NON FINANCIALS & ITALIAN BOARD OF DIRECTORS: A RELATIONSHIP TO IMPROVE?

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MILANO
NIBR-DELOITTE CONFERENCE

Livia Piermattei
Managing Partner, Methodos
Comitato Scientifico, Nedcommunity
NIBR
WHAT IS THE REAL FOCUS OF NON FINANCIALS TRANSFORMATION?

- REPORTS?
- DECISION MAKING PROCESSES?
- BEHAVIOURS?
FERRERO GROUP CASE STUDY: AN INTEGRATED THINKING BEST PRACTICE

THE CHALLENGE (2009)

1. Kick-off non financial reporting: a non listed, family owned company with a very low communication profile
2. Generate awareness and engagement on value created by all company functions

SHARING VALUES TO CREATE VALUE

Identify and share issues impacting on value generated by the company (VS data collection)

Re-orient company processes and organization to increase their value and innovation

Share these values and related company behaviours with relevant stakeholders

Engage employees on a distinctive business model vs competitors, making product positioning more durable and easy to tell

COMPANY REVENUE INCREASE (2008 – 2016)

+66%

*S ref: HBR Italy special issue on Change Management July 2014

METHODOS
THE CHANGE MANAGEMENT COMPANY
To improve the decision-making processes, board room and leadership teams should develop 5 mindsets and connected behaviors (*).

(*) The way people think, feel, and conduct themselves in the workplace, both individually and collectively.

The recipe is the ability to start a holistic change journey to improve the decision-making processes and allow employees:

• to know where the organization is headed
• understand how they fit into the strategy to get there
• have the tools, capabilities, and motivation to execute
• are empowered to innovate and adapt and accelerate change.

THE INTEGRATED THINKING COMPANY

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INTEGRATED THINKING MINDSET, DRIVES 5 TRANSFORMATIONAL AREAS, THAT REQUIRE SPECIFIC CHANGES IN THE BOARD

Working on the 5 foundation mindset/behaviour of the Integrated Thinking Company …

Strategic Focus and long term orientation
Connectivity
Stakeholder inclusiveness
Collaboration
Mutual Respect

... drive 5 transformational areas…

Sustainable and Long Term Business Model
Governance
Strategy
Organizational set-up and development
Culture

….. that require specific changes in the Board …

Composition
Processes
Directors’ culture
### Composition

**Diversity of:**
- gender,
- Cultural background,
- demography,
- skills and expertise covering also ESG, crises and turnaround, new and cross market, digital and media

### Culture

**Strategic Focus and Long Term Orientation:**
A forward looking and beyond compliance attitude

**Connectivity:**
Committees working together, able to catch and manage connections and interrelations of all forms of value

**Stakeholder Inclusiveness:**
Stakeholder listening to look for challenges and innovation opportunities

**Collaboration:**
Informal relationships, teamwork

**Mutual Respect:**
Openness and transparency, independent thinking, trust, support

### Processes

- Stakeholder governance and disclosure
- ERM-Enterprise Risk Management
- Long-term vesting periods for MBO's
- Board evaluation
- Succession planning
- Integrated reporting
- Board Materiality Statement
- Affiliations
- Inductions and off-site meetings for scenario analysis and strategy envisioning

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(*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)*
A JOINT NED COMMUNITY - METHODOS RESEARCH, SHOWS THE GAP TO CLOSE TO BECOME AN INTEGRATED THINKING BOARD (1/3)

Only 15% of independent administrators are aware that the EU Directive will change significantly the role of the BoD.

Was the BoD informed on the introduction of the EU Directive on non-financial and diversity information (2014/95/UE)?

If informed, do you think the EU Directive will change significantly the role of the BoD?

- Yes: 49%
- No: 51%

- Yes: 32%
- No: 68%

Ref: Integrated Governance Survey - NedCommunity - Methodos 2017
91% of independent administrator are aware they have a specific responsibility to be proactive in the set-up of long term strategies, but only 60% of them practice this role...

Do you agree that independent administrators have a specific responsibility to be proactive in the set-up of long term strategies and ESG company policies?

In the Board you are part of, independent administrators have a proactive and specific role in considering risks in a long term including ESG?

…. in reality only 2 areas are mostly practiced

- Reputational risk management: 54%
- Stakeholder governance and disclosure: 54%
- Investments policies: 31%
- Diversity: 28%
- Marketing and positioning strategies: 23%
- ERM-Integrated Risk Management: 23%
- Innovation processes: 18%
- HR Strategies: 15%
- Integrated and sustainability reporting: 13%
- CSR and philanthropy: 10%
- Customer experience: 10%
- Infrastructures investments: 8%
- Life Cycle assessment and environmental policies: 5%
- Procurement and Supply Chain: 5%
- Human Rights policies: 3%

Ref: Integrated Governance Survey - NedCommunity - Methodos 2017
A joint Etica News-Top Legal research shows the gap to close to implement integrated governance in Italian listed companies.

Ref: Integrated Governance Index – Etica News/Top Legal 2017
A JOINT NED COMMUNITY - METHODOS RESEARCH, SHOWS THE GAP TO CLOSE TO BECOME AN INTEGRATED THINKING BOARD (3/3)

<table>
<thead>
<tr>
<th>Approach</th>
<th>How does the Board manage long term strategies and all forms of value?</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Leading long term strategic orientation</strong></td>
<td>Identifies long term goals, considering ESG issues (3/5 years)</td>
<td>12%</td>
</tr>
<tr>
<td></td>
<td>Identifies and approves the company vision and long term strategy, considering all forms of value including ESG</td>
<td>14%</td>
</tr>
<tr>
<td></td>
<td>Shares with top management long term considerations and scenarios considering all relevant forms of value including ESG</td>
<td>17%</td>
</tr>
<tr>
<td><strong>Lagging strategic orientation</strong></td>
<td>Approves long term investments on all forms of value including ESG</td>
<td>17%</td>
</tr>
<tr>
<td></td>
<td>Approves the strategic plan presented by management, that considers all forms of value</td>
<td>40%</td>
</tr>
</tbody>
</table>

Total 43%

Total 57%

Ref: Integrated Governance Survey - NedCommunity - Methodos 2017
INTEGRATED REPORTING <IR>: FOCUS ON INTEGRATED THINKING
A HANDBOOK FOR THE CHANGE JOURNEY
STRATEGY, GOVERNANCE, CULTURE, ORGANIZATION

Foreword by the IIRC, International Integrated Reporting Council

TO DOWNLOAD THE HANDBOOK:
www.integratedthinking.it
The Integrated Thinking Change Journey consists of 4 steps that prepare or follow the set-up of non-financial or integrated reports.
IN BRIEF

1. The recipe

To outperform competitors **companies need to think integrated** and master the decision-making processes considering all forms of value.

2. The mindset

Integrated thinking requires the **development of 5 mindsets** and behaviors that generate engagement and motivation.

3. The gap

Research shows that to become an Integrated Thinking Board **the gap to close is still large**.

4. The journey

To make Integrated Thinking concrete, companies should **start a holistic change journey**.
THANK YOU
&
ENJOY YOUR INTEGRATED THINKING
CHANGE JOURNEY!

l.piermattei@methodos.com