Deloitte.

The Board of the Future

The Board's challenges in defining the Governance of the Future

2022 | Italy

MAKING AN IMPACT THAT MATTERS since 1845

Summary

Foreword

I am proud to introduce the first edition of
The Board of the Future Italy.

This report is part of a series of international surveys carried out by Deloitte via interviews with Chairmen and Board members of primary companies from all over the world.

Our purpose is to create a privileged watch over issues connected with the development of the role of Italian Boards in future Governance within the framework of a broader effort to support the next generation of corporate leaders.

Boards are, in fact, facing new challenges, and their decisions today are crucial for the development of future strategies capable to promote sustainable growth in the new economic and social environment.

These are the main themes we addressed – similarly to what we did at an international level – via a series of interviews with Chairmen, Chief Executive Officers, and Board members of the main Italian companies.

The purpose is to cooperate to promote sustainable Corporate Governance limiting short-term perspectives and stimulating the Board to act in view of pursuing the «sustainable success» of the company.

When we launched this project, I could hardly imagine the support we would receive from major Italian companies and their readiness to contribute by devoting their valuable time to the interviews.

What will the "Board of the future" look like? What skills, capabilities, and expertise will be expected from Board members within 5-10 years? How will Boards operate and what priorities will they set in their agendas? How will they manage old and new risks? How is the Chairman's role evolving to reflect current Board needs?

My heartfelt gratitude goes to all those that found some time to share their experience and vision with us.

These in-depth conversations brought to the surface interesting inputs and recurring themes, as well as definitely innovative ideas and perspectives.

We thank you for your commitment and your support to The Board of the Future.

I trust reading this report will be an effective incentive to consider the challenges the Board is expected to meet today to prepare for the future, and look forward to your feedback in view of launching new discussions, while we continue to support the new generations of company leaders.

"The Board of the Future" report makes a close focus on Governance, and the Deloitte Global Boardroom Program Italy acts as a promoter and facilitator of best practices within Italian companies

Silvia La Fratta
Chair of the DCM Partnership Council
NSE Board Member

Global Boardroom Program
Italy

The framework of the Board of the Future

Recent socioeconomic changes have resulted into reconsidering the set of skills and experiences in Boards. The new challenges posed by post-pandemic management, the changes brought about by the digital transition, as well as an ever-developing geopolitical situation demand that Boards evolve to be able to carry out their role in very complex and changing environments that call for new and timely analytical and follow-up capabilities.

During our interviews, we asked about the possible development of the Board of the future and the characteristics required of Chairmen and Board members in the new ever-changing environment.

The role of the Board in the new Corporate Governance

Board composition

An appropriate quantitative and qualitative composition of the Board is a prerequisite to help companies direct their plans of action successfully and carry out their strategic supervisory role effectively.

The number of Board members should be adjusted to the size and organisational/operational complexity of the Company in order to maintain a balance – albeit difficult – between effective supervision and efficient decision-making processes.

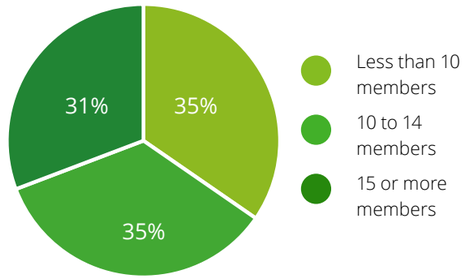
A very low number of Board members does not allow effective interaction and a continuous «challenge» to the executive body, and does not ensure multiple visions; on the other hand, a very large composition may reduce each Board member's incentive to engage in the performance of their duties and hamper the Board's operation.

A substantial consistency of the Board's quantitative composition with the company's complexity emerged from the interviews, thus demonstrating an appropriate balance in terms of number of members.

More specifically, the interviewed Company sample had an average number of Board members of approximately 12 as at December 31, 2021.

> An appropriate composition of the Board is the first step to establish good Governance, both in terms of compliance with regulatory provisions and in terms of human capital enhancement

Figure 1 | Board size



Note: Figures do not include "Related Parties Committee" and "Executive Committee"

Source: Deloitte, The Board of the Future, 2022

Independence

When asked about Board independence, all respondents agree that the maturity of the national legislation results into having an appropriate number or, in some cases, a majority of independent Board members today.

The collected evidence shows that the average rate of independent Board members is 62%, far above the recommendations of the Code of Corporate Governance. In particular, Companies in the energy industry record the highest rates, followed by Banks and Insurance companies.

On the other hand, there is more uncertainty about how independence requirements should be defined; based on the interviews, this is also a qualitative factor, connected with the personal characteristics of the individual members and hard to capture in pre-defined cases.

REFERENCE REGULATIONS

Listed companies

Consolidated Law on Finance, art. 147-*ter*, subsection 4: at least one Board member, or two if the Board of directors has more than seven members, should be independent.

Code of Corporate Governance, recommendation 5: in big concentrated-ownership companies, independent board members account for at least one third of the board of directors; in big companies, independent board members account for at least half of the board of directors.

Banking sector

Circular letter No. 285/2013, part one, Section IV, chapter 1, par. IV: at least one fourth of the members of the body in charge of strategic supervision should be independent.

Leadership and competencies

As to qualitative composition, the appropriate performance of the functions the Board is responsible for calls for the presence of members that are fully conscious of the powers and duties connected with their functions and have the necessary professional skills to carry out their role and widespread cross-competences to ensure they can express their point of you in board discussions.

The interviews clearly show that competences are some of the most important aspects.

Most respondents, in fact, pointed out to the need to supplement technical and specialist skills with an appropriate set of "soft skills" to help promote Board cohesion. These include such key elements as care for personal relations and leadership, resilience, a forward-looking vision, and the ability to build more trust.

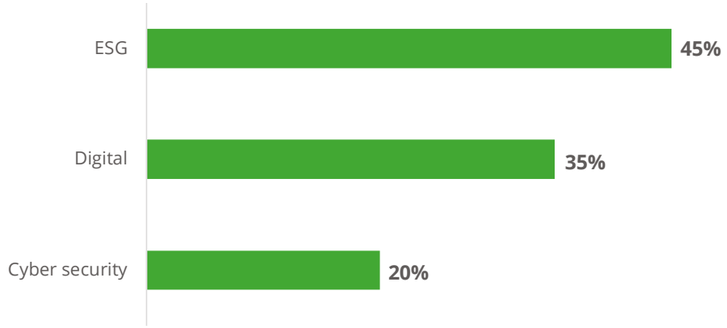
In terms of professional training, figures with Digital, Cyber Security, and ESG capabilities are more and more sought after, in that they are among the hardest to find on the market.

Another trend observed is to include in the Board parties whose skills are not connected with the company's core business, in view of expanding the focus to innovative issues that are far from the traditional approach to the business and capable to add strategic intuition to the overall decision-making process.

Lastly, Board members should anyway develop a sensibility based on solid know-how and a strong interaction and direction capability inside the Board. In that respect, a Board member's tenure in the Board is also important in order to have time to consolidate one's know-how and awareness of the role within the specific Board dynamics. Upon their second mandate, in fact, Board members usually have a stronger impact on the company and, wherever possible, manage to challenge the dedicated structures. They are more confident about themselves and their position, and know how to carry out effective interventions and inquiries, dispel doubts, or integrate as necessary.

> The Board acts as a team. Vertical, as well as complementary competences are required to act in synergy

Figure 2 | The 3 most sought-out skills in the Board of the future



Source: Deloitte, The Board of the Future, 2022

Induction and training

The Board's training and «induction» (i.e. the set of on-boarding processes and tasks of the Board of directors) are closely connected with competences. Such activities have a crucial role in strengthening the Board's awareness of the corporate culture, the reference strategic and competitive environment, the configuration and articulation of risks that deserve attention and consideration in decision-making.

The majority of respondents in our survey agree that more attention and more time should be devoted to on-boarding and training activities.

> Board member training calls for a continuous focus on the development of strategic issues that are functional to the corporate purpose

While most Companies introduced training schemes for their Boards in the past few years, these are still not fully ready to convey all the specific complexities of real-life companies or duly focused on the topics of interest for the Board, also in perspective.

As to newly appointed Board members, the need is expressed to improve training on Corporate Governance and Board operation issues, particularly where a board member has no specific legal background. All the interviewed board members stress the need to increase training sessions on technological innovation, digitalisation, and sustainability.

Additionally, some Board members believe that training activities, usually standard and offered by the Company *a priori*, then submitted to the Board for approval, should be designed on the ground of a prior interview with the Board, perhaps with the support of the Appointments Committee, in order to prioritise the Board's training requirements.

REFERENCE REGULATIONS

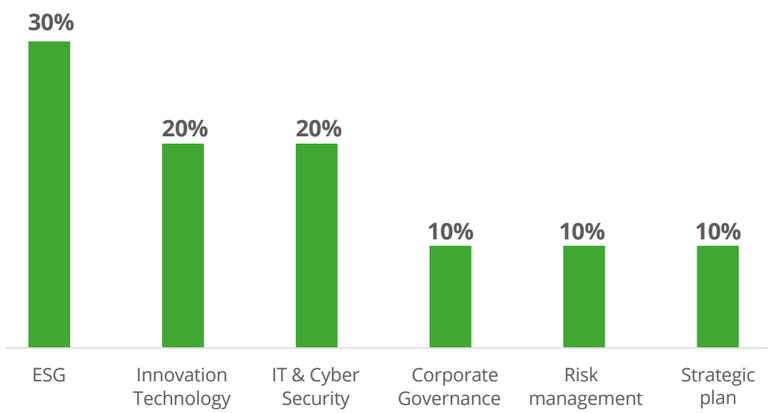
Listed companies

Code of Corporate Governance, recommendation 12: The chairman of the board of directors ensures ... (omissis) ... that all the members of the managing and supervisory body may, after their appointment and throughout their mandate, participate in initiatives aimed at providing them with an appropriate knowledge of the company's business sectors, of company dynamics, and of their evolution, also in view of the company's sustainable success and of the appropriate management of risks and of the reference regulatory and self-regulatory framework

Banking sector

Circular letter No. 285/2013, part one, section IV, chapter 1, par. V: The chairman ensures that ... (omissis) ... the bank designs and implements on-boarding plans and training schemes for board members.

Figure 3 | Priority issues in the training of the Board of the future



Source: Deloitte, The Board of the Future, 2022

The development of the role of committees

Intra-Board committees, introduced at national level since the release of the first draft of the Code of Self-Discipline 1999, are a well-consolidated practice today for the in-house organisation of the Boards of listed Companies.

On the other hand, an interesting development was observed in the past few years, where new committees with specific consulting roles were added up to appointment, remuneration, and risk committees. Reference is made, in this case, to the practice of certain listed companies to establish specific Committees focusing, for example, on Corporate Governance and/or ESG.

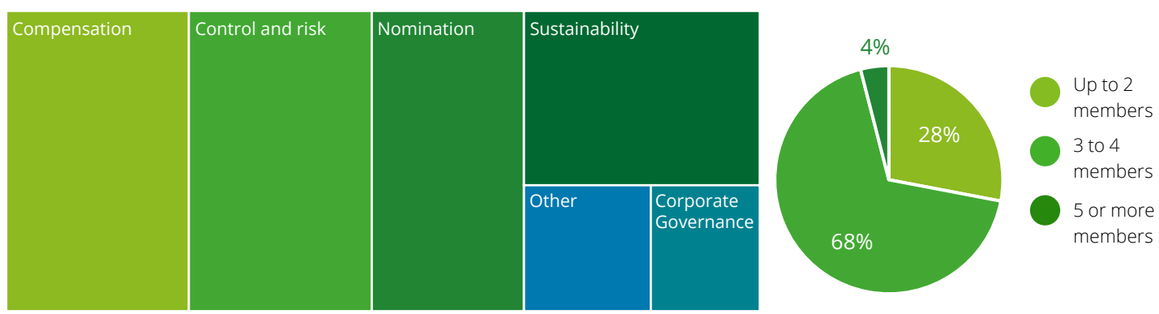
In the interviewed Companies panel an average number of 3 intra-Board committees was recorded, or 3.6 if only FTSE-MIB listed companies are considered.

The vast majority of Board members confirmed the efficacy of committees as venues to promote discussions and debates on regulatory and Governance issues. Moreover, they allow to focus on and analyse specific subjects in-depth, bringing only the most relevant aspects to the Board's attention. In this respect, they act as a valuable filter for the Board, allowing a more effective execution of the Board's works.

In terms of requested competences, it turned out from the interviews that the effective operation of these governance bodies is closely connected with the timing, quality, and quantity of information the committees receive from the Company and with the ability to analyse follow-up themes.

In this respect, in particular, certain Board members expect that the committees be supported by third-party experts on technical and specialist issues. This would allow them to challenge the top management more consciously.

Figure 4 | Types and composition of intra-Board committees



Note: Figures do not include "Related Parties Committee" and "Executive Committee"

Source: Deloitte, The Board of the Future, 2022

The central role of the Chairman

The Chairman is definitely the hub of the Board's Governance.

In the internal organisation of the Board, the Chairman is a guarantor for all the stakeholders, and his/her main function is to orchestrate the agenda and the works while promoting cohesion and stimulating a participatory attitude of the Board members.

It clearly turns out from the interviews that Chairmen have developed a growing consciousness that the experience of the recent pandemic and post-pandemic period will reflect on the operation of their organisations and on the definition of future strategies. This will imply the need to reconsider their role in a broader sense compared to the past via a more proactive involvement vis-à-vis third-party stakeholders, with a stronger emphasis on the definition of strategies and on the confrontation with the management, in order to adjust the business model to the new market environment and to the overall macroeconomic scenario.

The Chairman of the future will have to help all the Board members become more effective and knowledgeable and adapt to new changes by bringing talents on Board at all levels, including the Board itself and the relevant leadership.

In this respect the Chairman is expected to have a broader mindset and vision compared to the more executive and operating role of the Chief Executive Officer.
He/She should animate and promote a constructive and innovative discussion within the Board and ensure the company's vitality in order to carry out his/her role at best as guarantor of the organisation and guardian of the company's reputation and corporate purpose.

Figure 5 | The 5 roles of the Chairman of the future

Guarantor

The Chairman of the Board is a guarantor for all the company stakeholders

Strategic provoker

Acts as the main counterparty for the Chief Executive Officer and represents the link between the Board and the Top Management

Promoter of the corporate culture

Promotes, alongside the Chief Executive Officer, an inclusive culture within the Company

Guardian of ethical and Governance principles

Is a guarantor for the company's reputation and promotes ethical and good Governance standards within the company

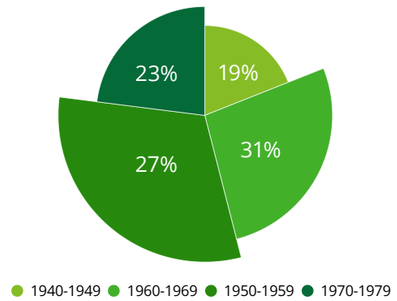
Dialogue facilitator

Defines the agenda and facilitates dialogue within the Board so that each Board member may contribute to the internal debate

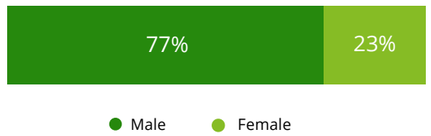
Source: Deloitte, The Board of the Future, 2022

Figure 6 | The Chairman of the Board

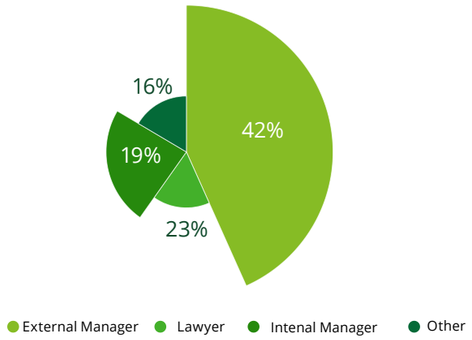
Birth year



Gender



Original occupation



Note: Sums may not add to 100% due to rounding
Source: Deloitte, The Board of the Future, 2022

The agenda of the Board of the Future

Boards should be agile, reactive, and capable to quickly adapt to changes in the competitive scenario and in the general socioeconomic and political environment of companies.

They should also proactively direct the definition of the company's purpose, role, and impact towards longer-term structures, rules, and values.

The interviewed Board members agree that Board agendas today include a closer focus on long-term strategies in order to achieve sustainable success over time, also in response to the events recorded during the management of the COVID-19 emergency, which resulted into a long period of unexpected occurrences where companies had to cope with complex situations and prompt reviews of their strategic directions and operating plans.

Once the emergency was over, Board discussions focused more closely on issues connected with the "new normality," "back to work" management, and new hybrid work approaches to be adopted in the future.

Lastly, more consciousness was observed with respect to the integration of Risk Management into company processes as an accelerator of performance to select the best approach to value generation and preservation.

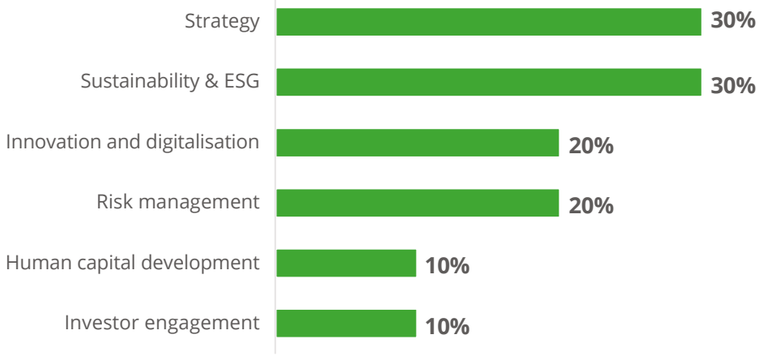
> Long-term strategy and purpose articulation are more and more the focus of the Board's attention

The strategy between recurring and emerging issues

Integrating corporate strategies, sustainability, and ESG actions is the most often recurring topic in strategic planning, followed by the definition of company goals, of the relevant guidelines, and of technological and digital innovation processes, which promote medium and long-term strategies.

As a complement to the general overview, the importance is stressed of developing the human capital, in terms of new competences and re-skilling, and of strengthening relations with all the stakeholders, and third-party ones in particular.

Figure 7 | The main strategic priorities



Source: Deloitte, The Board of the Future, 2022

Strategy

The interviewed Board members confirm the importance of the Board's role in supervising strategy implementation, supporting the management in the pursuit of strategic and business objectives, participating in defining the company's goals and guidelines, and leaving the operational duties of risk management and action line implementation to the management. The Board's independence ensures fair evaluations and a fair decision-making process, monitoring the actual management of the organisation in the interest of stakeholders and constantly interfacing with the management to establish whether corporate risk management is duly designed for value generation.

The interviews highlight certain fundamental and recurring topics in Board discussions, which will be further detailed in specific sections of this report.

Most of the interviewed Board members agree that one of the main challenges to the management is quantifying the risk level the organisation can accept (risk appetite), consistently with the own founding elements of the organisation (mission, vision, core value). An organisation should integrate risk management processes in its business management approach in view of implementing the strategy, improving the measurement of results (performance), and generating value over time, being aware of the growing importance of the "Strategy – Risk – Company Performance" relation.

The focus on the Internal Control and Risk Management System, a traditional mainstay of the Board's activity, was the object of growing innovation over time, supported by technologies applied to modelling and data analytics. There was a shift from mostly qualitative risk assessment systems, limited to major business areas, to monitoring and management instruments that are more of a quantitative kind, cross-integrated with strategic plans, Corporate Governance, ESG, and tax issues. Past risk management systems proved largely ineffective in identifying complex situations, such as the pandemic, the shortage of raw materials, the cost of energy, and production concentration in peripheral regions. The closest focus is now on the efficacy of risk management systems in view of developing the ability to anticipate potential crises and allowing Boards to make more conscious decisions supported by quantitative assessments.

Sustainability and ESG

In the past few years companies have been forced to speed up their ESG activities, and this is a much-discussed topic in Board meetings.

Most of the interviewed Board members believe that the Board, as a guarantor of long-term value generation, should stimulate the management and the investors to adopt all the corresponding necessary actions. Moreover, environmental, social, and Governance issues are increasingly part of the core business of companies and therefore duly discussed in industrial plan activities.

> The focus of Boards on environmental, social, and Governance issues continues to increase and these are often part of the industrial plans of companies

Human capital development

Another theme of Board discussions mentioned by the interviewed Chairmen and Board members is the human capital.

The pandemic drew more attention towards people-related issues, and cast light on the physical well-being and mental health of employees. In addition to well-being, certain Board members consider human capital management as a priority in their agenda, derived from the need caused by digitalisation to promote the development of new skills and re-skilling. Lastly, such topics as Diversity, Equity, and Inclusion are also still central.

> There is a growing focus on human capital development issues, such as well-being, employee re-skilling needs, and DE&I

Innovation and digitalisation

Technological innovation is by now a priority in the agenda of Boards.

The majority of the interviewed Board members state that innovation is an integral part of their Company's business strategy, and therefore a constant subject of discussions at Board meetings. Despite the central role of the Board in overall strategy supervision, most respondents admit that the Board often lacks the necessary skills to get down to operational management details, which are entrusted to the management.

The most often mentioned evolutionary phenomena include process digitalisation, the Cloud, data analytics, Artificial Intelligence, and Cyber Security.

The central role of technology and data management at corporate level, also determined by the on-going expansion of cloud-based and knowledge-sharing solutions, has resulted into a significant increase of the volume of the available data and, particularly, of data analytics and processing skills.

> Within the framework of the Board's monitoring role, such themes as process digitalisation, the Cloud, data analytics, Artificial Intelligence, and Cyber Security have a growing importance

Engagement policies

Boards are in charge of balancing the short-term interests of certain shareholders with a long-term strategic vision taking the needs of the entire investor community into account. All the interviewed Board members say that their companies' relations with third-party stakeholders (regulators, government, suppliers, investors, community) have evolved, and these demand a growing interaction with Boards. This is confirmed by a survey of the Deloitte Global Boardroom Program, which analysed investor expectations and behaviours in the last proxy season.

Deeper Engagement: Investor Behavior in the 2021 Proxy Season. A global analysis of investor voting guidelines, and voting behavior *Investor Behavior in the 2021 Proxy Season | Deloitte | Risk*

Following the inputs provided by recent regulatory provisions, most companies are reviewing their institutional communication procedures, as reported by some Board members who state having already put the new policies in place.

Engagement policies are seen as a key factor in the Board's activities and a great opportunity to increase transparency towards the stakeholders, thus engaging them more closely and promoting long-term shareholder commitment. During the interviews, most Board members mentioned the importance of promoting a dialogue with all the stakeholders, which allows to review their demands and concerns to take them into account when defining strategic objectives, as well as to provide them timely information on on-going activities and on the company's performance.

However, the Board's role in investor engagement is still much discussed: the issue of non-public inside information disclosure by Board members is restated, in that these, according to the Italian regulations, are obliged to treat their Board's opinion as confidential.

On one hand, engagement policies should take the great opportunity offered by closer investor interactions and, on the other, address the need for professionalism and training of the parties involved in external communication practices.

In fact, the Board is a corporate body, and only the entrusted parties may disclose any of its decisions to third parties. Moreover, some Board members stress that investor communication is an awkward matter that calls for specific professional skills and training.

The new engagement policies of companies should therefore consider the above issues, ensuring that the Board members exposed to the investors have the right know-how and competences.

> Relations with third-party stakeholders are changing and the Board's role is gaining importance in investor interactions

REFERENCE REGULATIONS

Listed companies

Code of Corporate Governance, recommendation 3: the Board of directors, on proposal of the chairman, made upon agreement with the chief executive officer, adopts and describes in the Corporate Governance report a policy to manage interactions with all the shareholders, also considering the engagement policies adopted by the institutional investors and asset managers.

Banking sector

Circular letter No. 285/2013, part one, section IV, chapter 1, par. V: larger or operationally complex banks, except those that are fully controlled, implement a policy, to be formalised in an internal regulation, to manage the Board of directors' interaction with the shareholders (including institutional investors and asset managers)

Turning strategy into action through remuneration policies

The interviewed Board members agree that remuneration policies offer a practical tool to translate strategies into actions and stimulate a virtuous behaviour of the Board members and managers that leads to the achievement of clear and pre-set objectives.

The relevance of this theme is evidenced by the fact that almost all companies by now choose to set up a specific intra-Board committee in charge of investigations and remuneration proposals.There is widespread consensus on the opportunity to adopt remuneration policies aimed at acknowledging the input of individual Board members to the achievement of the company's "long-term success" and ensuring closer alignment of investor and top management objectives.

This was also stressed by a survey of the Deloitte Global Boardroom Program, which pointed out to a more and more obvious link between leadership and social responsibility that impacts on the determination of a fair compensation of executive managers and of the appropriate return on investments for the shareholders.

The same consciousness that remuneration policies can be an indicator for individual behaviours resulted into the increased attention of international organisations, the European regulator, and the national one towards regulation on remuneration practices and policies as a fundamental part of the reform implemented in response to the 2008 financial crisis.

This process resulted into punctual and very strict regulations, particularly in certain sectors, first and foremost the financial one.

CEO compensation in a COVID-19 world: How should CEOs be rewarded in a time of crisis? *CEO pay in a COVID-19 world | Deloitte Insights*

> Remuneration is a tool to drive individual top manager behaviors and align the interests of company representatives with those of the shareholders, while translating strategies into actions

Board remuneration

During the interviews, Board members often focused on what they believe is the true challenge in defining the remuneration policies to be adopted for corporate bodies, namely the need to balance potentially conflicting needs.

On one hand, the prevention of potential conflicts of interest generated by very high remunerations and the protection of the principle of independence; on the other, the remuneration of Board members (particularly of independent ones) for their role carried out with a professional approach, which calls for growing commitment and on-going up-skilling and know-how development (potentially generating a "talent war" also in the selection of directors).

> The true challenge is balancing potentially conflicting needs: prevention of conflicts of interest, protection of independence, and a professional approach to the Board member role

REFERENCE REGULATIONS

National rules clearly allocate responsibility for remuneration decisions and refer to general principles, such as proportionality.

Listed companies

Consolidated Law on Finance, art. 123-ter: defines more detailed measures for Governance and the transparency of the remuneration policies adopted for top managers, recently amended to implement the SHRD II (introducing – among other things – the binding vote on the remuneration policy in shareholders' meetings).

Code of Corporate Governance, art. 5: restates the principle by which the remuneration policy for directors, Board members, and top managers is functional to the pursuit of the company's sustainable success.

Banking sector

Provisions for the banking and financial sector are – lastly – even more specific and prescriptive. They aim at ensuring that staff compensation is tied to medium or long-term targets, and discourage too much risk taking so as to ensure more effectively a healthy and cautious management of banks and the stability of the banking and financial system as a whole. In particular, several requirements were recently introduced and applied according to the principle of proportionality, aimed at preventing the risk that incentives for the staff (and, more specifically, for the Most Relevant Employees) drive these away from the pursuit of medium/long-term objectives, with possible negative impacts on management.

Remuneration within the Organisation

In a broader perspective, Board discussions on remuneration policies are starting to include relatively new themes connected with current changes in the social and economic reference context, including:

- **Gender Pay Gap**
  The gender pay gap issue has lately become a priority, and some Board members say it should be addressed in a comprehensive and thorough manner.

  In particular, it turns out that the pay gap in the analysis of positions having the same value is a sign of a broader and deeper issue connected with gender representation in top positions (the so-called "crystal ceiling").

  In this context more and more companies decide, also in view of ensuring more equality, to base their compensation decisions – particularly as far as executive managers and top managers are concerned – on benchmark analyses, which ensure consistency with reference market practices and appropriateness with respect to the allocated responsibilities and the achieved results.

  Lastly, variable remuneration, more and more often adopted by many companies, could be an effective tool to ensure fairness through merit enhancement and compliance with corporate values.

- **Integration of ESG targets**
  Most of the interviewed companies worked in the past few years or are currently working on the identification of ESG metrics for connection with their short and medium-term incentive frameworks.

  This KPI definition process was very interesting because – as mentioned by some Board members – it was focused on substantial aspects, aimed at finding concrete (not just qualitative) and measurable parameters to which variable remuneration may be tied.

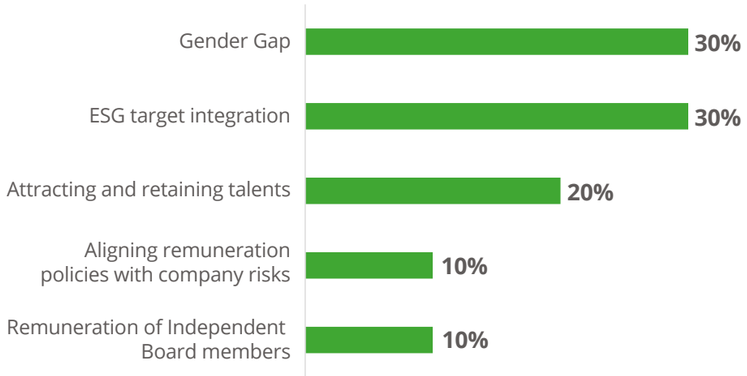
  Such criteria aim at reflecting systematically the actual status of the individual businesses and preventing the risk of a formal-only adjustment (the so called "Green-washing") to one of the main focuses of most institutional investors and Proxy Advisors.

> In addition to compliance and alignment with the corporate strategy, fair compensation, the integration of ESG metrics, and competitiveness on the "new" talent market should also be considered

Scouting of talents with new cross-competences
Some Board members say that competitiveness is a key factor to define remuneration policies.

This necessary competitiveness – in particular – comes to life when scouting for certain new cross-competences (e.g. digital), often scarcely available on the talent market: companies need to attract rare competences (or anyway scarce if compared against needs) and scouting is particularly difficult when players belong to different sectors with different regulatory requirements.

Figure 8 | Priority issues with respect to remuneration policies



Source: Deloitte, The Board of the Future, 2022

The new paradigm of the "Diversity, Equity and Inclusion"

Diversity is not a single process: today's organisations face a complex scenario where they need to develop a broader understanding of the issue to focus on material and quantifiable aspects, like representation and the gender pay gap, and on "softer" ones, such as culture and leadership styles.

Most Board members believe that using a holistic approach to address Diversity, Equity & Inclusion allows companies to generate value from different perspectives. This way of thinking about diversity helps the organisations see the return on their investment on inclusion and be conscious of the risk associated with homogeneity.

> DE&I cannot be a mere management «program», but should become a business imperative in the company decision-makers' agenda

DE&I in Boards

A Board composition enhancing diversity is a crucial factor for good Corporate Governance, in that it ensures more variety of perspectives, insights, and opening to innovative ideas. It promotes better understanding of the organisation and allows Board members to have a constructive dialogue on management decisions, pursuing the independence of opinions and critical thinking. This was also noted by the regulators that issue different provisions on Board composition.

Most of the interviewed Board members agree on the added value generated by a diversified Board, and stress the importance to set up a team where different competences, ages, cultures, and opinions may bring to constructive disagreement during discussions. In the light of the growing complexity and greater uncertainty affecting the Board of the future, different perspectives and different mindsets of its members can be leveraged upon to improve the Board's leadership and increase the organisation's resilience.

> Enhancing diversity within the Board is crucial for good Corporate Governance and for protection of competitiveness on the "new" talent market

REFERENCE REGULATIONS

Listed companies

Consolidated Law on Finance, art. 123-bis: requests that the «Report on Corporate Governance and proprietary assets» contain a description of policies on diversity «with respect to such aspects as age, gender composition, and the training and professional background, as well as a description of goals, implementation modes, and results of such policies».

Banking sector

Circular letter No. 285/2013, part one, section IV, chapter 1, par. IV: in line with the CRD V and the position of the ABE and ESMA on the assessment of the eligibility of the management body members and of the staff in key roles, provides guidelines on diversity in the Board, and requests that the body composition reflect «an appropriate degree of diversification in terms of, among other things, competences, experiences, age, gender, international perspective».

Gender equality in Boards

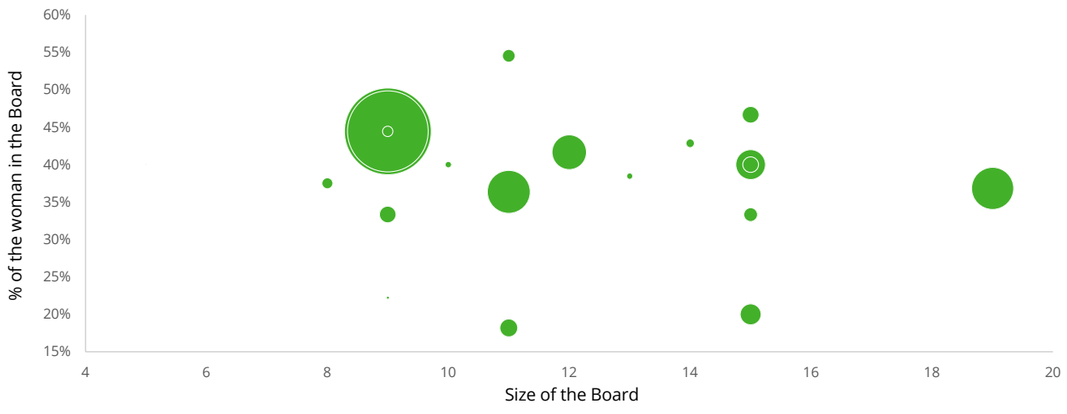
In consideration of the need to comply with the rules in force, the most often discussed aspect for respondents with respect to diversity concerns appropriate gender equality.

All the interviewed Board members confirm that, thanks also to recent rules on the subject, gender equality in Italian Boards is enhanced today: the presence of a significant share of women is by now a consolidated practice that makes Italy an international leader in this respect, as confirmed by the survey of the Deloitte Global Boardroom Program.

Women in the Boardroom: Progress inches forward at a snail's pace Women in the Boardroom *(deloitte.com)*

The opportunity was identified to support front-line women representation, ensuring management approaches that expand the base for selection of figures for inclusion in Boards

Figure 9 | Presence of the least represented gender in Boards



Source: Deloitte, The Board of the Future, 2022

REFERENCE REGULATIONS

Listed companies

Consolidated Law on Finance, art. 147-ter: he least represented gender obtains at least two-fifths of the elected directors.

Banking sector

Circular letter No. 285/2013, part one, section IV, chapter 1, par. IV: subject to legal provisions, the minimum number of members of the least represented gender is 33% of Board members. Certain good practices are then described: at least one member of intra-Board committees should be of the least represented gender; the roles of chairman with strategic supervisory duties, chairman with control duties, chief executive officer, and general manager should not be covered by persons of the same gender.

Age diversification in Boards

One aspect of diversity most often mentioned by respondents concerns the age of Board members. While no specific rules exist in this respect, the disruptions Boards had to cope with in the past few years stressed the need to ensure diversification also in this respect. Most respondents acknowledge the need to include younger co-workers in Boards: the new generations have new skill sets and innovative viewpoints on by-now crucial issues, such as digital transition. In fact, despite stressing that an open-minded approach and innovative visions are the result of past knowledge and experience, the need is also highlighted to rely on people that bring potential future behaviours, rather than past experiences, to the Board.

The inclusion of young generations in Boards is key to ensure innovative and future-oriented visions, which cannot be observed through the analysis of established know-how and past experiences

Skill diversification in Boards

Also crucial for good Corporate Governance is the presence of diversified skills in the Board. Most respondents stressed the importance for Board members to have a broad variety of skills and know-how.

The presence of diversified skills in the Board ensures that each Board member can master specific themes. Synergies and complementarity among members result into the Board acting as a team, where each member has his/her own expertise.

Boards should include members with diversified skills in order to ensure synergies and complementarity between the roles of individual Board members

DE&I within the Organisation

Creating an inclusive work environment capable to enhance diversities is more and more often seen as a key factor to strengthen the performance of companies and achieve sustainable success.

The interviewed Board members say they noticed growing awareness of such issue in their Board, which plays a significant role in directing and monitoring their company's DE&I strategy.

The Board's duties include defining the organisation's culture, monitoring the company's practices and performance, and promoting active initiatives and reporting metrics.

In consideration of the growing engagement and focus of Boards on these issues, the importance of HR management is increasing, and includes the duty to implement the strategy for diversity, equity, and inclusion in the organisation, and to report relevant information to the Board.

The most often addressed DE&I-related concern for the interviewed Board members is gender equality. There is consensus on the fact that the Board's efforts should focus on the need to enhance the role of women in the company, starting from equal inclusion in selections and ensuring the front-line presence of women. In fact, despite an often balanced overall gender distribution in companies, the rate of women in senior and top management roles is systematically reduced.

The Board's supervisory role is therefore crucial to ensure the appropriate definition of KPIs to promote women's talent and regularly monitor achievements.

> The Board has the task of supervising gender equality issues, to further strenghten the managerial role of women within the organisation

Digital transition and innovation: new challenges ahead

The accelerated development of the present technological scenario offers a whole range of opportunities to Boards connected with technological and digital evolution, which inevitably entail new challenges and risks connected with Cyber Security.

Management of related risks

Each organisation should be able to organise its data and information in consistent categories in order to come up with a fair overall vision of the system for the management of company risks that may affect the strategy and goals.

The development of specific skills to manage the technological tools required to identify, assess, treat, and monitor risks highlights the need for an on-going process for collection and sharing of relevant information – both internal and external – allowing the organisation to make conscious decisions on risk management. This allows more effective communication between the Board and the management in view of reviewing the Governance framework so that responsibilities are clearly allocated and defined, and ensures that the structure can support a dialogue on risk management practices.

Digital & Cyber Security

Digitalisation and technological innovation, as confirmed during the interviews, are by now a fundamental part of the Board's agendas, with nearly all companies providing for investments on such technologies as Cloud, Big Data, Machine Learning, and Artificial Intelligence within the framework of their new industrial plans.

There are two main operating modes to achieve digital transition, which provide both for gradual strengthening of strategic IT skills through the on-boarding of professional specialists and the inclusion of dedicated facilities, and for the pursuit of strategic agreements with primary and established IT and fin-tech companies to implement joint-venture projects.

Technology and digitalisation are, in fact, complex issues that cannot be addressed once in a while, but rather need a systemic approach. In this respect, the Board plays a leading role and may act as an accelerator of technological progress.

While it turned out from the interviews that Board members need to increase their awareness of such issues, no need to set up ad-hoc committees for "digital transition", as it partly occurs in foreign companies, is mentioned for the time being.

This is the base for certain initiatives launched by some of the companies participating in the survey discussed in this report, which launched projects on different scales aimed at arousing greater awareness of new technologies and Cyber Security.

Ad hoc training sessions with third-party experts were followed in some companies by Board meetings solely dedicated to these issues, often the subject of specific investigations also within the framework of self-assessments, in view of recording the relevant degree of satisfaction and competence of Board members.

Tech Savviness in Boards

With their responsibility to make decisions and perform strategic evaluations to redefine the operating and competitive normality of the business, Boards play a key role in digital transformation. During the interviews, Board members stressed the importance of developing vertical skills on digital and technology-related subjects, allowing to effectively assess the strategic digital projects proposed by the Top Management and to direct the executive managers towards a radical technology-based transformation of the business.

This trend is especially interesting in the financial services sector, where technology and digital investments play a central role in the strategies of large financial groups. In fact, most Board members of companies operating in this sector agree that, with the growing rate of adoption of innovative solutions, such as Artificial Intelligence, Cognitive and Open Banking, as well as the Covid-19 crisis, the expected future dynamics are evolving at higher and higher speed.

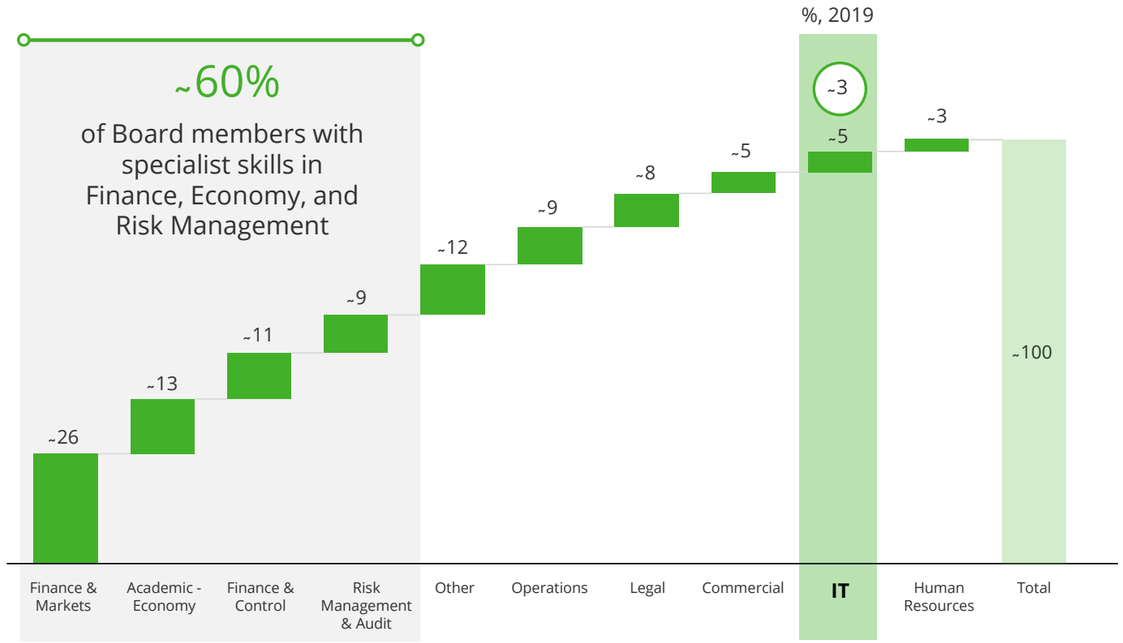
A Deloitte Monitor report for future release* describes a survey that uses an assessment KPI known as "digital quotient" for the purpose of measuring the tech-savviness of the Italian Boards of financial companies.

First of all, the share of tech-savvy Board members was 5% in 2021, about 2 percent points up vs. 2019. This demonstrates that the development of the Board's digital skills has actually started. However, the rate of these profiles vs. the total number of Board members is still below 10%, too low if compared against the technological challenges that companies have to meet.

Digital transformation plays a central role and Boards need to expand their vertical skills to include digital and technology-related ones

** Tech Explosion & Digital Disruption in Financial Services: Are Italian Boards ready for the post pandemic?Board's Tech Savviness in the post Covid 19. Monitor Deloitte, 2022 (forthcoming)*

Figure 10 | Competences of the Board members of financial companies



Source: Deloitte, The Board of the Future, 2022

There are some positive signs, though: 9% of the Board members appointed last year in the Boards of the panel under study are tech-savvy, much more than the whole analysed sample and significantly up vs. the 5% rate recorded in 2019. This result provides a first insight on how companies are trying to "digitalise" their Boards, and thus strengthen their "digital quotient", by appointing members with significant and consolidated technological skills.

The analysis also provides a description of the existing tech-savvy Board members, defined on the basis of a survey on the background of the Board members under study and of the identification of the personal, academic, and professional profile of such Board members:

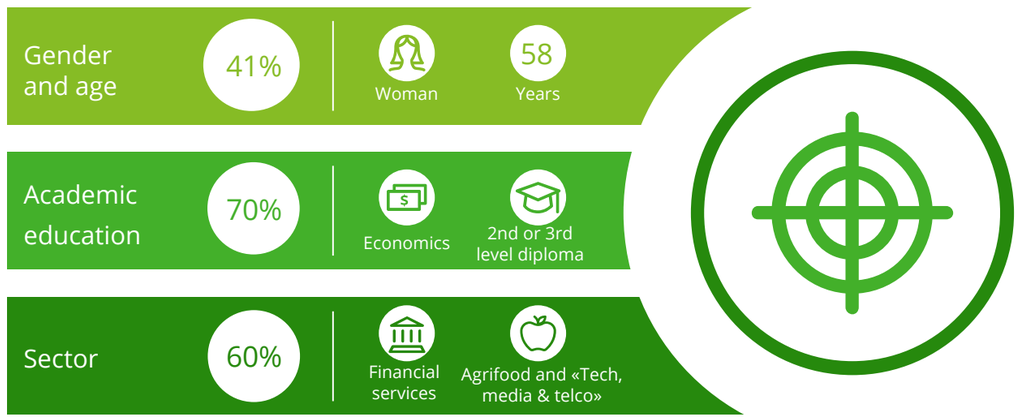
- **Gender and age**
  Most of the IT-oriented Board members in the sample are women, and the average age of the cluster is 58. If compared against the data of the whole Board member panel – including digital and non-digital ones – this data shows a significant gender gap of the typical Board members, but is in line in terms of average age.
- **Academic education**
  The most popular graduation title among the tech-oriented Board members is "Business Economics", followed by "Engineering", "Information Technology", and "Physics". Also, over 70% of the cluster profiles, significantly more than the overall sample, have a second or third-level diploma, such as a PhD or an MBA.

- **Sector**
  The analysis shows that, of all the market segments where the tech-savvy Board members have developed a professional experience, financial services are the most popular, with almost 60% of the Board members in the cluster under study, followed by the Agrofood and TMT sectors.

Despite a moderate quantitative and qualitative improvement of the Digital Quotient of Boards in financial companies, this summary of the Italian situation confirms the existence of a broad margin for development in terms of digital competence acquisition in Boards.

The gap between the digital strategies of companies, often observed in the agendas of financial company Boards, and the background of Board members stresses the importance of identifying appropriate solutions to fill such gap

Figure 11 | Description of tech-oriented Board members in financial companies



Source: Deloitte, The Board of the Future, 2022

The new sustainability standard and the centrality of ESG

In the past few years, Regulators, Proxy Advisors, investors, and most stakeholders were more and more focused on assessing the alignment between the company's strategy and sustainability issues.

In fact, as confirmed by the survey disclosed in the Deloitte 2022 CxO Sustainability Report, executive managers are suffering increasing pressure from stakeholders to integrate sustainability issues in the corporate culture, and believe that the world has reached a critical point in responding to climate change. The COVID-19 emergency clearly highlighted some needs (e.g. the introduction of technologies to support work from home; addressing social issues, such as employee well-being), and therefore acted as a pivot in the ESG revolution.

Deloitte 2022 CxO Sustainability Report: The disconnect between ambition and impact 2022 Deloitte CxO Sustainability Report | *Deloitte Malta*

All the interviewed Board members agree that sustainability must be part of a long-term strategic vision and that the value-generating ability of a company depends on economic, environmental, social, and Governance indicators.

In the last five years, international organisations and European and national regulators, in turn, have been working to develop the existing legal framework in view of achieving more transparency, detail, and comparability of information among different parties.

This is the reason for the high significance of the "Action Plan for sustainable finance" published in 2018 by the European Commission, which helps connect finance with the specific needs of the European and global economy to the benefit of the planet and of society, in line with the Paris Agreement on climate change and the Agenda 2030 of the United Nations for sustainable development.

Companies are required to speed up their ESG efforts, which are a fundamental part of their long-term strategic vision

REFERENCE REGULATIONS

- With the SFDR (EU Regulation 2019/2088) on statements about sustainability in the financial services sector, the regulator aims at identifying the sustainability of products on offer before these can be provided with an ESG label.
- A proposed Directive of the European Commission will expand the target base of the Non-Financial Declaration and force companies to adopt a common framework for disclosure of a set of indicators to be shared starting from the end of 2022.

Respondents said that the rules and inputs from the institutional investors are fundamental drivers to strengthen knowledge and direct efforts towards ESG issues in their companies. Other stakeholders, including suppliers, employees, consumers, and the community at large, also play a central role in this respect.

Just consider the attention that companies paid to employee security and company process digitalisation in the light of the Covid-19 emergency.

For this reason, most of the interviewed Board members stressed the importance of such issues with respect to the purpose of modern companies: there is a growing belief that sustainability should be pursued for ethical and reputational purposes, as well as because it is by now fundamental for systemic company growth, new business opportunity generation, and a reduced exposure to sustainability and reputational risks, while bringing an actual economic return.

Long-term value generation requires that companies integrate ESG issues into their strategy, not as an independent pillar, but rather as a cornerstone, touching upon all the other aspects connected with the strategy and pursuing the interests of multiple parties.

ESG in Board

The Board as a guarantor of long-term value generation should promote the adoption, by the management and investors, of all the measures required to achieve sustainability targets.

Board members say that, in view of alignment with the regulatory provisions and the company's general inputs, the Board's management and monitoring role will become more and more important for the company's ESG decisions.

They also stressed the Board's growing attention towards defining concrete, measurable, and comparable ESG targets, particularly in the light of the pressure of more and more demanding investors.

This requires having a "control room" focusing on such issues and establishing the guidelines for the company's ESG strategy and the priorities for intervention, as well as an appropriate organisational model (involved players, tools, policy, monitoring system) to ensure the achievement of pre-set targets.

REFERENCE REGULATIONS

Listed companies

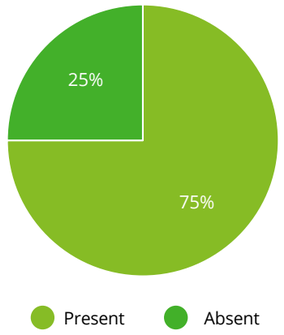
Code of Corporate Governance, art. 1: "the managing body leads the company and pursues its sustainable success," "which is substantiated in long-term value generation to the benefit of shareholders, taking into account the interests of other important stakeholders".

> In order to ensure the pursuit of sustainable success and respond to the regulators' and stakeholders' requests, the Board's role with respect to ESG issues will become more and more important

Most of the interviewed companies have set up a specific ESG committee, whose activities are gaining importance within the Board.

Moreover, some Board members noted the pervasiveness of ESG issues in Board discussions, which are considered during the analysis of any and all decisions.

Figure 12 | Presence of the ESG/ Sustainability Committee



Source: Deloitte, The Board of the Future, 2022

Also important is the close connection between sustainability and risk Governance, by which companies integrate non-financial reports with dedicated risk assessment analyses. This also explains the decision of the Boards of certain companies to entrust ESG supervision to existing Internal Control and Risk Committees, rather than set up new ones with dedicated ESG responsibilities.

ESG in the Organisation

The ESG strategy defined at Board level should then be deployed and implemented within the organisation, after defining priorities and strategic objectives for each class of actions.

Figure 13 | The main issues currently addressed by the interviewed companies

Environmental issues

Decarbonisation, climate change and pollution, supply chain sustainability, and sustainable finance.

Social issues

Diversity, Equity, & Inclusion, employee up-skilling and re-skilling, employee well-being, commitment towards social works and support to the community

Governance issues

Board composition and responsibility, connection between remuneration systems and sustainability KPIs , ethical behavior, and transparent reporting.

Source: Deloitte, The Board of the Future, 2022

In order to embark on this journey towards sustainability, Boards were found to be focused on the adoption of organisational solutions (set up an organisational function, or at least a role) to manage the ESG agenda, communicating with the management, monitoring progress and deadlines, and providing support across all functions to change the operational model.

Some respondents say that certain companies are starting to review their processes and investments in order to offer products and services capable to support sustainable development, while ensuring the company's operation on a going concern basis. In this respect, the interviews highlighted a varying progress of the different companies, often dependent on the characteristics of the reference sector.

For example, sustainability in the Utilities sector is by-now considered as part of the company's core business and a prerequisite for future survival. Banks say that the way to go is more complex than for industrial companies, and best practices and strategic indicators for long-term commitment are still to be found.

Lastly, the integration of ESG into policies, processes, procedures, and initiatives of the individual corporate functions supporting the core business is fundamental to turn sustainability into the "way to do things" and allow a widespread ownership of the achieved results by acting each according to one's own skills.

> The level of integration of environmental, social, and Governance issues into the organisation varies between companies, also according to their reference sector

Research methodology

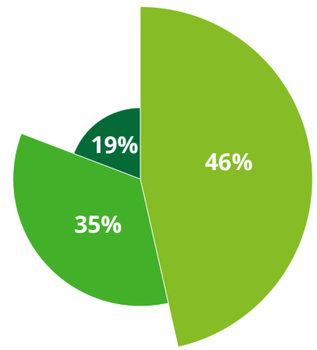
In order to collect the data required to draft this report, Deloitte performed a series of in-depth interviews with the main representatives of Boards of Directors with titles (Chairman, Chief Executive Officer, Board member) in 26 companies operating in Italy. The interviews focused on the following macro-themes: strategy, governance, remuneration, work force, technology & innovation, corporate purpose, and DE&I.

2021 turnover
285.9 billion EUR

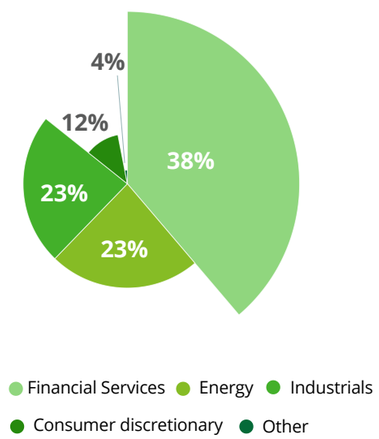
Capitalisation as at 31th December 2021
251.8 billion EUR

Figure 14| The interviewed Companies sample

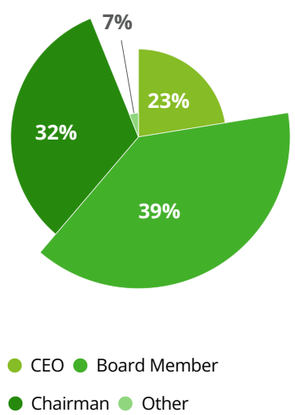
Type of company



Sector



Role



Note: Sums may not add to 100% due to rounding

Source: Deloitte, The Board of the Future, 2022

Key takeaways for the Board of the Future

1. Integrate environmental, social, and governance issues into the company's development plans according to a "sustainable strategy" logic.
2. Be open to change and innovation, making the most of external and overall stakeholder inputs. The Top Management is often focused on certain stakeholders and on the short term. The Chairman and the Board should help broaden perspectives and promote a long-term vision.
3. Create a cohesive (team-like) Board, with balanced skills and composition, which continues to stimulate updating and training. Broaden the Board's experience and skills, while trying to update and articulate the agenda.
4. Be conscious of Italian and international best practices to improve by leveraging upon specificities.
5. Enhance the central role of the Chairman in fair, efficient, and effective Board management, orchestrating the agenda and the Board's activity by arousing a sense of cohesion.
6. Ensure integrity and independent thinking. Challenge the management to broaden its points of view and spheres of action.
7. Try to pursue the corporate purpose and long-term value generation for the stakeholders in each decision.
8. Continue to assess the composition of corporate bodies, not just in response to regulatory requirements, but rather in view of continuous improvement in the Board's understanding and management of complexity.
9. Promote, understand, and direct the creation of a digital and innovation ecosystem allowing the company to remain competitive and monitor risks.
10. Keep a closer and closer focus on fair compensation and competitiveness on the "new" talent market in view of long-term sustainable development.

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