board in the transformation towards sustainable business models.

2.3.1 Natural capital (Sabrina Bruno)

"There is one form of capital that has never featured prominently in the corporation until recently and which, by contrast, has been consumed voraciously, and that is natural capital. One of the reasons why we stand on the precipice of cataclysm is the failure of the corporation to protect natural capital" (Mayer, 2018).

An interesting case was brought on October 24 2018 by the Attorney General of New York against Exxon Mobil before US courts claiming directors' liability for fraud with reference to the internal use of carbon price ($40/ton in 2030 while declaring $60/ton; in some other cases $5/ton vs $80/ton by 2040).

The Attorney General stated: "*The law is clear: corporations must tell investors the truth... Through its fraudulent scheme, Exxon in effect created a Potemkin village to create the illusion that it had fully considered the risks of future climate change regulation and had factored those risks into its business operations. In reality, Exxon knew that its representations were not supported by the facts and were contrary to its internal business practices. As a result of Exxon's fraud, the company was exposed to far greater risk from climate change regulations than investors were led to believe*".

Directors' Duties and Liabilities under Italian Law

As explained and discussed during our Reflection Group, European legislation establishes strict disclosure duties for corporate directors with reference to climate change. In 2018 an Action Plan on Sustainable Growth was adopted to identify future legislative steps on climate change[3].

The European Commission brought the concept of 'carbon bubble' into new light stating that: "Between 60 and 80 per cent of the coal, oil and gas reserves of publicly listed companies are 'unburnable' if the world is to have a chance of keeping global warming well below 2 °C and as closely as possible to 1.5 °C as agreed at the COP21 in Paris. [...] a very substantial source of global systemic risk [...] is currently embedded within EU and global financial markets[4]".

With specific reference to corporate law, Europe addressed the climate change issue by imposing disclosure on big corporations (exceeding 500 employees and, regardless of the number of employees, banks and insurance companies). They are required by the European Directive (EU) 2014/95 – in force since 2018 – to publish in the management report (or, as option, in a separate report) information on the impact of the corporate activity on, among other factors, "environmental matters".

[3] Regulation (EU) 2018/1999 of the European Parliament and of the Council on the Governance of the Energy Union and Climate Action planning 2030 targets and a transition to a climate neutral economy of 11 December 2018, L 328/1.
[4] Committee on Economic and Monetary Affairs of the European Parliament Draft Report, 2 February 2018.

In other words, they are required to disclose "short-term, medium-term and long-term implications" "based on the expected impact of science-based climate change scenarios on corporate strategies and activities". This information appears in the "non-financial statement".

Corporations are not obliged to pursue policies with reference to the various factors therein mentioned but, where a corporation follows no policy, the non-financial statement "shall provide a clear and reasoned explanation for not doing so[5]".

Boards of directors of any relevant European corporation are, first of all, required to analyse whether the short, medium and long term implications of climate change could have an impact on the corporate strategies and activities and, then evaluate such impact. If there is no impact, this has to be disclosed in the non-financial statement, reporting the precise reasoning for this conclusion.

If impacts have been identified and evaluated they are to be disclosed together with the policy adopted by directors to manage such impacts, unless they resolve not to pursue any policy with reference to climate change – in which case a clear and reasoned explanation of such decision is to be reported as well.

Information consists of four pillars: business model, policies and due diligence, outcome of those policies, risks and their management[6]. In June 2019, the contents of climate-related information to be inserted in the non-financial statement were specified through non-binding Guidelines issued by the European Commission[7] that clarify the scope of climate information – not limited to the impact that climate change poses to business (so-called outside-in) but including the negative impact from the business activities on the climate (so-called inside-out).

They specifically integrate the TCFD recommendations and are inspired by the proposals by the Technical Group on Sustainable Finance ("TEG")[8]. The six key principles set out in the Guidelines state that information shall be material, fair, balanced and understandable, comprehensive but concise, strategic and forward-looking, stakeholder oriented, consistent and coherent.

The Guidelines aim at fostering best practice in climate reporting and are very detailed, although they recognise that a flexible approach by companies is necessary. Integrated reporting of climate related information with other financial and non-financial information is encouraged. Taking into account the TCFD Recommendations, the Guidelines identify typical climate-related risks and opportunities that should consider the whole value chain, upstream and downstream.

[5] Art. 1(1) enacting Art. 19a (1) EU Directive (EU) 2014/95.
[6] Art. 1(1) enacting Art. 19a (1), EU Directive (EU) 2014/95.
[7] European Commission Communication, Guidelines on Non-financial Reporting: Supplement on Reporting Climate-related Information, 2019/C 209/1, 20 June 2019.
[8] EU Technical Expert Group on Sustainable Finance, Report on Climate-related Disclosures, January 2019.

The Directive does not expressly refer to directors' duty of skill and care in relation to climate change. Under all European jurisdictions, including Italy, directors shall manage a company in compliance with the duty of care and loyalty. The silence in the Directive No. 2014/95/EU makes no explicit mention of directors' duties but by requiring disclosure on climate-related risks and opportunities, among other factors, it actually drives the board's whole activity on how to govern climate change.

It presumes an understanding and assessment by the board of the impact of climate change on the business and vice-versa of the business on climate. In particular, the description of the business model – which is one of the four pillars of information – assumes that the board of directors has planned the company's strategy taking into consideration the climate in the short, medium and long term.

This perspective is longer than that usually considered, even in strategic plans, and involves financial planning, in terms of both capital expenditures and revenues, to take full account of all risks and opportunities. In addition, disclosure on policies and due diligence processes – second pillar of the information – assumes that the board of directors, within its duty of oversight, has efficient monitoring of the internal organization with reference to climate.

The same duty of oversight applies to disclosure on the outcomes of the company's policy on climate change – the third pillar of the information – i.e. metrics and targets that it is upon the board's responsibility to check. The fourth pillar of information is disclosure and management of principal risks: the board of directors is ultimately responsible for the processes adopted by the company with reference to risk management.

In order to consider climate-related risks, directors shall apply a short, medium and long-term perspective. Risks and opportunities are those identified by the TCFD Recommendations. Therefore, material risks and opportunities identified are to be correctly disclosed to the market following the European Commission Guidelines of 2019. Although these Guidelines are not binding, they are the most up to date climate standard to be followed in order to fully comply with the duty of care.

They therefore specifically impact the contents of the duty of skill and care with reference to: strategic planning, oversight of internal organization and risk management, and decision making, in all European jurisdictions. Climate related information forces directors towards a medium-long term horizon, as otherwise otherwise climate related consequences cannot be fully understood and assessed.

This holds even where a jurisdiction does not specifically contemplate the long term in the provisions addressing directors' duties. Because of the disclosure requirement under the Directive N. 2014/95/ EU, boards are led to adopt a long-term vision in managing the company to govern climate. The Directive thus has an enormous impact on the contents of the duty of skill and care well beyond disclosure.

Disclosure on climate is functional to identifying risks and opportunities, and entails directors' duty to properly manage those risks and to embed those opportunities in setting the medium-long term strategy of the company.
Through disclosure, climate change enters into the management of big European corporations in all sectors, not only the energy sector. Under general principles of Italian law, directors' civil liability for damages applies in cases of: misstatements; overvaluation of assets; and breach of the duty of skill and care for failure to identify and/or manage climate related risks or to consider climate related opportunities in setting strategy. The legislation is very recent there is no case in law at the moment[9].

How we addressed the topic

Our Reflection Group dedicated a workshop session to the implication of governance of the Natural Capital, led by Sabrina Bruno and Livia Piermattei. The workshop was opened by Sabrina Bruno with an introduction on the evolution of duties and responsibilities of administrators related to Climate Change and by Stefano Pareglio who focused on the role of Natural Capital to better understand climate related risks and opportunities and led a reflection on different business models and their environmental impacts.

The challenge from the executives in brief

Executives from different companies presented their experiences and supported the discussion by the 25 participants.They were Massimiliano Garri, Chief Innovation and Information Officer of ACEA, Franco Pruzzi, Senior Vice President Internal Audit and Domenico Negrini Head of CSR of SNAM and Lucia Silva, Group Head of Sustainability and Social Responsibility of Assicurazioni Generali (See Box 2).

[9] For a more detailed analysis see: Bruno S., Dichiarazione "non finanziaria" e obblighi degli amministratori, Rivista delle Società, 2018, p. 974; Bruno S., Climate Corporate Governance: Europe vs USA?, in European Company and Financial Law Review, 2019, 1; Bruno S., The World Economic Forum Principles on "Climate Governance on Corporate Boards": Can Soft Law Help to Face Climate Change around the World?, in Corporate Governance and Research & Development Studies, 2019, p. 37-55. And with reference to unlisted and smaller companies see: Bruno S., Cambiamento climatico e organizzazione delle società di capitali a seguito del nuovo testo dell'art. 2086 c.c., in Banca, Impresa e Società, 2020, p. 47.

Box 2.

Lucia Silva, Gruppo Generali

"Today it is common knowledge that organizations have a broad impact, which in addition to the generation of profit also includes effects on the community and the environment.
The challenge is to fully understand these impacts, from the point of view of both risks and opportunities, by finding adequate metrics and management methods, to fully integrate the social and environmental variable into the core business, with the aim of creating value for shareholders, people and the planet."

Domenico Negrini, Snam

"I believe that the most important challenge for the board of Directors is the true integration of sustainability into business processes, so that sustainability is included in long-term strategic vision and can become a real lever for continuous improvement and value creation. The precondition is to identify those strategic sustainability objectives that are truly material because they directly impact the business and the company's value generation. Participating in the workshop was extremely useful because it compared different points of view on one topic, sustainability, and different facets were examined. I liked the "sparkling" atmosphere, in which we had very open, frank, direct discussion, motivated by real interest".

The Neds' perspective

Our Reflection Group addressed the issue of board and governance of the Natural Capital in discussions on the opportunities and risks of an active role of the board on Climate Change, the main issues at stake and the ways to work on it at a board level. The outcomes of the discussions are summarized in Figures 7 and 8.

It is interesting to note that participants considered that all Committees in the board should consider the potential environmental impacts of the company strategy. This emphasizes the "connectivity" of a multi-capital decision making process, and that impacts determine both risks and opportunities in three main areas: competitiveness, strategy and company culture. They also drafted an approach in the "how" chart below, where culture originates in governance when considering the effect of transparency on both inputs and outcomes.

Figure 7. **Opportunities and Risks relating to Natural Capital governance**

OPPORTUNITIES	THREATS	COMMITTEES
Competitiveness	**Competitiveness**	
Privileged access to financial markets Access to public incentives Ethics become economically efficient	Business failure Loss of business opportunities Increased costs for the convertion of production processes Increased costs for insurance services Sanctions Less interest from investors Financial risk Reputational risk	REMUNERATION STRATEGY SUSTAINABILITY RISK THE WHOLE BOARD OTHERS
Strategy	**Strategy**	
Enables «transition risk» management Competitive advantage of the business model (a sustainability-driven strategy is beneficial for first incomers) Profitability and value creation, in compliance with shareholders' and other stakeholders' interests Continuous revision of the business model with a long-term view Ability to attract investors, even thanks to a dialogue involving the board	Strategic and Business Model risks Loss of value due to a fall in consumpion Geo-political risks Lack of a structured and organic approach to strategic planning Operational risks	
Culture	**Culture**	
Higher reputation Long-term view Awareness at board level Ability to translate technical information in financial information enabling a better asset valuation and a higher efficiency Increased information about long-term scenarios and strategic goals Innovation	Lack of transparency relating to costs, disruption, reputational risks Prisoner's dilemma Mismatch between short-term and long-term goals Underestimation of climate change impacts Lack of skills and competences Impasse due to cultural differences Inefficient or non adequate information supplied to the board Timing Complexity, difficult to be managed and consequent risk of defocus	

Figure 8. **Tools and processes for the governance of Natural Capital**

HOW

TOOLS FOR INTRODUCING THE TOPIC OF NATURAL CAPITAL IN THE BOARDROOM

- Appointment of a manager or of a function in charge of the topic
- Involvement of all business functions
- Non Financial reporting as a change driver
- Request joint discussions of committees to integrate environmental sustainability into the Business Plan
- Integration of sustainability in all business processes
- Long-term MBO and rewarding of best practices
- Design of a change management process where the champion is the CEO
- New skills
- Multi-scenario analysis
- Long term incentives
- Research Lab with incubators and universities
- Materiality analyis
- Disruptive induction with «less conventional» experts
- «Translation» of ESG topics into KPI for the top management
- Design of an integrated approach to work on Governance starting from Transparency and Disclosure

2.3.2 Human Capital (Francesca Prandstraller)

Starting from examples of companies such as Patagonia and South West Airlines, which were able to extract the maximum performance value from their human resources management strategy, the reflection carried out by Nedcommunity's directors introduced concepts and ideas that have been elaborated by the Strategic Human Resource Management field of studies (SHRM), which is devoted to exploring HR's role in supporting business strategy and value creation.

SHRM can be defined as "the pattern of human resources deployment and activities intended to enable an organization to achieve its goals" (Wright and McMahan, 1992).

Using the abovementioned examples, it is possible to see that, very often, problems of strategic positioning of a firm are profoundly influenced by the ability of the organization to take advantage of its internal resources (human capital, knowledge, managerial skills, etc.) and to organize them in a way that leads to a sustainable competitive advantage compared to its competitors.

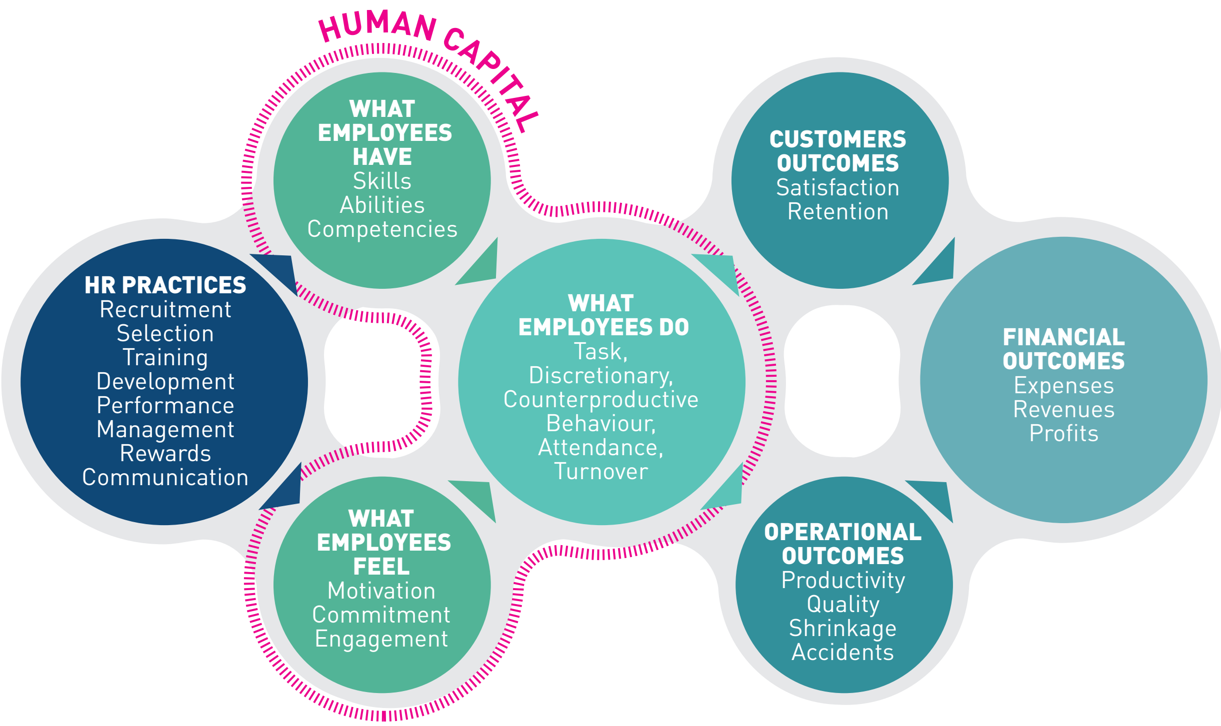
This strategic view, which competes with and complements the traditional strategic positioning theory (Porter's 5 forces) is called the Resource View Theory (Barneys, 1991). It sees firms as heterogeneous because they possess heterogeneous resources. In other words, firms have different strategies because they have different internal resources, and they focus on identifying and organizing those assets, capabilities and competencies with the potential to deliver superior competitive advantages. Companies which are in possession of resources that are rare, difficult to imitate, transfer or substitute and have an intrinsic value, are those which see higher returns than their competitors. Among these resources, human capital, and its competences and capabilities and organizational values and culture are paramount.

In order to extract all the potential value, first HR policies and practices must first be aligned with the firm's strategy (vertical alignment). This entails coordinating the strategy with the HRM systems which should be coherently associated with that strategy. Next, the different HR policies, systems and practices must be aligned and work together as a coherent whole in "horizontal alignment. The emphasis is on the system of HR practices, because it is the broad array of practices that matter in terms of employee performance.

The connection between HR practices (recruitment, selection, training, development, performance management, rewards and internal communication) and the performance results of the company is mediated by the ability of the HRM systems to perfectly align employees' skills, abilities, competences, on the one hand, and motivation engagement and commitment on the other hand, with their tasks and positive behaviors.

Motivated and competent employees are the key to operational excellence, which, in turn, leads to customer satisfaction and better financial returns. Employee behaviour can affect a firm's financial outcomes, especially in its impact on operations and customer service. But it is also worth remembering that every HR practice costs money to develop and time to implement and deliver and these costs impact directly on the organization's bottom line. Carrying out very selective hiring practices or continuous training, for example, can be expensive. For this reason, it is vital that the HR Department implements high-performance HR practices that increase productivity, keeping in mind that costs should never surpass benefits. A useful road map is to link HR interventions to a balanced scorecard tool. The balanced scorecard links performance measures to different perspectives: customer perspective, internal perspective (processes and quality) innovation and learning perspective (employees' skills, competences, information and commitment), and, lastly, the financial perspective (See Figure 9).

Figure 9. **SHRM (Strategic Human Resources Management) and Company Performance**



Fonte P. Wright 2008

In this perspective the role of the HR Department is essential in connecting business strategy and HR strategy in four ways (See Figure 10):

1) **Definition:** In the definition phase of the business strategy, the role of HR is that of helping business leaders to identify critical roles, competences and level of engagement that are needed in order to design and deploy the firm's competitive strategy.

2) **Design:** Once the business strategy has been defined, the role of the HR managers is that of identifying key priorities of the HR strategy. This means focusing on the key policies, competences, skills, information and people commitment needed to implement the business strategy and setting these as goals of the HR systems.

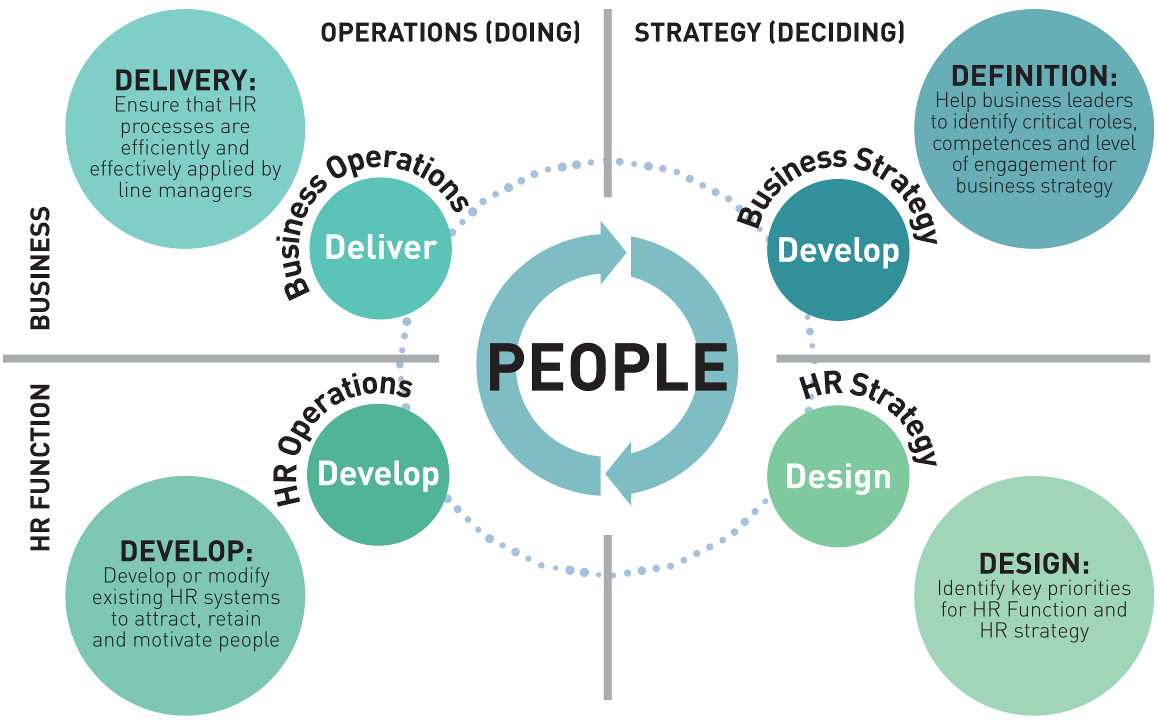
3) **Development:** Once the HR strategy has been cleared and approved, HR managers need to actually develop or modify existing HR systems to fit with the business objectives. HR policies, systems and practices must be set to attract, retain and motivate the right kind of people for the company to reach the expected strategic results.

4) **Delivery:** Lastly, HR managers should help line managers to properly apply the HR tools to their employees, so that the systems and practices are efficiently and effectively applied throughout the company in a seamless manner.

How can the Board of Directors influence this strategic connection between business strategy and HR strategy?

In the Definition and Design phases, the BoD should be involved in order to influence choices. In the Development and Delivery phases, the BoD should be responsible for checking that the results are in line with expectations, and investments in people are giving back what is needed for the business strategy to succeed.

Figure 10. **The process of integrating business strategy and HR strategy**



Fonte P. Wright 2008

The Reflection Group based its activity on these introductory concepts.

Participants first heard the points of view of the HR Managers who took part in the workshop and supported workshop discussions. Their quotes are reported in Box 3.

Box 3.

Marilena Ferri, Manpower

"The strategic management of human capital is key to the sustainability and long-term generation of value of the company. Too often this vision is lacking on a board, and the problem becomes clear only when strategies do not work or there is a leadership problem. Board members do not need to be HR experts, but they must know how to ask the right questions so that the process is up to date, close to strategic elements and proportional".

Mauro Ghilardi, A2A

"It is appropriate for boards to take responsibility for culture and engagement so that human capital becomes of equal importance with other topics. The time has perhaps come for the Remuneration and Appointment Committee to become a Culture and Leadership or People and Leadership committee. I have found genuine interest in this among directors. I hope to focus more closely on it on future occasions."

Gianluca Grondona, Salini Impregilo

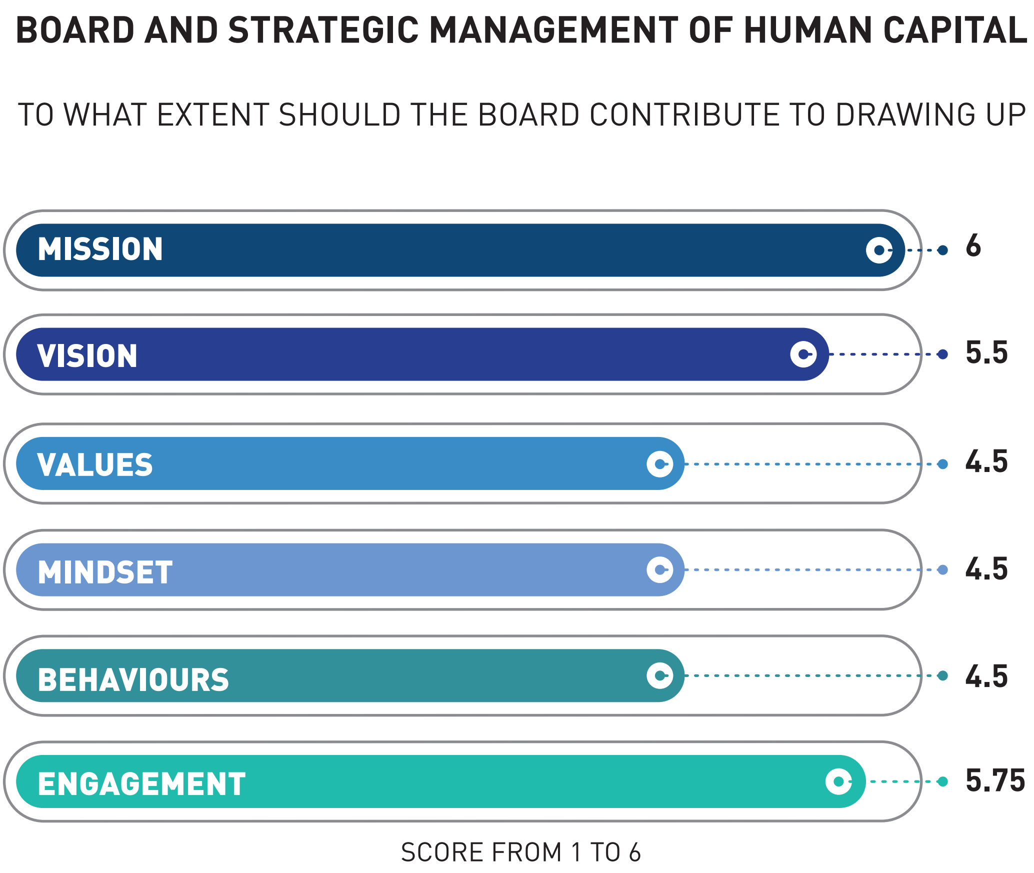
"I note that there is a plurality of subjects on boards but there are never experts in Human Capital. Even though good management of human capital creates the conditions for positive financial results over time. With the directors of Nedcommunity in this workshop we have, perhaps for the first time, had the opportunity to dedicate quality time to the topic of "People" and its many facets in a board of directors.
Superficially it appears to be easy to acquire HR skills, but we tend to underestimate the elements that make the difference, and that only direct experience in the field allows you to understand and manage effectively. So I think that it is important to reflect on the enrichment of diversity on a board of directors in order to include different backgrounds and professional skills such as Human Capital skills."

Laura Bruno, Sanofi

"Since innovation of skills as well as products and processes will be the driving force of companies for the coming years, human capital will be one of the most important strategic levers.
Within companies, those in my role are among the few having thorough and transversal knowledge of the organization (360 °) and it is useful to enhance this competences."

Then, divided into subgroups, participants worked on the role of the BoD in the strategic governance process of the Human Capital, discussing about risks, opportunities and best practices of this involvement.
Figures 11 and 12 show the results of the dialogue carried out.

Figure 11. **Key topics for boardwork on human capital**



This had already become evident when drawing the transformation that Integrated Reporting could imply for governance bodies in the context of a development toward a stakeholder governance model (Piermattei, 2010).

Figure 12. **Opportunities and Risks relating to Human Capital governance**

BOARD AND STRATEGIC MANAGEMENT OF HUMAN CAPITAL

WHY SHOULD THE BOARD WORK ON STRATEGIC MANAGEMENT OF HUMAN CAPITAL?

OPPORTUNITIES

Strategy

- More effective design and execution of strategies
- Align business and HR strategy assessing capacity for implementation
- Workforce planning
- Design and execution of strategy
- Coherence with medium and long-term strategy
- Digitalisation
- Need of qualification
- Accountability and clarity for Board on organization

Culture

- Governing company culture
- Strengthening company culture
- Employer branding

Competitiveness

- Attract best resources
- Reputation and status
- Align change, communication and training
- Modernise orientation
- Employment costs and trade-off with staff engagement

THREATS

Strategy

- Not reaching strategic objectives
- Lacking right skills for the future (talent related risk)
- Loss of overall vision
- Business plan not being approved in appropriate time period or manner
- Future negative impacts not being evaluated in time
- Human capital only being mentioned in the context of acquisition
- Digitalisation

Culture

- It is a challenge only for independent directors
- Shift focus away from safety
- Problems of succession

Competitiveness

- Losing key skills and thus competitiveness
- Underestimate operational risks

COMMITTEES

- REMUNERATION
- STRATEGY
- SUSTAINABILITY
- WHOLE BOARD
- ACCROSS THE BOARD TOPIC LINKING ALL COMMITTEES

The subgroups were asked to identify a set of specific tools to be used by the BoDs to learn about and influence the strategic HR definition of priorities aligned with the business strategy (See Figure 13).

Figure 13. **Tools and processes for the governance of Human Capital**

HOW

TOOLS FOR INTRODUCING THE TOPIC OF HUMAN CAPITAL INTO THE BOARDROOM

- Induction phase
- Powerful questions on Human Capital Management
- Identify KPIs
- Materiality matrix
- Staff survey on engagement analysed in Board
- Quarterly reporting on non-financial information
- Qualitative indicators on HR performance review
- Systematic involvement in HR, KPI and monitoring
- Regular sectoral benchmarking

In the final phase, the discussion shifted to the role of organizational culture and employees' engagement and on why these are very important issues that should be discussed by the the BoD. Results are shown in Figure 14.

Figure 14. **Why Human Capital?**

WHY

COMPANY CULTURE AND ENGAGEMENT: WHY SHOULD THE BOARD BE INFORMED ABOUT PEOPLE'S ENGAGEMENT IN THE FIRM?

- Critical factor for reaching strategic objectives
- Know how engaged are people and their expectations for the future
- Company continuity
- Reputation
- Ensure skills and engagement match
- KPIs kept up to date
- Link results to future sustainability

2.3.3 Intellectual Capital (Paola Bonomo)

Intellectual capital has emerged over the last 20 years as a foremost engine of value creation. At the top of the market cap leagues we used to see companies that owned extensive physical resources and infrastructure, or had the most beloved brands, or came from a long tradition, or commanded vast amounts of financial assets. And yet, as they did not master intellectual capital, they fell behind. In their places we now find companies such as Apple, which does not manufacture or assemble any of its phones; Amazon and Google, which are – with reason – both loved and loathed by their customers; Tencent and Alibaba, two companies that barely existed two decades ago; and even Tesla, which has been on the brink of insolvency many times over the course of the years.

Their primacy is explained by one aspect: they are all masters of intellectual capital. Designing an iPhone, reinventing the advertising industry, bringing financial services to hundreds of millions of people, envisioning the world after internal combustion engines, upending entire technology stacks and value chains are all feats of intellectual capital, the asset most jealously guarded by these companies. Innovation does not occur in a vacuum, but on a treadmill: lose the edge in intellectual capital and you'll fall by the wayside. Just like sharks, which must keep swimming even when asleep in order to keep breathing, intellectual capital leaders generate new intellectual capital around the clock.

We can list elements of intellectual capital under multiple headers:

1. Data, models, formulas, patterns, designs, algorithms, etc.: these are the ingredients that make what the company offers different and unique. Once upon a time, these were simple recipes: think of the formula for Coca-Cola. Still, as successful companies, they were always distinctive and recognizable: open the door to the historical archive of a luxury house, and you instantly know whether you're looking at Chanel or at Gucci. Today, these assets are typically coded into a language shared by machines and humans, and they reside in giant data centers.

2. Customer-facing processes, procedures, guidelines, etc.: these assets, which can be codified in various manners (text, drawings, blueprints, flowcharts, instructions, videos), dictate how the organization behaves and what are the customer experiences: for example, the script for a call center conversation with a friendly customer support agent at Zappos, the user experience flow for creating an Instagram ad campaign, or the process for migrating your data to Amazon Web Services.

3. Know-how, tacit knowledge, company culture, etc.: this, too, is intellectual capital, even though it is often not as precisely codified as the other categories. Best-in-class companies invest in knowledge management (how could one otherwise learn from mistakes?), pay attention to new hire onboarding and induction, and take great care in nurturing an internal apprenticeship model. Knowledge is communal, residing in teams and tribes. Incentives are designed for sharing knowledge, not hoarding it.

Clearly, a strong intellectual capital strategy will intersect with the company's human capital strategy: if our employees are subject to frequent poaching attempts by competitors, having a defense strategy is just as valuable as being good at protecting internal knowledge from cyberattacks. Intellectual capital is not a mere matter of databases, though data may provide an important competitive edge. Intellectual capital is the human ability to turn data and ideas into economic value.

Notice that we did not include "patents" as a necessary element of intellectual capital. While in the pharmaceutical and biotech industries, compounds and methods are patented as a matter of routine, much of the software world – for example – does not rely on patents, and a subset of the industry has even grown based on "open source" software. So, patenting may be a tool to protect intellectual capital, but by no means the only choice, or even the primary one.

The activities of the Reflection Group in the workshop: powerful questions and tools to govern intellectual capital

Our Reflection Group addressed the issue by formulating some questions that a board of directors can usefully ask itself in assessing how intellectual capital is generated, acquired, distributed, governed, and grown within the company:

- Are our top managers recognized in the industry not just as successful strategists or operators, but also as industry thought leaders? Thought leaders (Ray Dalio in hedge funds, Reed Hastings in the entertainment industry, Jony Ive in the design world) are the innovators who raise the bar for the performance of the entire sector[2].

- Are our people recognized as thought leaders on cross-industry themes (sustainability, the future of work, etc.)?

- How much of the intellectual capital across the company are we effectively able to deploy towards business objectives?

- How much of the total intellectual capital in the company are we actually turning into bottom line impact? Great R&D institutions, such as Xerox PARC, historically have not excelled at reaping the rewards of the innovations they introduced.

- How much do we actually need intellectual capital at this stage of our company history?

- Do we have a strategy and tools to attract, manage, nurture and grow intellectual capital?

[2] An example from the telecommunication industry: Mauro Sentinelli, the father of prepaid mobile services.

The answers are not at all obvious, given the lack of established metrics in this arena. However, we can deploy a few tools to measure where the company stands and to what extent it may need a more sustained focus on intellectual capital:

- Feedback from industry peers, category associations, etc.
- Periodic assessment of management team members (if necessary, conducted by external consultants)
- Skill mapping (conducted by HR)
- Assessment of knowledge management systems
- Financial assessment of economic value indicators (e.g., patent box)
- Sector-specific knowledge indicators (e.g., published papers, citations, etc.)

We also applied a simple three-horizon framework (White Baghai and Coley, 1999) to support the board inquiry on the allocation of capital expenditures, managerial time and resources, and organizational attention to the cultivation of intellectual capital as a source of competitive advantage and sustainable success.

Box 4.

The ideas and stimuli shared with the participants included a focus on Patent Box, described by lawyer Francesco Fratini as an example of financial effects of the governance of intellectual capital (R&D).

Avv. Francesco Fratini

«In a historical era in which the added value of a company is increasingly represented by intellectual capital (rather than material corporate assets), Patent Box aims to encourage companies to maintain intangible assets in Italy, and the placement in Italy of those held overseas. It also aims to encourage investment in research and development. Patent Box offers tax relief on income deriving from the exploitation of intangible assets used, and is a "structural" tax measure that impacts the actual tax rate of the company.»

The challenge of the executives in brief

The workshops were led by top managers expert in the area of the development of intellectual capital who also took part in discussions with the 27 participants.
In Box 5 below you can read some of their quotes.

Box 5.

Guia Lanciani, Medtronic

"The pace of change is so fast that the board has to focus on creating new growth models, balancing them with short-term results which are also necessary. It is the good governance of intellectual capital that can make the difference in this."

Riccardo Amoroso, ENELX

"It is important for boards to integrate sustainability into strategy, as an opportunity for innovation and distinction of the business and that they take responsibility for this strategic decision.
Moreover, innovation also impacts technological solutions and the market is increasingly looking for sustainability in the way of doing business."

Stefano Gison, Unicredit

"I suggest that directors focus their questions on mistakes, to ascertain whether the company is willing to accept mistakes, because otherwise it will be unable to innovate. Amazon is an example here. I also believe that it is important to be clear, partly through terminology – whether it is marketing of the innovation function or true innovation.
Lastly, I think it would be important to make an assessment of management from the "human" point of view too, in order to verify whether the mindset that is sometimes only declared is consistent with behaviors acted out."

The point of view of NEDs: committees to govern intellectual capital in a BoD

As a newcomer to the area of non-financial information, intellectual capital does not yet have a specific committee as its "home" within the board. The NEDs in the discussion broadly agreed on the numerous opportunities of assessing the state of the art of intellectual capital management within the company, as well as the risks of neglecting it. But they did not identify a committee in charge of the topic for the board among the usual existing committees. Strategy and Sustainability committees were most frequently mentioned, with some voicing the opinion that the matter might also be on the table of Nomination, Compensation or (where existing) Innovation committees (See Figure 15).

Figure 15. **Opportunities and Risks relating to Intellectual Capital governance**

BOARD AND STRATEGIC GOVERNANCE OF INTELLECTUAL CAPITAL

WHY SHOULD THE BOARD WORK ON STRATEGIC MANAGEMENT OF INTELLECTUAL CAPITAL?

OPPORTUNITIES	THREATS	COMMITTEES
Strategy	**Strategy**	
Shared intellectual capital Intellectual capital integrated into strategy Innovation permeates organization Wider evaluation of ecosystem Maximise business opportunities and long term sustainability Convert know-how into earnings and capital Monitoring systems expected to be integrated with non-financial KPIs Business evolution Generate profit Maintain core business and develop other business models	Risk assessment divorced from business opportunities Innovation relegated to less important division No link between short term and long term Loss of resources where intellectual capital is not managed Resources used with no return Time wasted	REMUNERATION SUSTAINABILITY WHOLE BOARD REMUNERATION NOMINATION INNOVATION COMMITTEE (INTERNAL) FIRST LINE MANAGEMENT COMMITTEE
Culture	**Culture**	
Learning from mistakes and innovation	MBO not in line with pre-financial or financial value Directors' liabilities for innovation can generate resistance Board discussion	
Competitiveness	**Competitiveness**	
Intellectual capital (technological change) as driver of competition and growth Generate value Appeal, brand, reputation	Expulsion from market Loss of investment appeal	

Several tactics can help the board inquire into and support the company's management of its intellectual capital. Board members whose professional backgrounds are in R&D and innovation will be perhaps best placed to lead this assessment. Among the other tools, NEDs highlighted the evaluation of organizational mechanisms (structure, incentives); the post-mortem analysis of mistakes and failures; and, perhaps most importantly, a systematic and constant focus of the board on innovation (See Figure 16).

Figure 16.

HOW

TOOLS FOR INTRODUCING THE TOPIC OF INTELLECTUAL CAPITAL INTO THE BOARDROOM

- Company organisation
- Integrated processes
- Innovative processes starting from the client
- Systematic and constant focus on the topic by the Board
- Simple innovation monitoring tools for use by the Board
- Internal committees
- Board member R&D skills (Board member characteristics)
- Unconventional methods to reveal intangibles.
- Discussion between top management and Board
- Joint induction with management
- Incentives for resources (retaining best resources)
- Assessing innovation across the organization
- Systematic mapping and assessment of intellectual capital
- Analysis of mistakes and failures
- Include KPIs linked to innovation in MBO

2.3.4 Social Capital (Livia Piermattei)

The Reflection Group addressed the issue of Governance of the Social Capital with a workshop discussion aimed at identifying the opportunities and risks of an active role of the board on the governance of social and relationship capital, the main issues at stake and the ways to work on it at board level. The discussion was supported by three discussants: Fiorella Passoni, CEO of Edelman Italy, Michele Tesoro Tess, EVP EMEA & APAC, The RepTrak Company and Manuel Liotta, Head of Sustainability of Leonardo Company.

Brief summary of discussant input

Fiorella Passoni and Michele Tesoro Tess focused on two main outcomes of Social and Relationship Capital: reputation and trust, and the differences between them.

They presented the results of the annual survey of their organizations on governance of social and relationship capital, outlining complementary points of view and facilitating the discussion between the 27 participants who took part.

Fiorella Passoni summarised over 19 years of experience in studying trust (Edelman Trust Barometer), in which Edelman identifies a number of long-term trends. In general terms, trust has shifted from a vertical structure, in which people looked up to CEOs and political leaders for information about the world around them, to a more horizontal structure, in which people trust their peers and those with whom they have a closer connection.

In recent years, however, that horizontal trust has been undermined by the challenges of social media platforms and the preponderance of fake news and unreliable information. Today, people are turning to what they know and can control: personal relationships, including the relationship with their employers.

It is interesting to note that trust can be supported by partnership with NGOs and the government, because people are speaking up, organizing, and using their influence to affect change through the most effective means available to them, including lobbying an employer to use their influence.

Trust in traditional media and search remains high. But social media continues to face major issues with trust, especially in Europe, Canada and the United States, where the gap between trust in mainstream media vs social media is as high as 40 points in some markets. Concerns about fake news and data privacy continue to cloud the media ecosystem.

Employee expectations are far broader than might be expected, with 67 percent saying that they expect their work to have a positive societal impact. They want to know what their employers are doing to make the world a better place, and how their job directly contributes to this societal impact.

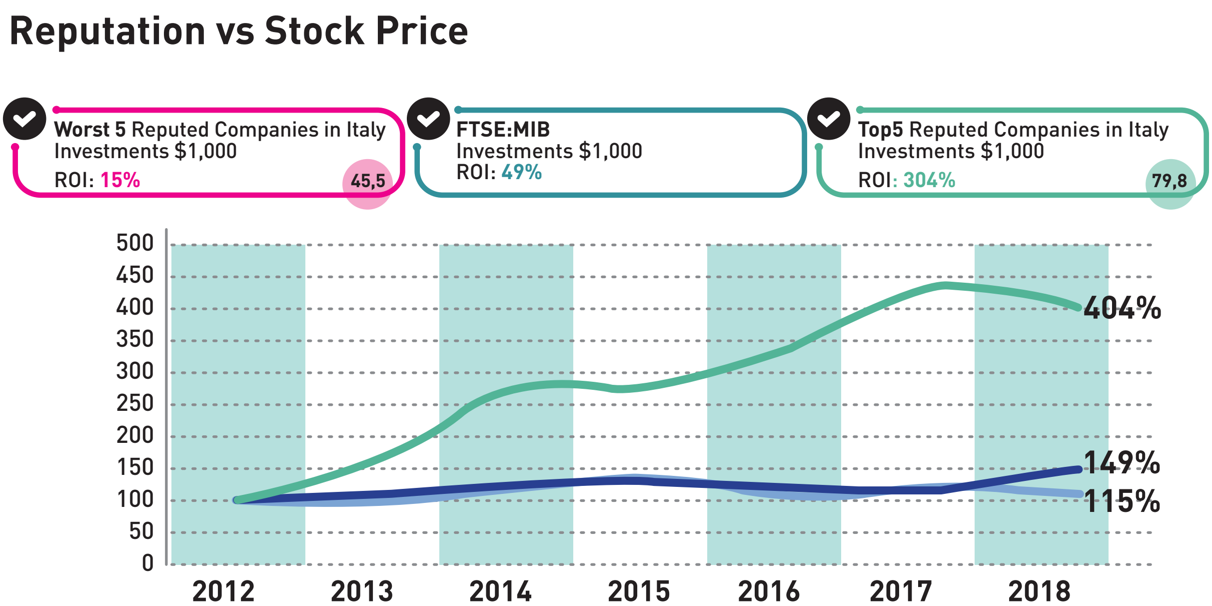
In fact, when employees trust their employers, the returns are significant. They are far more likely to advocate on behalf of their employer, to stay loyal to their employer, to be engaged and live the organization's values, and to be strongly committed to their job and the customers they serve. This trust advantage delivers real tangible benefits, both inside and outside the organization.

Michele Tesoro Tess introduced the results of RepTrak, positioning reputation as one of the key drivers of value of a company. It is closely linked to stakeholder support (from "buy" to "recommend" to "invest") and determines outstanding results at all levels (top line, bottom line, stock price).

More than 76% of companies interviewed for RepTrak research state that reputation is a high and a rising priority, but only 36% say they are ready to manage reputation proactively.

Suggestions that emerge from the Rep Track survey indicate that it is important to communicate on issues that are relevant for the company (products, services, governance, citizenship) and that the different communication channels interact closely with each other, possibly creating a "domino effect". They also indicate that if CEOs are active and visible, they can turn into a "multiplier" of value in terms of reputation and intention to recommend, two of the most significant KPIs in social and relationship capital (Figure 17).

Figure 17. **Evidence on the relationship between stakeholder engagement and corporate reputation**



Source: FTSE MIB Index vs Reputation Institute Database

Employer Branding and Talent Attraction

84%

of people would leave its current employement to **join a company with a higher reputation**

+10%

Companies with a negative reputation have to sustain **higher costs of recrutiment**

TOP 5

Having a good reputation is one of the **top five driver** considered by young people when **choosing a company**

50%

of people declare they would **never work for a company with a bad reputation** – although a salary increase

Source: Reputation Index 2019

Manuel Liotta, Leonardo Company

Manuel Liotta focused on the existing relationship between business and social and relationship capital, and the need for executives to introduce a strategic governance of this relationship through regular monitoring of dedicated KPIs, a key opportunity to avoid crisis.

The point of view of Neds'

The outcomes of the discussions of the 25 participants to the workshop are summarized in Figures 18 and 19.

Participants immediately connected social and relationship capital to crisis management, reflecting on the need to "be prepared" through crisis simulations. This is done with a crisis simulation session and the set-up of a detailed crisis management plan as an opportunity to extract value from the crisis management underlining that the need to invest time in "getting prepared" should not be considered an inefficiency and be low on the priority list.

Participants also considered it as an opportunity to promote attention and board activity to stakeholder governance in order to anticipate issues that could add value (or mitigate risks) in the strategy making process. Another opportunity is to grasp the positive connections between corporate storytelling and new business at board level.

Governance of social and relationship capital was mainly seen as the responsibility of strategy and risk committees, and the need to coordinate with the Risk Committee is emphasized in the "How" section. The "How" section also emphasizes stakeholder engagement (surveys on different stakeholder clusters, planning of the activities and their outcomes) as a key issue to be thoroughly analyzed and discussed by the whole board.

Figure 18. **Opportunities and Risks relating to Social and Relationship Capital governance**

OPPORTUNITIES

Stakeholder Engagement

- Stakeholder involvement underpins project success
- Positive relationship between reputation and business, storytelling and new business

Reputation

- A good reputation attracts talent and investors
- Profits, and value creation in line with stakeholder and shareholder interests
- A good reputation is often self-enforcing

Strategic Governance

- Can positively impact social and relationship capital
- Encourages medium or long term thinking
- Listening to stakeholders reveals risks and opportunities relevant to strategy

Measuring

- Engagement surveys make it possible to measure and if necessary intervene on stakeholder engagement
- Employee survey monitors employee engagement

THREATS

Stakeholder

- Potential loss of credibility
- Stakeholder management not seen as urgent
- Low stakeholder involvement implies reputational risk
- Loss of business if no communication with stakeholders

Reputation

- Poor reputation makes it difficult to attract talents
- Low attraction for investors
- Difficult to build up a good reputation but much easier to lose it

Strategic Governance

- Difficult to identify responsibility for social and reputational capital; CEO, Board or ad hoc committee? It never seems to be the most urgent question Considered a commitment and a burden. Members following the issue may be isolated

Measuring

- Difficult to find a single indicator for social and relationship capital
- Indicators can be not clear enough to reveal if there are low levels of reputation and stakeholder engagement

COMMITTEES

- STRATEGY
- SUSTAINABILITY
- RISK
- WHOLE BOARD
- KEY ROLE OF CEO

Figure 19. **Tools and processes for the governance of Social and Relationship Capital**

HOW

TOOLS AND PROCESSES FOR THE GOVERNANCE OF SOCIAL AND RELATIONSHIP CAPITAL

- Identify persons and / or functions responsible
- Table top exercise to raise capacity to respond efficaciously and coordination table in SGCR
- Develop standard response to reputational emergency
- Be aware of stakeholder, employee, customer experience and reputation surveys and integrate indicators into remuneration plans
- Discuss results and structure of stakeholder engagement in the board
- Request joint discussions between different committees and insert reputation as a topic in the business plan.
- Build an integrated approach to work on governance based on stakeholder and talent management, structure of the organisation and role of SGCR

2.3.5 How to integrate ESG into risk culture
(Carolyn Dittmeier and Patrizia Giangualano)

New norms, together with a growing attention on the part of institutional investors, regarding the capability of corporations to manage risks and opportunities surrounding ESG have increasingly become a metric for evaluating the solidity of companies. The capability has even become a driver in decision making on where to invest.

Significant attention is being given to company ability to develop parameters which consider sustainability risk in an integrated manner in the company's existing "linear" risk framework (market, operational, business, legal, reputational[10]).
It is very important to note that the risk framework depends very much on the industry sector in which the company operates, on the geographical dimension of operations, on the supply chain and on the value chain of its products in general.

Understanding and developing the company's sustainability needs to be customized to the business, and the integration of ESG risks into the overall risk framework facilitates the proper and full understanding of the company's capabilities.

In essence, companies are encouraged to adopt strategies to manage ESG risks pertinent to their specific business models, in a manner that integrates a methodology of analysis into the company's overall enterprise risk management. With such integration, strategies are not only applying "linear" risk models but also circular or green economic models which take into account resource scarcity and reconversion opportunities specific to the business.

ESG risks must be focused on those which are material to the company and the stakeholders, and this materiality has generally emerged from the "materiality matrix" that a company prepares through interaction with the stakeholders themselves, with management and considering sector best practice trends. Materiality is analyzed by reference to reputational and operational impact as well as economic impact.

This information is generally reported in the company's annual sustainability report and its non-financial information report. The matrix is a map of the most significant topics –regarding environmental, social, human rights, diversity, stakeholder welfare or governance issues - that influence medium and long-term objectives.

[10]Linear risk is the risk a company faces when depending on the conventional "take-make-dispose" economic model. Circle Economy identifies five types of linear risk that companies face:

1. Market: raw material price volatility, criticality, and scarcity;
2. Operational: employee health, stranded assets, sustainable sourcing;
3. Business: changing consumer demands, disruptive technologies, commoditization;
4. Legal: changing legislative priorities, consumer lawsuits, product bans;
5. Reputational: brand image, license to operate

It is implicit that this map be incorporated into the long term /strategic planning process of the company. The board should thus expect to see ESG risks addressed throughout the planning and budgetary process.

The integration of an enterprise's strategic risk management processes and ESG risk identification, evaluation and response capability is the key to a competitive approach to long term sustainability. The integration of environmental, social and governance factors into the process is necessary to interpret the context in which the company operates, and also to preside over proper risk management meeting the requirements of all stakeholders, customers, investors, suppliers and the community in general.
European Directive (2014/95/EU) on non-financial information, and subsequent legislation which enacted it at national level in Europe, in fact indicate specifically that the environmental, social, and other factors contemplated by the Directive must be analyzed in terms of risks and the specific business model adopted for their management. The integration of such risks into the overall risk management framework, while not explicitly required, is implicit to the success of the company in monitoring and controlling them.

The topic is also touched upon by the European Commission in its promotion of the European Green Deal, as a "navigator" in the post Covid-19 recovery period. It considers ESG factors as important elements in evaluating credit risk and investment opportunities, and sharpens the focus on the need for financial institutions to increase efforts in deploying sustainable financial products and initiatives.

The topic was also addressed in the guidelines published jointly in 2018 by Committee of Sponsoring Organizations of the Treadway Commission (COSO) and the World Business Council for Sustainable Development (WBCSD). The guidelines provide specific support to the integration of ESG risks into the Enterprise Risk Management (ERM) framework, touching upon all levels of the ERM framework as regards ESG risks: from governance and culture, to strategy and objective setting, to the actual performance of ESG risk management (in identifying, prioritizing and implementing risk response tactics) to periodically reviewing the framework and to communicating or reporting its results.

Throughout the company's strategic planning process, risk based, the board should ensure that ESG factors are fully examined and regularly updated; this includes their being taken into account in value creation model, in business models, and in the strategic objective setting. The many interdependencies should be clear to the board. The actions to mitigate or respond to ESG risks should also be apparent within the risk management process.

Non-financial information under European Directive (2014/95/EU) is frequently reported in a separate report, but an integrated reporting approach inside the company's Annual Report is increasingly common and should be encouraged. The reporting of ESG related risks is not however completed by regulatory non-financial information reporting. Communication within the company is relevant to managerial decision making, and the board should question how this takes place. The communication channel with stakeholders and the reporting of ESG related data should also be of interest to the board.

Integrating ESG into risk culture is certainly only a case of integration of the ESG materiality analyses into the overall risk management framework or preparing an integrated Annual Report for stakeholders. An integrated risk culture requires the optimization of the organization's system of accountability and its management of competencies and awareness at all levels. Risk manager and sustainability management owners are thus required to coordinate within each and all of the relevant processes. The many means for maximizing awareness will assist in embedding ESG aspects into the organization's culture, values and capabilities.

In conclusion, the aim of risk culture and risk management is that of working to address any threats and opportunities related to the strategic objectives of a company in the short, medium and long term. Strategic objectives nowadays clearly include the environmental, social and governance objectives. They must be defined in the company strategy in an integrated fashion. And the organization of the company must evolve to allow for and promote a new mindset that manages those risks to impact on stakeholder welfare, in a wider definition, as well as on the economic and financial side. Human resource management, from the organizational side and the competency side, will be paramount in ensuring durable ESG risk culture.

3. A THIN RED LINE

3.1 Survey Board Leadership and Sustainable Business (2015-2020)
(Simona Cosma)

Over the past 5 years, Nedcommunity has surveyed its associates in order to track certain aspects of the changes in how ESG is being linked to the way of doing business. The 'Board leadership and sustainability' Survey aims to gauge the awareness and the engagement of board members in the design of corporate long-term growth strategies that incorporate non-financial factors.

The last three editions of the survey have been published in the CONSOB report: *Non financial information as a driver of transformation* with the goal to mirror through a qualitative dive into Directors' perspectives, the evidences collected in the desk analysis of Non financial statements and strategic plans.

Understanding sustainability drivers and being able to translate the risks and opportunities into business models is a great challenge for executive and non-executive directors. It requires awareness of the issues and the extent of the change deriving from them, awareness of the role and responsibilities that this transformation implies and new skills, approaches and ways of working with which to define and implement the new paradigm.

A strong driving force for this challenge was the directive on non-financial information (Directive 2014/95 / EU - also called the non-financial reporting directive - NFRD) implemented in Italy through Legislative Decree no. 254 of December 30, 2016. Although the directive is about disclosure, it bolsters the ability of market participants and financial institutions to carry out an appropriate reflection on their activities, policy, strategies, business model and risks and their impacts. Decree 254/16 attributes to the Board of Directors (BoD) the responsibility of ensuring that the NFS is drawn up and published in compliance with the Decree, according to criteria of professionalism and diligence.

Although the role of the BoD may superficially appear formal, the approval of the non-financial statement (NFS) is the final act of a long process. This process requires a correct setting of all the individual steps of the process itself, the definition of the related procedures and a rethinking of business models in light of the compatibility between risks generated by the activities and strategic objectives in the short, medium and long term. The disclosures in the NFS also affect the judgment of the market and stakeholders, who are today increasingly sensitive to these issues and putting pressure on boards.

The survey has undergone modifications in the aspects investigated over five years.

The aim however has always been to research the following:

1. Awareness of the changes required by NFS in the role and responsibilities of the BoDs and non-executive directors (NEDs), in the engagement of the BoDs to implement Legislative Decree No. 254 of December 30, 2016 and consequent changes.
2. Board member perceptions and expectations in ESG issues, and consistency of composition and organization of the BoDs regarding ESG issues with strategic orientation, including a specific focus on NEDs.

The results of the surveys enable us to trace a red line.

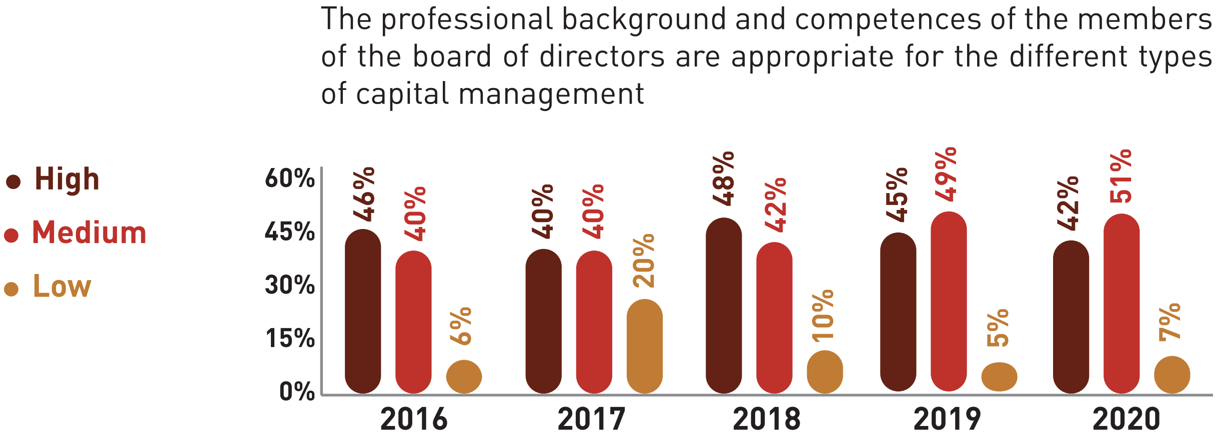
Awareness of the importance of integrating non-financial factors into the business appears to be increasing over time. This trend is indirectly shown by the gradual increase in the number of respondents to the survey, from 55 in 2016 to 97 in 2020. In fact, since taking part in the survey is voluntary, the numbers can be read as a proxy of the sensitivity and interest in the issue.

Similarly, and consistently with expectations, the percentage of respondents who are aware of the important change in the role of the BoD required by the reporting of non-financial information increases significantly, from 32% in 2016 to 88% in 2020.
This change raises the issue of professional background and competences of board members in managing the different types of capital and forms of value.

The diversity of the board in terms of managerial and professional skills is an attribute of good governance: an adequate balance of skills and expertise on boards is one of the characteristics for an optimal qualitative and quantitative board composition (Cosma et al., 2017). However, although the percentage of respondents who report the absence of such diversity is low and decreases over time (from 20% in 2016 to 7% in 2020), the percentage of respondents who doubt the presence of all the skills for the supervision of all forms of value increases (from 40% in 2016 to 51% in 2020) (Figure 1).

This trend reflects greater awareness of the "complexity" of the integrated management of financial and non-financial factors and the interconnection of the various forms of value requiring non-traditional, diversified and complementary qualifications.

Chart 1. **Level of respondents agreement with the statement shown above the graph**



The awareness of the change taking place is also reflected in the design of board composition. A growing percentage of respondents in the last three years confirms the change in the composition of the board through the acquisition of new competences (See Chart 2).

Furthermore, although it was expected that the risk committee would take on further responsibilities, boards seem to be more oriented towards the establishment of committees specifically dedicated to overseeing ESG issues, named sustainability or CSR or Sustainability committees.

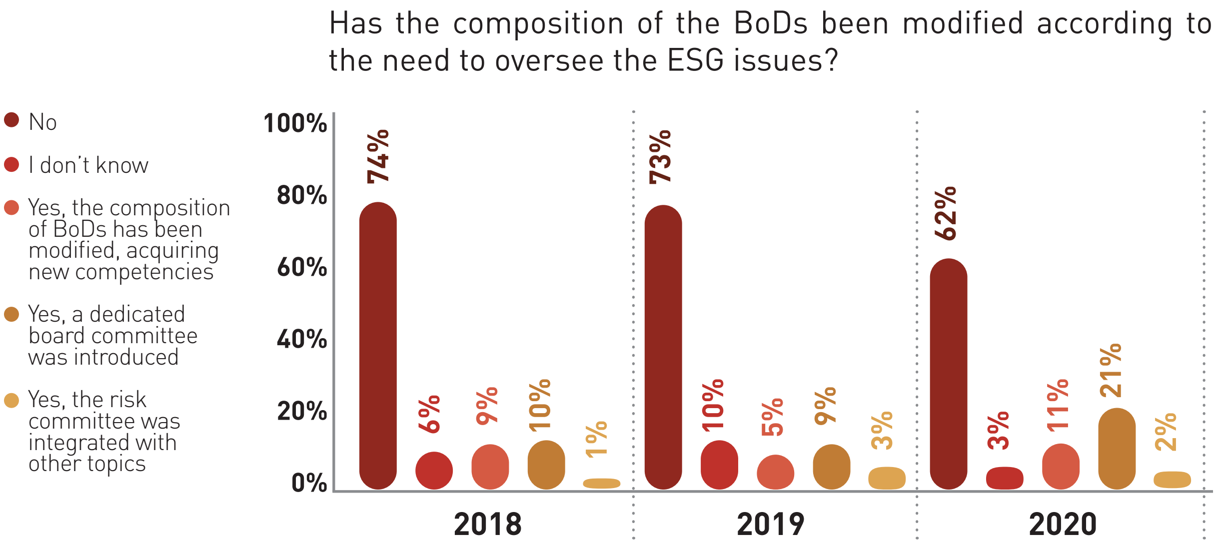
However, the set up of a dedicated sustainability committee might also point to the fact that sustainability is a separated issue, to be covered by a dedicated function, rather than by the board as a whole.

Conversely, integrated governance would require a holistic integration of sustainability in the corporate strategy, without the need for a separate sustainability committee since each board member should be thinking in a way that would promote a sustainable strategy for the firm.

Each board committee can integrate sustainability issues in their charter and replace the need for a dedicated sustainability committee (UNEP, 2014).

At the same time, some authors see sustainability committees as the expression of a proactive and long-term corporate governance strategy (Tingbani et al., 2020), of sincere concern for ESG issues (Eberhardt-Toth, 2017) and of greater transparency as promoters of ever wider CSR communication (Berthelot and Robert, 2011).

Chart 2. **Respondents' answers to the question shown above the graph**



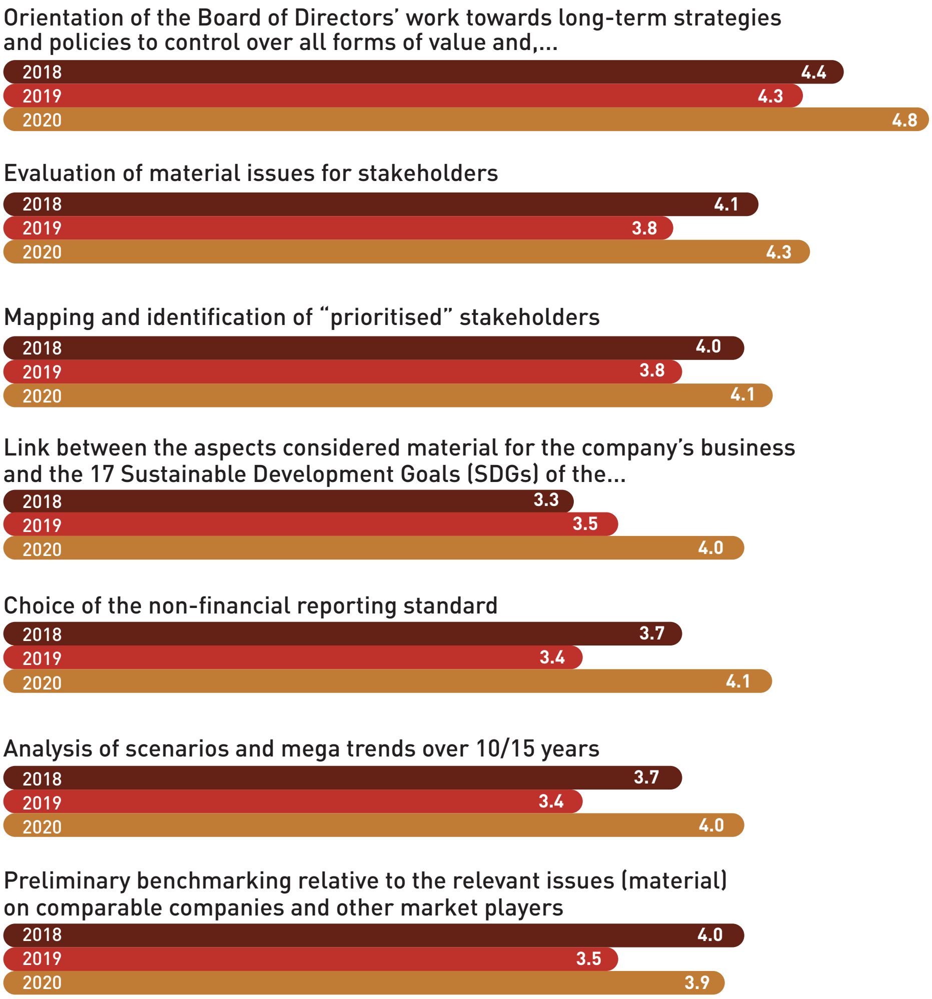
In some cases, the complexity of the issue, and the fear of not having the skills, expertise and resources to affect the definition of ESG processes/strategies can inhibit the engagement in these activities and other initiatives. As regards the engagement of the board in certain key and substantially relevant activities in the process of adapting to the Non-financial directive and the formulation of ESG-oriented strategies (i.e. stakeholder engagement, materiality and strategic planning), there is ample room for improvement.

Board members are not yet fully involved (Figure 5) but this involvement appears to be increasing over time. The highest engagement is found in the orientation of work towards long-term strategies and policies to oversee all forms of value and ESG issues.

The positive value of this result is mitigated by the lower level of involvement in the analysis of scenarios, mega-trends and benchmarking with comparable companies and other market players, which are ideally preparatory stages for the definition of strategic plans ESG-oriented.

From the point of view of stakeholder theory, it is comforting to observe that boards participate in the identification of material issues for the stakeholders, confirming the direction towards a shared value generation model that is not uniquely addressed to shareholders.

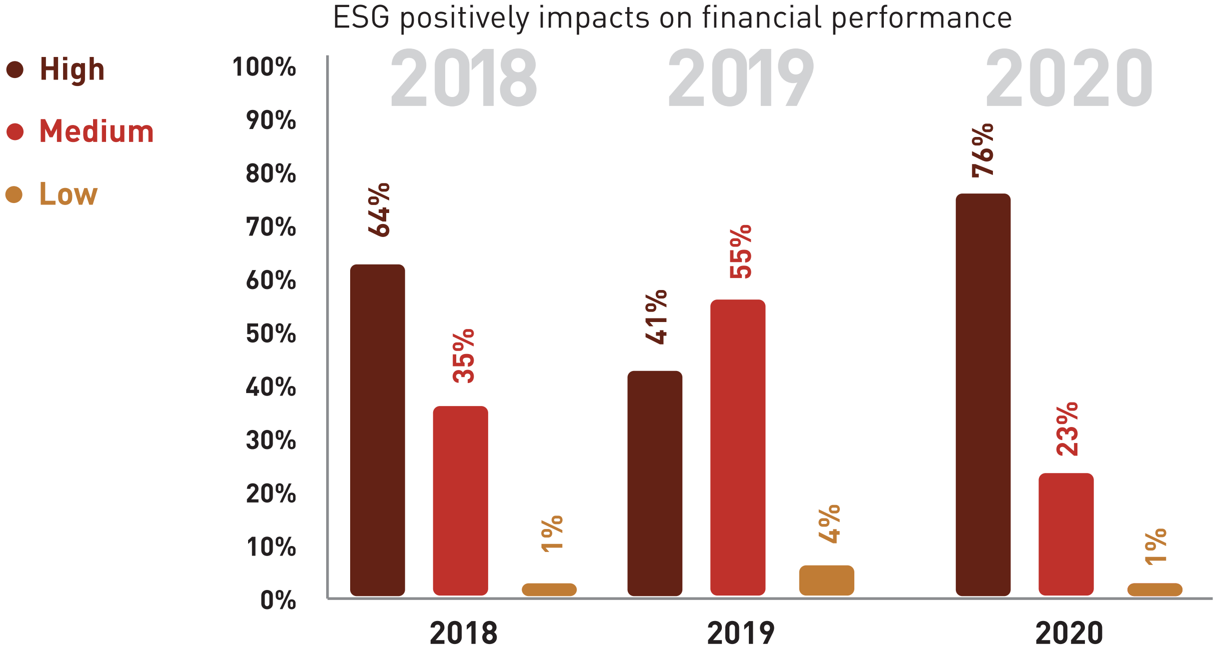
Chart 3. **Level of average engagement of the respondents in the activities reported in the sub-titles by year**



(Seven-point Likert scale ranging from 1 – 'not engaged' to 7 – 'fully engaged')

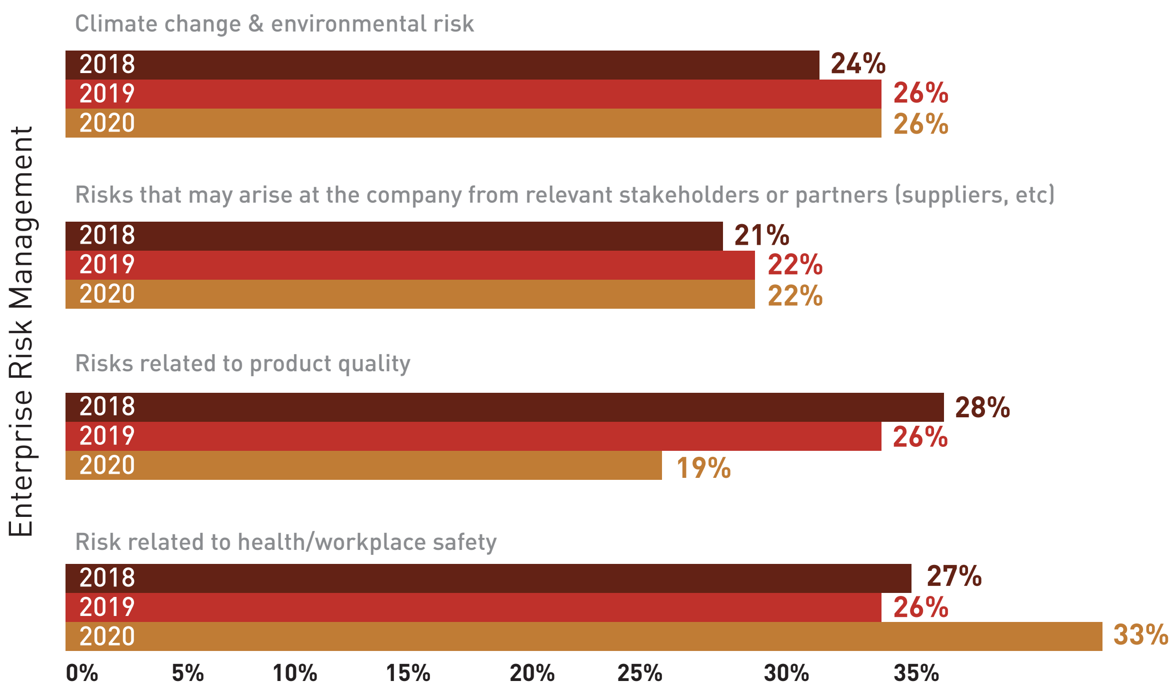
The engagement in activities aimed at allowing greater integration of ESG factors into strategies and policies depends on many factors, one of which is the extent to which directors believe in the business case for ESG strategies (Chin et al, 2013); in other words, a positive relationship between ESG-oriented strategies and financial performance. In 2020, three-quarters of the sample is absolutely convinced that this link exists (Chart 4), but the percentage of doubtful respondents over the three years shows that more factual evidence is needed, or simply more knowledge / information on successful cases studies or academic research findings.

Chart 4. **Level of respondents agreement with the statement above the graph by year**



The evidence of a positive, neutral or negative financial impact of ESG is supported by current perception of business risks. The survey shows that the perception of the most severe risks for the business changes over time. They are always among the first four key risks of the last three years, and health / workplace safety risk and climate and environmental risk are still the two top risks in 2020 (Chart 5). Probably, in the last year, the Covid-19 pandemic has highlighted the severity of these risks and the need to monitor them with the utmost urgency, and heightened sensitivity towards non-traditional threats / opportunities. ESG-oriented strategies can mitigate these risks and, consequently, protect financial performance.

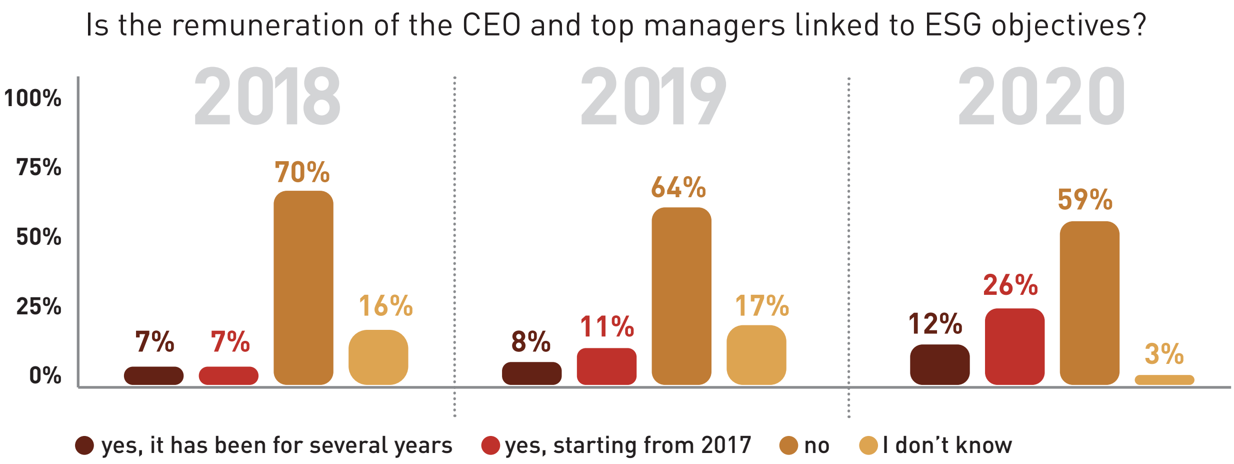
Chart 5. **Respondents' ranking of the reported risks**



The survey makes an unexpected finding regarding CEO incentives to achieve non-financial goals (Chart 6). The belief in the positive link between ESG performance and financial performance should translate into the establishment of incentive mechanisms for CEOs that take into account ESG objectives.

However, still in 2020, almost 60% of respondents report the absence of such incentives, demonstrating that the interest in pursuing these objectives is still a theoretical wish, detached from operational reality. The positive aspect, confirming the growing integration of ESG factors into the business, is a marked increase in the use of these behavioural guidance mechanisms over time.

Chart 6. **Level of respondent agreement with the statement reported above the graph by year.**

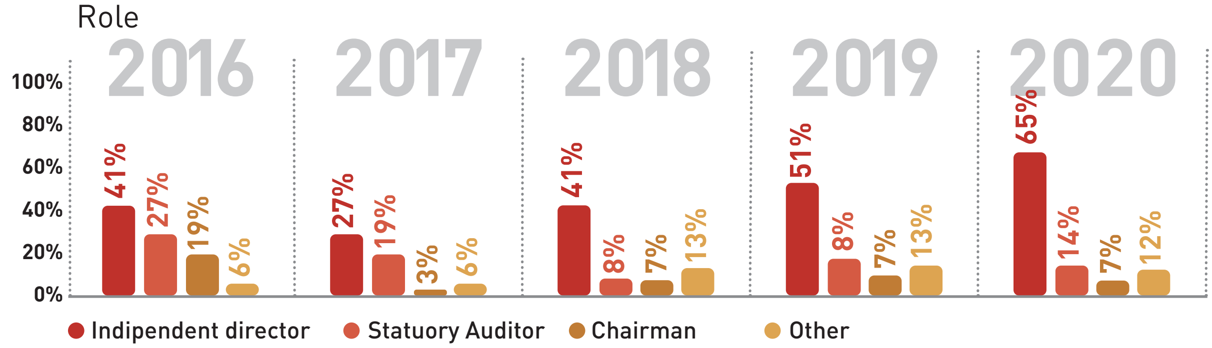


An important issue in the context of the role of the BoD in pursuing long-term strategies inspired by ESG is the role of non-executive and independent directors. More than the other directors, the independent director is responsible for monitoring and supervising strategic decisions, in order to ensure alignment between management interests and the long-term interests of shareholders. And given that there is no link with economic performance, independent directors are more oriented towards a medium-long term vision, which facilitates their engagement in ESG oriented initiatives.

These initiatives, in fact, have a cost that can be high in the short term while benefits can only be seen in the long term (De Villiers, et al., 2011). It is therefore unlikely that managers will favour such initiatives. Furthermore, the strong stakeholder orientation of independent directors (Ibrahim et al., 2003; Zhang et al., 2013) can improve critical monitoring of decision-making efficiency and promote responsible behaviour (Sánchez et al., 2011).

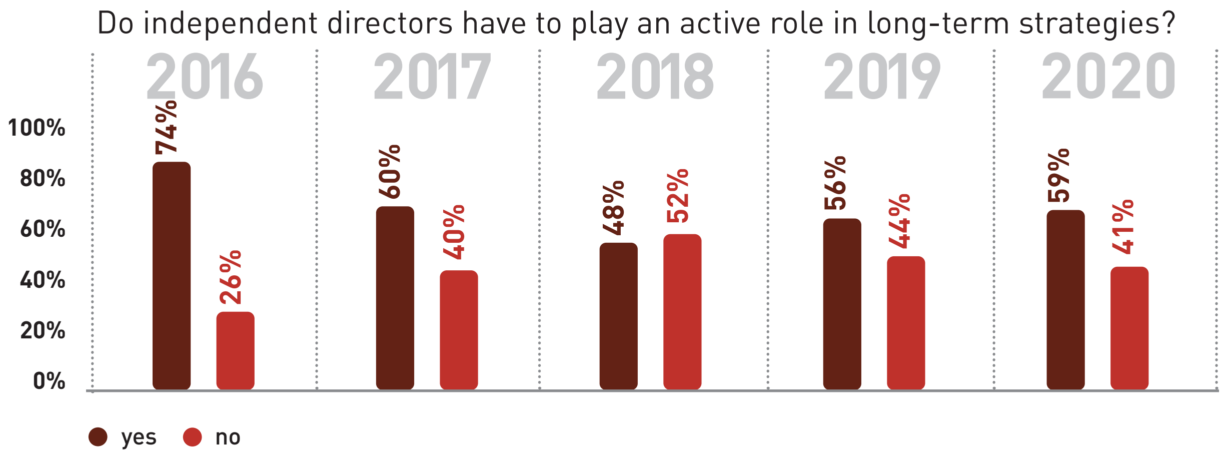
Respondents strongly agree that the independent director should have a more active and specific role in addressing strategies in light of ESG issues (81% of respondents in 2020). The growing awareness of the greater contribution that independent directors can make in the orientation of long-term strategies that incorporate ESG is also shown by their growing participation in the survey (Chart 7).

Chart 7. **Role of survey respondents by year**



However, as confirmed by a subsequent result (Chart 8), the current activity carried out daily in the board is still not very proactive on these issues. In fact, in 2020, 41% of respondents still believe that independents do not play an active role in defining the long-term strategy.

Chart 8. **Respondents' opinion to the question reported in the title by years**



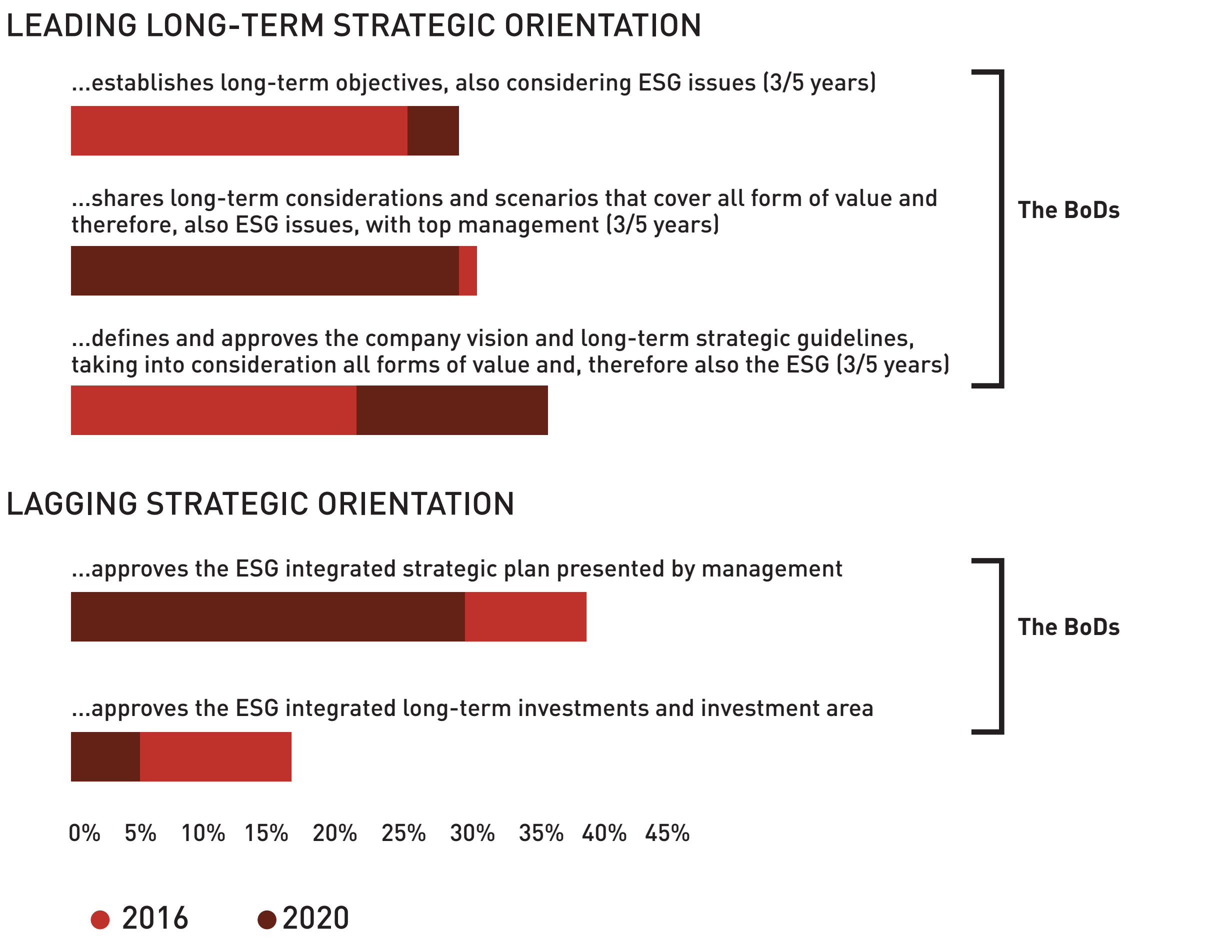
The low satisfaction revealed probably reflects initial high expectations. But at the same time, from a cross reading of the two previous findings, independent directors seem to evaluate themselves negatively, as proof of their objectivity and autonomy of judgment. The causes of this "should-do" gap have yet to be discovered, but may lie in the perception of lack of ability to supervise decision-making processes, in the lack of clarity on the most effective ways of affecting the direction of ESG-oriented strategies, or perhaps in a lack of sufficient involvement in the most critical and significant phases of the process.

Finally, the survey investigated the leadership exercised by the boards in overseeing long-term strategies and different forms of value. Although most boards in 2020 continue to have a "lagging" strategic orientation related to the defining and supervision of long term strategies (31% of respondents), by approving the ESG strategic plan presented by management, the relative percentage of boards showing a "leading" approach has increased compared to the past. In fact, 20% of the boards define and approve the company vision and the long-term strategic guidelines, taking into account all forms of value for next 3/5 years. (This is against only 12% in 2016).

Furthermore, the ratio between the boards that "lead" in behaviour and those that "lag" increased sharply compared to 2016, rising from 0.7 to 1.4. This confirms a correct and desirable direction in relation to the role of the board in the path towards the integration of ESG factors into the business.

Hence, the role of executives remains still central, but the BoDs seem to be regaining their proper role in the development of long-term sustainable strategies (Chart 9).

Chart 9. **Percentage of respondents in agreement with the reported statements**



Conclusion

What about awareness of the changes required by NFS in the role and responsibilities of the BoDs and non-executive directors (NEDs)?

Board members tend to be fully aware of the changes in role and responsibility brought by the integration of non-financial factors into policies, strategies, business models and risks, and enhanced by NFD required mandatory disclosure. The awareness appears to be increasing over time, and brings with it legitimate doubts about the presence of all the skills necessary for the supervision of all forms of value. At the same time, it pushes Boards to acquire new skills and to attribute the oversight of ESG issues to a dedicated committee.

A strong commitment towards the rethinking of the business in favour of integrating ESG factors derives from the belief that there is a positive relationship between ESG performance and Corporate financial performance, and from the need to mitigate the risks perceived as the most critical for the current and future business. These today are risks related to health / workplace safety and climate and environmental risk.

What about BoD role in implementing Legislative Decree No. 254 of December 30, 2016?

The awareness and belief that it is appropriate and / or necessary to play a more active role in the supervision of non-financial aspects is well-developed and advanced. This however is not the case for the engagement of boards in key activities adapting to the Non-financial directive and the formulation of ESG-oriented strategies. There is ample room for improvement in terms of stakeholder engagement, materiality and strategic planning!

Furthermore, although there is a marked increase in the use of behavioural guidance mechanisms over time, the mismatch between beliefs and behaviours is clearly demonstrated by the absence of incentive mechanisms for CEOs for most of the Boards.

What about NEDs?

There are high expectations on the role of non-executive and independent directors in addressing strategies in the light of ESG. They are those most able to push the activities of the board in the right direction, and it remains to be seen why they are still not very proactive on these issues. Meanwhile, their role could be strengthened by improving their capacity to drive and oversee decision-making and operative processes, and by clarifying the most effective ways of affecting the ESG-oriented strategies.

Are Boards leading the oversight of long-term strategies and different forms of value?

Boards are showing stronger roles in “leading” compared to the past. The role of executives is still central, but BoDs seem to be regaining their proper role in the development of long-term sustainable strategies.

3.2 SURVEY BOARD LEADERSHIP CHALLENGED BY COVID-19 (2020-2021) (VALENTINA ZADRA)

At the beginning of 2020, once the outbreak of Covid-19 was declared a pandemic and the world realized that this health emergency would become the first non-financial event triggering a global crisis, Nedcommunity and its Reflection Group "Board Leadership and Sustainable Business" decided to investigate how the boards of the companies on which their members sat handled the event. This survey was conducted with the support and assistance of Valore D/In the Boardroom. A joint working group was set up reaching out to a universe of 800 board members in Italy.

Given the unprecedented magnitude and pace at which the crisis unfolded, it was decided that the collection of a single set of data would not enable the working group to assess and fully appreciate how boards managed and dealt with the health emergency and its consequences during its different phases. The study was thus organized and structured as a pulse survey in which board members affiliated to the two organizations are asked at certain intervals to respond to a questionnaire. This enables evidence to be gathered over an extended period of time and the analysis of any evolution in the leadership of boards.
The main purpose of the survey is to record and evaluate whether and how the board of directors on which the respondents sit have changed or are changing their behaviours, priorities, values, goals (including medium term goals) because of the Covid-19 emergency, its duration and its consequences.

To date (March 2021) the questionnaire has been delivered in three waves (May 2020, July 2020 and November 2020). As a pulse survey it is currently in progress, and results are still partial and incomplete; but it is possible to make some preliminary observations on the data collected.
The Covid pandemic presents a challenge that no board of directors in the world has ever faced before. Its financial and non-financial implications were not immediately fully grasped by Italian Boards, which, during the first few months of "hard" lock down, dutifully limited their attention to ensuring the protection of employees and the continuity of the business. Available data shows that in fact only in the second half of 2020 did boards start to realize that the Covid crisis and its consequences would be with us for a long time, and that companies had to review their entire strategy in order to ensure their own survival and performance.

This deeper awareness is reflected in the (slow but) steady increase in the respondents' replies referring to board activities in reviewing and adjusting company strategy. It is only since the last quarter of 2020, however, that our data on strategic reviews and board priorities includes reference to the integration of ESG into business, process and strategy.

These are preliminary observations based on the three waves carried out so far. Further data will be collected through a fourth and final questionnaire scheduled for the spring of 2021. Once the last wave of the survey is closed, we will analyse and evaluate all data collected in this year-long exercise, with the aim of identifying possible trends in the leadership of boards in a global, non-financial, health crisis scenario.

4. CONCLUSIONS

What is still missing today? (Livia Piermattei and Paola Schwizer)

To conclude this Handbook and making sure that our initial hypothesis about the need for a transformation in board leadership was right, we organised a final workshop inviting a group of stakeholders representing investors, authorities, institutions, head hunters active in executive search, lawyers and sustainability functions to reflect on whether and how they see boards and directors today acting a leadership role in integrating ESG into strategy and business models, and on how they expect them to act in 5 years.

In this final Section we report the outcomes of the discussion, which was very rich and inspiring, testifying once more that diversity of skills, views and opinion is the foundation of effective governance and good decisions.

First, we asked participants to describe, based on their experience or direct observation, the current behaviour of directors in dealing with sustainability at board level.

Their answers, shown in Figure 20 (left column), highlight a positive opinion on the awareness and attitude of board members towards sustainability, but also point out several weaknesses and some uncertainty of directors in concretely dealing with the issue.

However, the transformation in corporate governance is ongoing, and in 5 years everybody expects directors to be able to play a key role in driving a sustainable development of the companies they serve in (Figure 20, right column).

So, the outlook is more than positive, what should encourage board members to enhance their skills and commitment to the task.

Figure 20. **The opinion of stakeholders on board leadership: "as is" vs "to be" in 5 years**

How directors act their leadership model on sustainable success (AS IS)	How directors should act their leadership model on sustainable success in 5 years (TO BE)
Careful	Able to make sustainable business a true strategic objective
Curious	Being leader on reconsidering the business model
Engaged in more than in a box-ticking exercise	Imaginative and forward looking
Positive	Fully competent
Aware of the challenge	Holistic
Persevering	Digital
Dragging their feet, look as being pushed towards this, not spontaneous	Aware of the impacts
With many ideas, but confused on actions to be undertaken	Long-term oriented
Characterised by an atomistic approach	Concrete
Disconnected: with ambitions but no real attitude	Aware of the society at large in terms of needs and ideas
Walk the talk	Available to spend more time on the issue
More reactive than active	Focused on business materiality and able to avoid pure regulatory materiality
Evolving	Able to play an anticipative role of the new (more than proactive)
Unprepared	Emotionally intelligent
With limited knowledge, experience, time etc.	Empathetic
	Integrated
	Carrier of advanced knowledge and experience
	Connected, able to see and perceive connections, including unusual and divergent ones
	Able to conciliate stakeholders and shareholder interests
	Ready for the new challenges
	Able to manage at the same time innovation and efficiency
	Quick in moving in uncertainty in the short- and mid-term
	More ambitious than in the past
	Respectful of the role of the board vs management
	Able to see the new boundaries of the company (vanishing-company vs ecosystem)

Our second question to the stakeholders was about how to move from the current system to an effective and concrete sustainable business-based governance approach.

Figure 21 summarises the ideas and opinions collected from our panel.

Figure 21. **How to achieve the desired change in board leadership?**

What governance variables should change in order to change boards and directors' attitudes from the actual state (AS IS) to the desired one (TO BE)?

1. To develop a focus on competitive positioning
2. Beyond compliance, to search for opportunities linked with more sustainable business models
3. To integrate board composition with members from new generations
4. To fully change directors' selection procedures in order to hire directors with the right hard and soft skills, and the willingness to commit time to board work
5. To develop a more competitive international market for non executive directors in order to increase the diversity of views in the boardroom and the ability to challenge the status quo
6. To plan the board agenda differently, in order to allow a "mandatory time" on sustainable issues beyond business as usual (e.g. at the beginning of each board meeting)
7. To avoid a silos approach and integrate sustainability issues in governance process through a holistic view of the business
8. To ensure that management is focused and committed on sustainable goals (e.g. by including KPIs linked to ESG in MBOs)
9. To increase the dialogue with stakeholder activists and antagonist, seeing in them potential partners of innovation
10. To integrate sustainable business issues into management processes, mindset and behaviours of all employees, by redefining the corporate culture
11. To define a process aimed at allowing non executive directors to play a key role in the review of the vision and the purpose of the company, in cooperation with executives and management
12. To increase the attention of investors towards mission and behaviours of individual directors, and their ability to link financial and non-financial factors, as towards the ability of board to work with multiple scenarios
13. To make board able to anticipate regulators and potential new rules by taking into account needs and relevant expectations of stakeholders in decision-making, and by playing a role in the European debate on corporate responsibility

Overall, stakeholders involved in the debate confirmed the assumptions which led to this Handbook and the relevance of the components of the New Leadership Model for Boards described in the previous Sections. So, it is time for a change in the way corporate governance works.

Sustainable business implies long-term goals. Companies have to consider the effects of their decisions and actions on the possibility of satisfying the needs of future generations. And they have to report on how they are doing that. This is not only a legal requirement.

Shareholders and other stakeholders are becoming more and more active in asking companies not only to deliver financial performance, but also to show how they positively contribute to society. They are challenging boards on this issue and demanding that the company is governed with long-term sustainable business and a stakeholder inclusive perspective in mind.

Many companies, and boards, are working to be ready to face the new challenges on the basis of concrete plans and goals. But there are, however, a few cases where boards are still dealing with ESG issues only when they are facing big competitive or reputational problems and mitigate risks.

This means they are adopting a short-term view, which is typical of crisis management, rather than a strategic, forward-looking risk management approach able to see and catch long term opportunities.

Corporate governance is required to further evolve towards a more “integrated” system, where sustainability issues are taken into account in company management, risk policies, performance measurement and control processes. This should ensure value creation and beneficial results for the company and its relevant stakeholders in the long term.

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Patrizia Giangualano, Independent Director and Governance and Sustainability Advisor. She graduated in Business Administration at Bocconi University where obtained a master's degree in Tax Law. She is currently Executive Advisor of major Corporations and Financial Institutions for the design and implementation of Governance, Risk and Sustainability programs. She is a member of the Steering Committee of the Nedcommunity, the Italian Association of Non Executive and Independent Directors. She is author of "Sostenibilità in cerca di imprese", the first publication on non financial information. As of now, she is member of the Board of Directors of industrial and financial firm. She is actively involved in the Risk & Control and Sustainability Committee actively involved the Strategic, sustainability and innovation activity and member of the environmental impacts in the field of sustainable mobility commission in the Italian Ministry of sustainable mobility.

Nadia Linciano is Head of the Economic Research Unit in CONSOB. She is also CONSOB member of the Italian Committee for Financial Education. She graduated from York University (UK) and from the University of Naples Federico II with a D.Phil. in Economics.

She was adjunct professor in Lecce (1995) in Bari (1996-1997) and in Rome (2016-2020). Her research interests include: behavioral finance; corporate governance; financial consumer protection; financial education; financial innovation; financial market regulation; household investment choices; sustainable finance.
She participates in ESMA, IOSCO and OECD Task forces working on systemic risks, financial consumer protection and financial education. She is CONSOB representative in the Italian National Committee for financial education. She is responsible for relation with Universities and Research Centres. Her work includes several papers in the areas of economics and regulation of financial markets, published in Italian and international journals.

She currently coordinates the following CONSOB Reports: Report on Corporate Governance of Italian Listed Firms, Report on Non-Financial Disclosure of Italian Listed Firms, Report on Investment Choices of Italian Households, Report on the Financial Advisor-Customer Relation. She is referee of Italian and international journals.

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Dr. Jeremy Osborn is the Value Reporting Foundation's Director of Business Relationships & Networks, working with a wide variety of international businesses, organizations and professional institutes to support the scaling and adoption of integrated reporting, integrated thinking and SASB Standards. He was formerly the IIRC's Director of Business & Stakeholder Engagement. He is an experienced senior executive and strategy consultant, with deep experience of how sustainability catalyses systems change.

He previously worked for EY, The Prince's Accounting for Sustainability (A4S) Project and Accenture, advising clients across a broad range of sectors on how to integrate their sustainability strategy with their core business objectives, and then measure and communicate the value which this creates for their stakeholders. He began his career in commercial management at Unilever. He is a Fellow of the Chartered Institute of Management Accountants, holds a D.Phil. on the history of the East India Company and graduated with First Class honours in Modern History from Oxford University.

Dr. Béatrice Richez-Baum is a Doctor in Law specialized in European Law. Additionally, she followed the training of the Paris Bar School. Having completed her PhD thesis on international Trade and European Law in 1999, Dr. Béatrice started her career as a legal expert for the Paris Chamber of Commerce and Industry after a few experiences in Brussels including the Council of Bars and Law Societies of Europe and the European Economic and Social Committee. At the creation of the European Confederation of Directors Associations (ecoDa), Dr. Béatrice Richez-Baum was appointed as Secretary General and began her Director General mandate in September 2017.

Béatrice is a board member of the Club of Rome-EU and of the European Society of Association Executives (ESAE). She is also part of the GNL, a network of French representatives involved in advocacy and located in Brussels. She is the author of various articles and in particular of the first surveys which assessed the advocacy effectiveness of French companies in Brussels. She has contributed to two books.

Francesca Prandstraller, degree in Philosophy, Padua University, Master CUOA in Business Organization (Vicenza), Masters of Art with distinction in Communication, Culture and Technology, Georgetown University (Washington DC, USA).
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Since 2010 Lecturer in the Department of Management and Technology at Luigi Bocconi University, Milan, where she teaches Organization and Human Resource Management, fellow professor at SDA Bocconi School of Management, where she has been the Director of the Executive Master in Strategic Human Resource Management.
Independent board member in Italian listed companies, Head of the Compensation Committee, consultant and managerial expert.
Professional business coach, ICF member. She is the author of several articles and books on HR related topics.

Valentina Zadra is a lawyer specialized in financial markets and sustainable finance regulation. Since September 2019, Valentina chairs, as non-executive and independent member, the board of Avanzi Etica Sicaf Eu.VE.CA. S.p.A., an Italian regulated fund that carries out impact investing activities. She also collaborates as Of Counsel with CR Associati on specific matters relating to financial markets and sustainable finance as head of the Financial Regulation team.

She has a 20+ year career in the international legal sector and she holds a degree in Banking Law by the university of Rome and a Master of Laws by Columbia University, New York.

After more than fifteen years in private practice (in Italy and abroad) focusing on financial markets regulation and having achieved senior positions in two top-tier law firms (Cleary Gottlieb and Linklaters), Valentina moved to Credit Suisse in 2014 as in-house general counsel for Italy, providing senior legal and compliance support to businesses run by the CS group in Italy. Since 2017 she has been focusing on Corporate Governance and Sustainable Development and collaborates with the Italian Sustainable Investment Forum (ItaSIF).

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