

# Board engagement in companies' transformation toward sustainability. Evidence from Italy

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## CONSOB research in the field

### Consob research papers and Statistics and Analyses

- Report on corporate governance of Italian listed companies (published around February, since 2012) <https://www.consob.it/web/consob-and-its-activities/report-on-corporate-governance>
- Report on non-financial reporting of Italian listed companies: «Non-financial reporting as a driver of transformation», since 2018 (published in June)

<https://www.consob.it/web/consob-and-its-activities/report-dnf>

Work in progress, some preliminary data

- *Board of directors: key role in progression towards cultural transformation leading to incorporation of sustainability into corporate decision-making.*
- *Italian listed companies gradually experiencing increase of awareness and engagement of the board, displayed in reports on corporate governance, remunerations and non-financial info.*
- *Major role played by regulation and corporate governance Code (and Committee) and stakeholders. G20/OECD Principles of Corporate governance.*
- *Transparency*

## Non-financial reporting in Italy

# Italian listed companies publishing non-financial information (for 2021, provisional data)

	Number	Of which: on a voluntary basis	Weight <sup>1</sup>	% mkt cap <sup>2</sup>
<b>2018</b>	151	<i>n.a.</i>	66.2	94.4
<b>2019</b>	151	<i>n.a.</i>	67.7	95.0
<b>2020</b>	151	3	67.4	96.1
<b>2021</b>	154	5	68.8	96.6

Source: Consob. Data on non-financial reports of Italian companies with ordinary shares listed on Borsa Italiana spa – Mta Stock Exchange. Year refers to the publication of the report, while the figures refer to the end of the previous financial year. Figures for 2020 do not include 3 companies with business continuity issues and 1 delisted in 2020. Figures for 2021 include reports published as of October 2021 by Italian companies with ordinary shares listed on Mta as of December 2020. 1 Number of companies in each group in percentage of the total number of listed companies. 2 Market value of ordinary shares of companies in each group in percentage of market value of ordinary shares of all companies.

CONSOB NFR research: analysis through three-stage phased process including:

- Awareness (“*originates from compliance with reporting obligations and results into the acknowledgement of the relevance of ESG issues*”);
- Capabilities (refers to materiality analysis process and integration of ESG factors into board functioning);
- Engagement (“*integration of ESG factors*”)
- First two stages are identified through the analysis of NFI statements while the third stage refers to information drawn from strategic plans.

## Board involvement

## Board of directors involvement in the materiality analysis: “report what matters where it matters”!

	2019		2020		2021	
	number	weight <sup>1</sup>	number	weight <sup>1</sup>	number	weight <sup>1</sup>
approved by the board of directors	18	11.9	26	17.2	36	23.4
validated/agreed by the board of directors	3	2.0	13	8.6	15	9.8
approved by one or more board committees	7	4.6	3	2.0	5	3.4
approved by the CEO	3	2.0	3	2.0	4	2.6
other <sup>2</sup>	13	8.6	20	13.2	19	12.3
no involvement	107	70.9	86	57.0	75	48.7
<b>companies carrying out the materiality analysis</b>	<b>151</b>	<b>100.0</b>	<b>151</b>	<b>100.0</b>	<b>154</b>	<b>0</b>

Source: Consob elaborations. 1 Number of companies in each group in percentage of the total number of listed companies carrying out the materiality analysis. 2 ‘Other’ includes other types (agreement or validation) of involvement of the board committees or the CEOs

## ESG and CEO Remuneration

# ESG factors in the remuneration of CEOs of Italian listed companies by market index and industry (end of the year)

Tab. 3.1 – ESG factors in the remuneration of CEOs of Italian listed companies  
(end of the year)

	sustainable remuneration						total companies	
			long-term remuneration		short-term remuneration			
	number	weight <sup>1</sup>	number	weight <sup>1</sup>	number	weight <sup>1</sup>	number	weight <sup>1</sup>
2018	33	14.4	9	3.9	32	14.0	229	100.0
2019	63	27.6	29	12.7	53	23.2	228	100.0

Source: Consob elaborations on Report on remuneration policy and remuneration paid of Italian companies with ordinary shares listed on Borsa Italiana spa - Mta Stock Exchange, where available.

- Focus on 2020 FTSE MIB index companies: 28 out of 33 companies link CEO remuneration to ESG considerations through the short-term component; 22 out of 28 also through the long term component.
- Remuneration: CG issue: from national corporate governance codes to SHRD II (and in the meantime three EU Recommendation)
- Remuneration: directors (executives) should be paid for performance (short term pressure) vs directors (executives) should align their own interests with those of shareholders (longer term vision)
- Paid for what performance? Until now only financial performance. From now on link with ESG performance and alignment with stakeholders' interests