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**Integrated Reporting and non-financial information:
challenges and perspectives**

Coordinatore:
Chiar.mo Prof. Stefano Azzali

Tutore:
Chiar.mo Prof. Pier Luigi Marchini

Dottoranda: Barbara Borgato

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CONTENTS

CHAPTER 1

INTRODUCTION

1. FOREWORD

A lot has changed in recent decades, a number of changes, often disruptive, have profoundly affected everyday life. Various phenomena, often interconnected, have generated global repercussions. The evolution of technology has accelerated considerably, especially in recent years, profoundly changing people's behavior and habits. The phenomenon of globalization has unequivocally demonstrated how the world is interconnected, even with the dramatic consequences generated by the recent global financial crisis (Freeman et al., 2010). In addition, the development model adopted for decades, essentially focused on the concept of economic growth, has contributed to generate, in addition to important benefits, also some negative consequences, such as the accentuation of inequalities between high and low income countries, depletion of natural resources and climate change (Stern, 2006; UNEP and Principles for Responsible Investment, 2011). Public awareness and sensibility regarding environmental and social issues increased, with a growing call for responses from different actors (Schwarz et al., 2002; Luo, 2005; Latouche, 2007). The institutions have mobilized to promote and support a path of change, mainly cultural in nature, with the emergence of new paradigms that have led to questioning and redefining the system of values that guides decisions by different actors at various levels.

Among these, a central role is played by the paradigm of sustainable development, defined as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (World Commission on Environment and Development, 1987, p. 16).

In this context, companies had to address new challenges, with consequences on various levels.

The concept of Corporate Social Responsibility (CSR), although not new in the literature, since its first definition dates back to Bowen (1953), begins to spread significantly in terms of business practices, focusing on the consideration of environmental and social issues in the conduct of the activity and in the way of relating to stakeholders (Dahlsrud, 2008), to which organizations have responded differently. As noted by Dahlsrud (2008, p. 1) "the corporate world is facing the notion of CSR wherever it turns these days." An increasing number of companies have voluntarily implemented environmental and social aspects in their activities (Eccles et al., 2014), but the implementation of CSR practices spread more widely in the early 21st century (Eccles and Krzus, 2010). Various approaches emerged, from a passive one, in which the organization acts with a perspective of "downstream purification", to situations of initial awareness of responsibilities towards environment and society, responding to requests from pressure groups or laws but without an investment of resources, to approaches in which these issues are considered competitive opportunities and therefore aimed at a short and long-term economic advantage, up to proactive approaches, in which the company starts to integrate environmental and social issues in strategic thinking, not only as a competitive opportunity, but as a responsibility that orient its way of being in the context (Mio, 2005). In the latter case, the concept of CSR invades the organization, at a strategic level, in its business model, guides the decision-making processes and everyday behavior (Székely and Knirsch, 2005).

The growing attention of stakeholders to issues related to sustainability has also had an effect in terms of a of a wider request for information addressed to organizations, with environmental and social issues that have become increasingly relevant for a better understanding of the activities carried out by the company and its impacts on the environment and society (Asif et al., 2013).

In this sense, the shortcomings of disclosure based mainly on the financial dimension and with a backward-looking approach have become evident. Moreover, mainly in a first phase the corporate reporting system has not evolved rapidly with regard to the new information needs. Initially, the companies have voluntary disclosed information on non-financial issues, through tools such as social, environmental and sustainability reporting, which have gradually spread (Romolini et al., 2014; Martínez-Ferrero et al., 2015; Rupley et al., 2017).

The publication of documents with different contents and structures raised the question of appreciation of the quality of information (Venturelli et al., 2017), with effects on the credibility (Briem and Wald, 2018; Goicoechea et al., 2019) and comparability of the reports. This led, among other aspects, to the definition of national and international guidelines, to orient companies in the preparation of these documents and allow the recipients of the information to assess the content. In addition, with the aim of ensuring the credibility of information, an increasing number of companies have voluntarily decided to submit the report to assurance by an independent external party, starting to raise important questions on how to carry out this activity, given that this information has characteristics very different from traditional financial information (O'Dwyer et al., 2011; Cohen and Simnett, 2015; Fernandez-Feijoo et al., 2015; Gürtürk and Hahn, 2016; Rossi and Tarquinio, 2017; Martínez-Ferrero et al., 2018). The choice to publish information on environmental and social issues, which usually converge into stand-alone reports, has made the overall external reporting system more articulated, divided into different documents, often perceived as separate, with a risk of overload and fragmentation of the information provided, and a negative effect in terms of confusion in the recipients of the information (Jensen and Berg, 2012; Ioana and Adriana, 2014). In addition, another important shortcoming in a traditional approach to disclosure on both financial and non-financial issues is represented by its prevailing orientation towards the past, while relatively little space is left to the representation of the company's future outloook, strategy, targets, risks and opportunities (Jensen and Berg, 2012), which, on the other hand, increasingly represent the main information needs of stakeholders, particularly investors, (PwC, 2016), given that these aspects influence the viability of the company and therefore that trust (ACCA, 2018; WBCSD and PwC, 2018).

In a context in which the corporate reporting system is perceived as complex, static and disconnected (Jensen and Berg, 2012; Ioana and Adriana, 2014; Zhou et al., 2017), the new paradigm of Integrated Reporting (IR) is affirmed (Dumay *et al.*, 2016), which should overcome these limitations, responding to the changing information needs of stakeholders and supporting an informed decision-making process in a dynamic environment (Aljifri and Hussainey, 2007; Menicucci, 2013; Bravo, 2016; Mio, 2016), providing a more comprehensive view of the company, linking financial and non-financial dimensions (Brown and Dillard, 2014; Cheng et al., 2014). The International Integrated Reporting Council (IIRC), the leading international organization in the field of IR, in its Framework defines IR "a concise communication about how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long term" (IIRC, 2013, p. 7). This new tool of reporting has spread steadily (KPMG, 2017; Engelbrecht et al., 2018), becoming in some cases the primary means for companies to communicate with stakeholders (Maroun, 2018).

The importance of the disclosure of non-financial information by companies has been progressively recognized by national and international institutions and financial markets, with the introduction of a legislative obligation.
In addition to initial obligations for companies listed in certain countries (i.e. in France, South Africa), recently an important step forward has been taken at European level, with the Directive 2014/95/EU (European Union, 2014). The Directive represents the last step of a continuous commitment of the European Union on fostering the disclosure of non-financial information, enhancing its consistency and comparability, as well as corporate accountability (La Torre et al., 2018). This Directive requires large companies to disclose non-financial and diversity information for financial years starting on or after 1 January 2017. In particular, the entities subject to it are public-interest companies with more than 500 employees, headquartered in Member States. These companies are required to provide information on "as a minimum, environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters" (European Union, 2014, p. 6). In addition, the undertakings which fall within the scope of the Directive, have to describe their business model, the policies pursued in relation to the above-mentioned matters, the processes implemented, the outcome of the policies, the principal risks related to those matters and how these risks are managed, and relevant non-financial key performance indicators. The Directive had different impacts on the obliged companies in the various EU countries, and some shortcomings and critical issues have been highlighted with regard to its effective implementation, in order to change corporate behaviors (Jeffery et al., 2017; La Torre et al., 2018; Voss, 2019), in particular for companies that, before the implementation of the law, did not disclose non-financial information in a structured way. Some scholars investigated the potential impact of the Directive, analyzing the quality of non-financial information disclosed before its implementation. The existence of an information gap with respect to the requirements has been proved in Germany (Hoffmannet al., 2018), and in Italy (Venturelli *et al.*, 2017), highlighting in the latter case the role of regulation in enhancing the quality of NFR (Venturelli *et al.*, 2019).
In the light of the above, if, on the one hand, the inadequacy of the reporting standards and frameworks developed in the last century to meet the current information needs of stakeholders, in a dynamic environment, is widely recognized, on the other hand, there are still several challenges that need to be addressed in order to enhance the level of maturity and credibility of the most recent reporting tools for the recipients.

2. PURPOSE OF THE THESIS

This thesis is framed into the issue related to the evolution of corporate reporting system, as a set of tools used by companies to communicate with their stakeholders.
In this regard, there are different aspects to be addressed. On the one hand, aspects related to the improvement of information, in terms of content, guiding principles for the preparation of the reports, often formalized in frameworks and standards. On the other hand, also internal aspects have to be considered, in terms of tools, systems and processes that companies should structure and implement to effectively control the phenomena underlying the issues subject to disclosure.
In particular, in this wide landscape, the work focuses on aspects related to recent developments represented by IR and mandatory non-financial reporting (NFR) in the European context, following the transposition of Directive 2014/95/EU.

With regard to IR, two issues that are considered particularly relevant in the literature and in practice in the current context, namely forward-looking information (FLI) and assurance, were analyzed.
The purpose of the first paper is to examine the disclosure of FLI in IRs.
In the literature, the topic of FLI has been investigated mainly with reference to the traditional financial information, both mandatory and voluntary (see, among others, Kent and Ung, 2003; (Lajili and Zghal, 2005; Boesso and Kumar, 2007; Beretta and Bozzolan, 2008; Menicucci, 2013; Bravo, 2016), while relatively few studies dealt with FLI in IR context, in particular analyzing early adopters (Kılıç and Kuzey, 2018b; Menicucci, 2018; Menicucci and Paolucci, 2018). The relevance of the issue is demonstrated by the results of recent empirical research, which have proven that, increasingly the stakeholders, particularly investors and financial markets, ask companies to disclose more future-oriented information (PwC, 2016; ACCA, 2018; WBCSD and PwC, 2018). In this regard, IR should be the ideal means, because the forward-looking perspective should orientate its preparation and presentation. Indeed, one of the guiding principles included in the IIRC Framework, informing the content of the disclosure is "strategic focus and future orientation", which states that "an integrated report should provide insight into the organization's strategy, and how it relates to the organization's ability to create value in the short, medium and long term and to its use of and effects on the capitals" (IIRC, 2013, p. 16). In addition, future-oriented information are included in the content elements of the Framework, in particular in the disclosure of risks and opportunities, strategy and resource allocation and outlook, although in all sections it is required to provide information also with a forward-looking perspective, in the viewpoint of value creation in the short, medium and long term. In the light of the above, the research aims to investigate in depth the extent and the nature of FLI in "recognized reports" in the IIRC Database, i.e. "reports that have been recognized as leading practice by a reputable awards process or through benchmarking." The paper contributes to the current forward-looking disclosure literature, with particular emphasis on disclosures considered among the best practices within the framework of IR. A wide perspective for the analysis of the characteristics of FLI is proposed, further dimensions are proposed, compared to those addressed in previous works on IR, identified both on the basis of the existing literature on the topic, and in the light of the evidence of the above-mentioned empirical research.
The second paper deals with IR assurance.
The gradual spread of IR (KPMG, 2017; Engelbrecht et al., 2018) and, at the same time, its growing importance within the corporate reporting system (Maroun, 2018), increase the criticality of its reliability, making IR assurance an issue of growing concern (Adams, 2015; Ruiz-Lozano and Tirado-Valencia, 2016). Several scholars identified research opportunities in this field (Cheng et al., 2014; De Villiers et al., 2014; Adams, 2015; Cohen and Simnett, 2015; Simnett and Huggins, 2015), and calls for informed views were made by two of the leading organizations in the field of corporate reporting, in particular IIRC (IIRC, 2014a, 2014b, 2015) and IAASB (IAASB, 2015). There are several critical elements related to IR assurance, such as the existence of a suitable criteria, whether and how some contents, specifically FLI and narrative-style information, can be assured, the assurance of IR principles, the possibility to assure the contents without assessing the underlying process, the level of the assurance that can be achieved, the form of the assurance report, the effects on the assurance service provider, in terms of skills and liability (see, among others, (Cheng et al., 2014; de Villiers et al., 2014; Cohen and Simnett, 2015; Huggins et al., 2015; Simnett and Huggins, 2015; Simnett et al., 2016).

On a broader level, the issue of adequacy of traditional assurance models in the context of IR is raised, that is whether it is possible to address the identified challenges within the current context, or whether it is more appropriate to change perspective and think about innovative approaches (PwC, 2014; Cohen and Simnett, 2015; Maroun and Atkins, 2015; Simnett and Huggins, 2015; Maroun, 2017; Maroun, 2018). Among the research opportunities, specific call for in-depth analysis of IR assurance practices and roles of auditors were proposed (Cheng, *et al.*, 2014; Simnett and Huggins, 2015; Conradie and De Jongh, 2018).

In this regard, this paper is framed into the recent literature on IR assurance, exploring the views of Italian expert auditors on the value and usefulness of IR and IR assurance, the critical issues to be addressed, the possible conditions that could facilitate the path towards IR assurance, and finally the perspectives of IR assurance.

Finally, the third paper is focused on the issue of stakeholder engagement (SE) in the field of mandatory NFR. With the transposition of Directive 2014/95/EU, several European companies that fell within its scope had to communicate non-financial information to their stakeholders for the first time. As highlighted in the guidelines provided in order to orient obligated companies, positive effects may result from more transparency about non-financial issues, over time, in terms of resilience and performance of the companies, growth and employment and increased trust among stakeholders (European Commission, 2017). As noted, the NFR process may represent a driver in the path towards the achieving of CSR and sustainability goals. In this context SE represents an important aspect, given that it is often linked with responsible behaviors of the companies, although it was highlighted that organizations may engage stakeholders in order to achieve different goals, not necessarily related to CSR (Greenwood, 2007).

The issue of SE is specifically cited in the above-mentioned European guidelines. On the one hand, companies should engage stakeholders in the NFR process, in particular in the assessment of the materiality of information to be disclosed in the statement, so contributing to the enhancement of the quality of information. On the other hand, NFR represents a means to communicate to stakeholders the SE approach adopted by the organization (Devin and Lane, 2014; European Commission, 2017). Moreover, SE may be performed in various ways and different may be the goals that the company seeks to achieve through SE (Rasche and Esser, 2006; Sloan, 2009; Manetti, 2011; Civera et al., 2019). Given the call for further research on how companies disclose on their SE approach and practices in NFR (Devin and Lane, 2014), and that the issue of SE has been explored mainly in voluntary NFR (Belal, 2002; Manetti, 2011; Bellucci et al., 2019), this study examines the SE activity communicated in mandatory NFR in the Italian context, with regard to first-time reporters (FTRs), in the second year of implementation of the law. Some recent studies have confirmed the criticality of this issue with regard to FTRs in the first NFR published (Deloitte and Bocconi SDA, 2018; KPMG, 2018).

In particular, this paper aims to analyze, through the information disclosed in NFR, the level of SE implemented by FTRs and to test the effect of some governance (board characteristics) and strategic determinants on the level of SE disclosed, in order to understand what may be the drivers of certain behaviors.

3. THEORETICAL BACKGROUND

This thesis analyzes some aspects in the landscape of the evolution of corporate reporting, considering in particular issues related to the disclosure of non-financial information and the recent reporting paradigm of IR. The theoretical background of the work may be framed in two main streams: the paradigm of CSR, and the frameworks through which the disclosure of companies has been studied, from different perspectives.

3.1. The paradigm of Corporate Social Responsibility

In this paragraph the paradigm of CSR is illustrated examining its main conceptual aspects, the related theoretical framework of stakeholder theory, the principal CSR approaches adopted by the companies and the non-financial disclosure as tool through which the company may explicitly communicate to stakeholders its approach in terms of socially responsible behavior.

The concept of CSR was born with particular reference to companies, that is, in a traditional perspective, profit-oriented organizations.

In the academic world this issue is certainly neither new, nor relatively recent. For over sixty years, scholars have recognized a wider role for the company, going beyond a mere profit-oriented perspective, highlighting the fact that businesses, through their actions, generate various impacts on the society and the environment, and vice versa, the actors with whom the organizations interact influence their behaviors.

Over time, this aspect has been studied from different perspectives by scholars, highlighting an evolution of the concept of CSR as a result of the changing environment in which companies operate (Pinkston and Carroll, 1996; Carroll, 1999; Snider et al., 2003; Van Marrewijk, 2003; Blowfield and Frynas, 2005; Conley and Williams, 2005; Freeman et al., 2006; Lockett et al., 2006; Dahlsrud, 2008; Matten and Moon, 2008; Mosca and Civera, 2017). On a conceptual level, to date, there is no univocal definition of CSR. A number of CSR definitions were proposed over the years.

As noted above, the first definition of CSR dates back to Bowen, who in 1953 pointed out that it is fundamental for the company to include social impacts in its decision-making processes, in addition to economic aspects: "obligations of businessman to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society" (Bowen, 1953).

Dahlsrud (2008), in an analysis of some of the most widespread conceptualizations of CSR, identifies five common dimensions, highlighting that the lack of an univocal accepted definition is less critical than it might seem at first glance. In the various definitions the types of impacts generated by companies and references to the level of performance can be found. Specifically, three dimensions (environmental dimension, social dimension, economic dimension), regard the categories of impacts generated by the companies: it is recognized that the company generates impacts not only at an economic level, but also at an environmental and social level. The other two dimensions, the voluntariness dimension and the stakeholder dimension, refer to the level of performance. The voluntariness dimension was recognized for a long time in literature, in several studies the relationship between the concept of CSR and legislative obligations is highlighted, affirming that being socially responsible means for the business to go beyond the respect of the law (see, among the first scholars, Davis, 1960; Frederick, 1960; McGuire, 1963). As indeed noted by Davis, CSR starts where the law ends (Davis, 1973). In this regard, the socially responsible company has to fulfill, as a minimum, regulatory requirements. The fifth dimension pointed out the relationships with stakeholders, underlining that the company has to take into account the stakeholders expectations, trying to balance their often conflicting interests. This latter dimension is linked with a fundamental theoretical framework, that is the stakeholder theory proposed by Freeman (1984) and then issue of a number of further studies (among others, Goodpaster, 1991; Brenner, 1992; Carson, 1993; Phillips et al., 2003; Bradley et al., 2008; Freeman et al., 2010; Mosca and Civera, 2017), that recognizes the importance of other categories of stakeholders other than shareholders, in contrast with the perspective of the shareholder theory (among others, Jensen and Meckling, 1976; Baysinger and Hoskisson, 1990; Shleifer and Vishny, 1992; Rappaport, 1998; Daily et al., 2003; Monks and Minow, 2004; Ezzamel, Willmott and Worthington, 2008). Through the stakeholder theory a decisive step in the scientific path of conceptualizing social responsibility is achieved. According to this theoretical strand, the finalism of an organization cannot ignore the expectations, needs, rights of stakeholders, those who are influenced by the activity of the organization itself and may in turn generate repercussions that influence it. The strong element of discontinuity with respect to the conceptualizations of CSR developed in previous studies, is the focus on stakeholders and on the relationships that the company establishes with them. Previously, in general, the concept of CSR refers to an impact generated by the company in the context of reference, which, however, usually is undifferentiated, not considering that this context is actually composed of different types of subjects. In the perspective of the stakeholder theory, the company relates to various actors, which can be individuals, as well as groups of individuals, with different levels of structuring and organization; the focus is on subjects on which corporate behavior produces repercussions and which in turn influence more or less significantly the company, highlighting the opportunity to establish a mutual dialogue. From this viewpoint, the governance system may be "enlarged", including also subjects who, in an approach aligned to the shareholder theory, are excluded from it (Mio, 2005; Buchholtz et al., 2008; Jamali et al., 2008; Stein Smith, 2014). According to Freeman *et al.* (2010) stakeholder theory allows "to understand and remedy three interconnected business problems — the problem of understanding how value is created and traded, the problem of connecting ethics and capitalism, and the problem of helping managers think about management such that the first two problems are addressed" (p. 404).

The five dimensions identified by Dahlsrud (2008) can be found in the - still probably - best known definition of CSR: "a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis. Being socially responsible means not only fulfilling legal expectations, but also going beyond compliance and investing "more" into human capital, the environment and the relations with stakeholders." (Commission of the European Communities, 2001, p. 6).

If the definitions of the CSR phenomenon therefore contain common traits, some authors argue that the critical elements concern how companies may approach CSR and manage the related challenges, in particular in context that is changing at an increasingly rapid pace (Dahlsrud, 2008; Mosca and Civera, 2017). In this context, two distinct main perspectives have been identified: a residual CSR approach and an integrated CSR approach. In the first approach CSR is included into a set of instrumental and utilitarian strategies or strategic activities with the aim to create competitive advantage, improving reputation and brand awareness (Mio, 2005; Mosca and Civera, 2017). On the other hand, according to Freeman et al. (2010), integrated CSR approach is defined as the "integration of social, ethical, and environmental concerns into the management criteria for corporate strategy" (p. 259). These aspects are also mentioned in a more recent - institutional - definition of CSR: "the responsibility of enterprises for their impacts on society" (Commission of the European Communities, 2011, p. 6), reaffirming that compliance with the law is a prerequisite, but that socially responsible conduct requires companies to implement a process to integrate social, environmental, ethical, human rights and consumer concerns into their business operations and strategy in close collaboration with stakeholders. In this latter approach, CSR is not separate from the goals of the company, priorities and responsibilities are coherently redefined and the companies become active sustainable partners (Mosca and Civera, 2017). The goal of creating shared value between the company and its stakeholders and the need for a strategic approach to these issues are explicitly stated

(Commission of the European Communities, 2011). This approach may generate impacts on corporate governance (Kolk, 2008; Kocmanová et al., 2011; Post et al., 2011; Devinney et al., 2013) and management control systems (Atkinson et al., 1997; Rouse and Putterill, 2003; Mio, 2005; Adams and Larrinaga-Gonzalez, 2007; Durden, 2008; Gates and Germain, 2010; Länsiluoto and Järvenpäa, 2010; Eccles et al., 2014).

From another perspective, CSR has been investigated with regard to the ways in which it can be expressed and the distinction between implicit and explicit CSR has been proposed (Matten and Moon, 2008).

The concept of implicit CSR regards values, norms and rules that guide business conduct within a broader institutional context, which, formally and informally, frames the approach to be adopted with respect to the relevant issues for stakeholders. Explicit CSR refers to policies, strategies and programs in which the company explicitly embraces a commitment to social and environmental aspects, which balance the traditional aim of maximizing profit. In this case, in which companies are more likely to formalize and communicate externally their responsible policies and actions to stakeholders, the issue of NFR is framed, as a tool as a tool with which the company disclose the approach adopted with regard to non-financial issues. NFR has evolved over time (Vitolla and Rubino, 2012; Mio and Fasan, 2014), also as result of the development of guidelines and frameworks supporting the preparation of report contents as well as the design and implementation of processes aimed at governing and monitoring key aspects in a structured way. Among these, the guidelines issued by the leading organization in the field of NFR, Global Reporting Initiative (GRI), represent the primary reference for sustainability reporting, defined, in its latest version, as "an organization's practice of reporting publicly on its economic, environmental, and/or social impacts, and hence its contributions – positive or negative – towards the goal of sustainable development." (Global Reporting Initiative, 2016, p. 3). Another important standard is AccountAbility 1000, which identifies the phases of the process of implementing a social accounting and reporting system (Institute of Social and Ethical Accountability, 2018). More recently, as highlighted above, the attention of scholars has shifted in particular to the IR paradigm, in which the financial and non-financial aspects merge in the perspective of value creation, investigating elements of criticality, current practices and evolutionary perspectives (see, among others, Eccles and Krzus, 2010; Busco et al., 2013; Mio, 2016), in the light of different theoretical frameworks, some of which are illustrated in the following paragraph.

3.2. Disclosure: theoretical frameworks

The disclosure of information by the organizations has been explored in literature through the lens of various theoretical frameworks. In this paragraph some of these frameworks are illustrated, with particular regard to those most relevant to the papers presented below: legitimacy theory, signaling theory and agency theory and approaches related to the cost of disclosure.

According to the legitimacy theory (Dowling and Pfeffer, 1975; Lindblom, 1994), an organization has to orient its actions coherently with principles, values and norms that characterize the context in which it operates. A central element in this theoretical approach is the "social contract" that links an organization to the society and identifies the expectations of society regarding how the organization should carry out its activity. In this regard, companies have to fulfil the social contract for retaining their legitimacy (Shocker and Sethi, 1974). According to Suchman (1995, p. 574) "legitimacy is a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions.'' The expectations of the society are both explicit, typically represented by the requirements of the legislative requirements, and implicit, linked to other aspects, not related to mandatory requirements, but still considered important by the society in the appreciation of the behavior of the organization and therefore in determining the legitimacy to operate. In this regard, however, elements perceived by the society are often relevant, rather than objective elements. The values and principles of the society to which the organization must conform its behavior may change over time, therefore requiring a constant commitment to monitor the evolution of the situation, in order to capture any signs of change and react adequately. The disclosure of information to the society, together with other means, plays an essential role in projecting an organization towards legitimacy to operate in the social context of reference, contributing to publicly highlight its alignment with the norms and values of society, or its commitment in this sense, to obtain increasingly higher levels of consensus. On the one hand, if the company meets the social contract, through the disclosure may communicate to the stakeholders, sustaining and confirming its legitimacy and enhancing its reputation (Deegan, 2002). On the other hand, if the society perceives the conduct of the organization not aligned to the expectations, the disclosure may allow to the company to try and fix a negative situation that threatens its legitimacy, explaining how it seeks to remedy and regain legitimacy (Dowling and Pfeffer, 1975; Lindblom, 1994).

The legitimacy theory is particularly relevant with regard to social and environmental disclosure (Deegan, 2002), given the high sensibility and attention of society to these issues. A number of studies have confirmed that companies use disclosure as a legitimizing tool (see, among others, Deegan et al., 2002; O'Donovan, 2002; Magness, 2006; Cho and Patten, 2007; Cho et al., 2012; Michelon et al., 2015), even in some research it has not proved to be the primary explanation (Guthrie and Parker, 1989; Wilmshurst and Frost, 2000). It is noted that the approach of the organization in the context of the legitimacy theory seems to be fundamentally of a "defensive" nature: the organization tends to align itself with the value and regulatory system of the society in which it operates, accepting its fundamental aspects, even those that may be less evolved in terms of implementing the logic of sustainability. There is a lack of proactivity, which is essential for a proposal by the organization of new approaches and models of behavior, more challenging than an adaptation to a consolidated and shared framework.

Signaling theory and agency theory are part of frameworks related to managers' incentive, extensively used to study issues related to the disclosure. In particular, the key element in these theories is the concept pf information asymmetry between the parties involved. According to Stiglitz (2002), information asymmetries occur when "different people know different things." (p. 469). In particular, the key issue is that some information is private, not publicly available, so information asymmetry arises between the subjects who have that information and the subjects who would like to receive this information, because they could obtain benefits from it. There are two main types of information where asymmetry could be particularly relevant (Stiglitz, 2000). The first is information about quality: in this case one party has not full awareness about the characteristics of another party. The second is information about intent: in this latter case, one party is concerned about the behavior or behavioral intentions of another party (Elitzur and Gavious, 2003). In the framework of signaling theory, one party, the sender (or signaler), has to choose whether and how to communicate (or signal) an information, and the other party, the receiver, has to choose how to interpret the signal send (Connelly et al., 2011).

Signaling theory was initially proposed to examined aspects related to labor markets (Spence, 1973), specifically the signaling role of education. In particular, given the lack of information of potential employers with regard to the quality of job candidates, education would be the signal about the quality of these subjects. In this case, the level of education would signal to potential employers characteristics unobservable with regard to job candidates, so reducing information asymmetry.

Considering financial aspects, variables as firm debt (Ross, 1973) and dividends (Bhattacharya, 1980) could be interpreted ad signals of firm quality, because only high-quality companies could sustain interest and dividend payments over the medium-long term, unlike low-quality companies.

The feature of signal quality may be interpreted in a number of different ways, among which "the underlying, unobservable ability of the signaler to fulfill the needs or demands of an outsider observing the signal" (Connelly et al., 2011, p. 43). The signal could be represented by both positive and negative private information, but signaling theory focuses primarily on the intentional communication of positive information (the qualities of the signaler), conveying positive attributes to the receivers. It has been noted that the effectiveness of the signal depends on two characteristics: its observability by the receivers, that is, the receivers have to notice the signal, and its cost, which relies on the ability of the signalers to sustain the cost related to the aspects underlying the signal (Bird and Smith, 2005).

In this context, there could be partially conflicting interests between the signalers and the receivers, but in order that the signaling occurs, it is necessary that, on the one and, the signal has a strategic effect for the signaler, that is, the signaler should benefit by consequent actions taken by the receiver, not taken in the absence of the signal, on the other hand, that the receivers may take advantage from the signal in terms of better informed decision-making, both directly and in a shared way with the signaler.

The framework of signaling theory has been used to analyze corporate disclosure (Ross, 1977; Skinner, 1994). In this regard, though external reports companies may convey signals to the potential receivers (stakeholders), reducing information asymmetries (Elzahar and Hussainey, 2012) and obtaining benefits in terms of reducing financing costs, attracting capitals, increasing the investments, improving the value and enhance the reputation of the company, thus contributing to economic growth, job creation and better quality of life (Elliott and Jacobson, 1994; Gallego-Álvarez et al., 2011; Izzo and Fiori, 2016). In the case of NFR, it has been proved the signaling role of this disclosure, particularly with the aim of highlighting a superior commitment to CSR (Clarkson et al., 2013; Mahoney et al., 2013; Lys, Naughton and Wang, 2015; Su et al., 2016). A key issue influencing the effectiveness of the signal is its credibility (Eccles et al., 2001) and, with regard to corporate disclosure, particularly in the case of NFR, the assurance of the report may sustain a socially responsible conduct of the company, adding reliability to the information (Fernandez-Feijoo et al., 2015). In this regard, it has been noted that, in the case of negative signals, the disclosure may be a means to communicate to stakeholders the commitment to improve the situation (Hassanein and Hussainey, 2015).

Agency theory acts on an "agency relationship, in which one party (the principal) delegates work to another (the agent), who performs that work" (Eisenhardt, 1989, p. 578). In this relationship there are two main question: the agency problem and the problem of risk sharing. The agency problem is related to the possible conflict between the goals or interests of the two parties, and with the difficulty or onerousness for the principal to verify the activity performed by the agent; the problem of risk sharing deals with different attitudes towards risks (Eisenhardt, 1989). In addition, the separation between the principal and the agent may generate information asymmetry, since the agent usually have more information than the principal. The metaphor of a contract is used to explain the agency relationship (Jensen and Meckling, 1976) and the focus is on identifying the most efficient form of contract to manage the relationship between the principal and the agent. In this framework two main streams were identified: principal – agent and positivist. In the first stream, the principal – agent relationship is studied from a general point of view, applicable to various situations, such as employer - employee, lawyer – client, buyer – supplier (Eisenhardt, 1989). More focused is indeed the approach of positivist researchers, which analyzed in particular the principal – agent relationships in the case of owners and managers in large, public companies, investigating the situations in which these subjects may have conflicting interests and goals and focusing almost exclusively on the governance mechanism able to solve the agency problem (Jensen and Meckling, 1976; Fama and Jensen, 1983). The scholars argue that management and ownership have different interests, and that not always the management act in the best interest of the ownership, trying to maximize his utility (Firth, 1980; Chow and Wong-Boren, 1987; Cooke, 1989 and 1992; Hossain et al., 1994; Panda and Leepsa, 2017). In order to control the behavior of management, the ownership performs monitoring and bonding activities, which leads to agency costs (whose amount may be different in relation to various aspects, such as the size of the company, its leverage and listing status), represented by pecuniary and non-pecuniary cost, together with residual loss (Jensen and Meckling, 1976). In this context, disclosure represents a means to govern the agency relationship, from a double perspective. On the one hand, the disclosure may attenuate the information asymmetry, allowing to the ownership to supervise the decisions and actions of management, on the other hand, through the disclosure the management may seek to convince and influence the perspective of the ownership, supporting the decision-making process of both parties (Jensen and Meckling, 1976; Williamson, 1981; Fama and Jensen, 1983). Later, the ability to of agency theory to explain the nature of the relationships between all stakeholders was explored by Hill and Jones (1992), in the paradigm of stakeholder–agency theory. The frameworks of signaling and agency theories have been used to study NFR, often in an integrated perspective, together with other frameworks, in particular stakeholder and legitimacy theories. In this regard, it has been demonstrated that the improvement in sustainability reporting quality acts as a signal in order to gain and sustain legitimacy, reducing information asymmetry in the legitimacy process (Ching and Gerab, 2017).

4. REFERENCES

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CHAPTER 2

PAPER 1:
Are Integrated Reports really forward-looking?
Some insights from "best in class"

Abstract

Are Integrated Reports really forward-looking or do they narrate mainly about the past? Stakeholders, in particular financial markets, increasingly call for information on strategy, risks and opportunities that companies will face. Integrated Reporting, through its future-oriented approach, may represent a response to these recent corporate reporting challenges, orienting companies to disclose more about future outlook, so enabling investors and other stakeholders to take a much longer-term view. In such a context, this study aims to explore the extent and the characteristics of forward-looking information in "reports that have been recognized as leading practice by a reputable awards process or through benchmarking", in the IIRC Database, proposing different dimensions of analysis. Overall, the results show that, among recent "best in class" Integrated Reports there are relevant differences in the disclosure of forward-looking information, and that the information needs of stakeholders do not seem to be fully met.

Keywords – Forward-looking information; Disclosure; Integrated Reporting; Forward-Looking Score; Density Forward-Looking Score.

1. INTRODUCTION

The information needs of investors and, in general, of stakeholders towards companies changed significantly over the years. There is a growing call for a broadening of information to be communicated, in the awareness that the financial dimension alone is not enough to fully understand the company's activities and their impact, so the attention focused insistently on environmental and social aspects as well (Asif et al., 2013). The response from companies was to expand the reporting system in order to disclose more widely and frequently about these issues, with consequent progressive spread of tools such as social, environmental and sustainability reporting (Romolini et al., 2014; Martínez-Ferrero et al., 2015).

The communication of aspects going beyond the financial perspective, considering environmental and social dimensions, allow the stakeholders to better appreciate the impact of businesses on society. This is also the aim of recent rules which provide the mandatory reporting of sustainability information by (certain) companies, such as the UE Directive 95/2014 (European Union, 2014). In this direction, some studies highlighted that legal obligation of sustainability disclosure by companies positively affect the quality of the information reported (Hąbek and Wolniak, 2016).

Non-financial reports, especially at the beginning, but also now, are published in addition to the annual report, making up a reporting system that is sometimes very complex. Moreover, this choice of publishing stand-alone financial and non-financial reports separates correlated aspects, with the risk of causing information dissemination and confusion for the stakeholders (Jensen and Berg, 2012; Ioana and Adriana, 2014).

More recently, there has been a growing demand from stakeholders, particularly from investors, for future-oriented information related to companies: "*This perspective on the future, however, is what investors and all stakeholders truly need*" (PWC, 2016), an aspect that can support the trust and viability of the company (ACCA, 2018; WBCSD and PWC, 2018).

Instead, in a traditional approach to annual and sustainability reporting, a retrospective point of view is prevailing, without indications of future targets and crucial risks, that may significantly influence the future (Jensen and Berg, 2012). The disclosure of historical information has shortcomings in satisfying the needs of investors and other stakeholders and assisting them in making informed decision in a dynamic environment (Aljifri and Hussainey, 2007; Menicucci, 2013; Bravo, 2016; Mio, 2016), considering the fast evolution both of companies, with their critical success factors and risks, and of the external context in which they operate.

The choice related to the structure of corporate reporting system can influence the effectiveness of the company's communication and the way it is perceived by the stakeholders. The recent reporting paradigm of Integrated Reporting (IR) (IIRC, 2013) aims to provide a more comprehensive view of the company, linking financial and non-financial dimensions (Brown and Dillard, 2014; Cheng *et al.*, 2014). An IR is, in fact, defined as "*a concise communication about how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long term*" (IIRC, 2013). The forward-looking perspective is embedded in this framework: in guiding principles for drafting the report (strategic focus and future orientation), further, in the Content Elements, that include the communication of the strategy, risks and opportunities and the outlook of the entity.

This research contributes to the literature aimed at investigating the disclosure of forward-looking information (FLI) in IR, focusing on "recognized reports" available in the IIRC Database, i.e. "*reports that have been recognized as leading practice by a reputable awards process or through benchmarking*". In particular, this study explores FLI in terms of extent and characteristics.

Compared to previous studies on this topic, new perspectives are applied to analyze the

characteristics of this information, in order to understand more in-depth how it is disclosed. The results of the study allow to identify future topics on these field of research and possible implications for Standard Setter and Regulators, giving also insights for business practices.
The structure of the paper is organized as follows. In Section 2 literature review on the disclosure of FLI is illustrated. Section 3 describes the theories influencing the disclosure of FLI. Section 4 presents the research methodology. In Section 5 results of the analysis are presented and discussed. Section 6 concludes the paper, summarizing main findings, pointing out limitations of the research and suggestions for future studies.

2. LITERATURE REVIEW

The concept of FLI was broadly analyzed in literature. Among others, Beretta and Bozzolan (2008), referring to CICA framework (CICA, 2001), argued that FLI "*should be focused on (1) future events, decisions, opportunities, and risks that can have a likely effect on future results, (2) vision, strategies, and objectives expressed by management, (3) explanation of past events, decisions, facts, and results that can have a significant impact on future results*". In line with this concept, Celik et al. (2006) stated the usefulness of FLI, related to future operations, plans, strategies and financial targets, in estimating expected cash flows and the future value of companies. Accordingly to Jenkins Committee Report (AICPA, 1994), the FLI consider: opportunities and risks, management's plans, including critical success factors, forecasted operating and financial data.
Several studies explored FLI in corporate disclosure, both mandatory and voluntary, providing mixed evidences. Some analyzed the quality and the determinants of FLI, the benefits and disavantages for companies in disclosing this kind of information (Kent and Ung, 2003; Lajili and Zghal, 2005; Celik et al., 2006; Aljifri and Hussainey, 2007; Boesso and Kumar, 2007; Beretta and Bozzolan, 2008; Uyar and Kilic, 2012; Menicucci, 2013; Alkhatib, 2014; Hassanein and Hussainey, 2015; Bravo, 2016). In general, most findings, related in particular to annual reports, demonstrated that the level of forward-looking disclosure is not high and the majority of the FLI is qualitative.
Recently, some studies specifically focused on forward-looking disclosure in IR. Menicucci and Paolucci (2018) proposed a theoretical framework for analysing FLI in IR practices. Two research investigated FLI in early adopters of IR, substantially confirming the above summary results about annual reports. Menicucci (2018) analyzed the extent of FLI, exploring the effect of some firm characteristics (size, leverage and profitability). The research proved that companies examined provide little FLI, in particular qualitative information. Kılıç and Kuzey (2018b), investigated quantitative and qualitative forward-looking disclosures among early adopters of IR, assessing the effect of firm attributes and industry, and the influence of some corporate governance factors. The authors agree with the above mentioned summary findings, affirming that the majority of the companies investigated tend to provide qualitative FLI rather than quantitative.
Among studies investigated the quality of IR, Pistoni et al. (2018) found critical issues in particular about elements involving forward-looking perspective, such as strategy and risks. The reduced presence of FLI in IR was highlighted by other research, including Kılıç and Kuzey (2018a) and Stacchezzini et al. (2016).
Among the studies that explored the association between FLI and firm-specific attributes in annual reports, some proved the existence of a significant positive relationship between size and forward-looking disclosure (Walker and Tsalta, 2001; Kent and Ung, 2003; Vanstraelen et al.,

2003; Leventis and Weetman, 2004; Gao et al., 2005; Celik et al., 2006; Lim et al., 2007; Hossain and Hammami, 2009; Abed et al., 2011; Uyar and Kilic, 2012; Alkhatib, 2014). In a few studies, instead, no significant relationship was found (Aljifri and Hussainey, 2007; Menicucci, 2013). Analysis examining specifically forward-looking disclosure in IR agreed on the existence of a positive correlation with firm size (Kılıç and Kuzey, 2018b; Menicucci, 2018).

With regard to the relationship between forward-looking disclosure and leverage, prior studies provided mixed evidence. Some affirmed a positive association between the two variables (Ahmed and Courtis, 1999; Bravo et al., 2009; Aljifri and Hussainey, 2007). Conversely, in other studies, no statistical correlation was found in annual reports (Celik et al., 2006; Uyar and Kilic, 2012; Menicucci, 2013; Alkhatib, 2014). Considering specific studies on FLI in IR, Kılıç and Kuzey (2018b) proved that leverage is negativly related with the disclosure of FLI, while Menicucci (2018) instead found insignificant association between the two variables.

Even as regards the connection between profitability and the level of FLI, prior literature proved diversified findings. On the one hand, according to the signaling theory, several research established that companies with high profitability are more likely to disclose FLI (Cooke, 1989; Hossain et al., 1995; Cahan and Hossain, 1996; Prencipe, 2004; Alkhatib, 2014), in order to increase investor’s confidence and attract capital, as well as to reduce risk of undervaluation by the market. Other studies instead proved that profitability is negatively related with forward-looking disclosure (Celik et al., 2006; Aljifri and Hussainey, 2007; Abed et al., 2011), and also no correlation between profitability and the extent of FLI was observed (Walker and Tsalta, 2001; Kent and Ung, 2003; Hossain et al., 2005; Alsaeed, 2006; Uyar and Kilic, 2012). With regard to FLI in IR, Menicucci (2018), proved that profitability affects positively the forward-looking disclosure, while Kılıç and Kuzey (2018b) have found no significant statistical relationship.

Prior literature about the effect of external determinants on forward-looking disclosure, in particular the environment in which companies operate, showed mixed evidence. According to Celik et al. (2006) differences were observed in annual reports, with firms operating in service and finance sector disclosing more FLI than manufacturing firms. Aljifri and Hussainey (2007) and Alkhatib (2014) demonstrated instead no significant statistical correlation. Among early adopters of IR, both Kılıç and Kuzey (2018b) and Menicucci (2018) supported no evidence about a significant relationship between industry and forward-looking disclosure.

Other studies investigated the effect of corporate governance structure and mechanisms on FLI in corporate reports, providing mixed results. Some research showed a positive impact of corporate governance characteristics on forward-looking disclosure, suggesting that better corporate governance may improve reporting practices. (Lim et al. 2007; Ho and Taylor, 2013; Wang and Hussainey, 2013; Qu et al., 2015; Aribi et al., 2018). Other studies found no support between the effectiveness of corporate governance mechanisms and forward-looking disclosures (O’Sullivan et al., 2008; Elzahar and Hussainey, 2012; Al-Najjar and Abed, 2014). Considering FLI in IR, Kılıç and Kuzey (2018b) proved that board gender diversity is statistically significant and positively related to FLI, while no relevance was demonstrated as regards board size and board composition.

Another aspect explored is the tone of the forward-looking disclosure. Some authors proved that in FLI positive tone is predominant (Clarkson et al., 1992, 1994; Bujaki et al., 1999; Clatworthy and Jones, 2003; Aljifri and Hussainey, 2007; Aly et al., 2018). Specific determinants that may influence the tone of FLI were analyzed, among others, in Li (2010) and Schleicher and Walker (2010). The tone of FLI in IR was analyzed by Menicucci (2018), proving that among firms investigated, some reported only positive FLI and others only neutral and negative FLI.

3. THEORETICAL FRAMEWORK

Prior literature investigating the topic of FLI disclosure can be contextualized into different theoretical approaches.

Most studies explored FLI disclosure through the perspective of managers' incentive theories, in particular agency theory and signaling theory. The propositions of these theories in this field of analysis are related to the issue of information asymmetry between insiders and outsiders: forward-looking disclosure therefore may represent for the companies a mean to alleviate this problem. Potential effects can result for a company reducing information asymmetry, among these, improved stock liquidity, reduction in the cost of capital, as well as increased following by financial analysts (Healy and Palepu, 2001).

Agency theory (Jensen and Meckling, 1976) is based on the assumption that the separation between principals (shareholders) and agents (managers) may generate information asymmetry, since agents have more information than their principals. Furthermore, agency theory assumes that management and ownership have different interests, and that not always the agent act in the best interest of the principal, trying to maximize his utility (Firth, 1980; Chow and Wong-Boren, 1987; Cooke, 1989 and 1992; Hossain et al., 1994). This situation leads to agency costs, represented by the cost of monitoring and bonding activities through which owners seek to control the behavior of managers, together with residual loss (Jensen and Meckling, 1976). In general, disclosure is an instrument by which firms try to decrease information asymmetry and agency costs, so supporting decision making by both ownership and management (Jensen and Meckling, 1976; Williamson, 1981; Fama and Jensen, 1983). Among the types of corporate disclosures, IR can be useful to stakeholders, and particularly to investors, providing more relevant and strategic oriented information, in the reduction of agency costs (Izzo and Fiori, 2016). In particular, forward-looking disclosure may allow a better assessment of the perspectives and future performance of the firm, especially when current results get worse related to the past, owners may request more information to managers (Hassanein & Hussainey, 2015). According to Hill and Jones (1992), also other stakeholders can benefit from the information provided, in the perspective of stakeholder–agency theory.

Signaling theory initially developed to explain aspects related to labor markets (Spence, 1973), was later used to analyze corporate disclosure (Ross, 1977; Skinner, 1994). According to this framework, the information disclosed within company reports is a signal conveyed by managers to those who are probably the potential users of those reports, in order to mitigate information asymmetry (Elzahar and Hussainey, 2012). Providing to investors and other interested parties with information that they do not have can produce benefits for companies, allowing them to reduce financing costs, attract capitals, increase the investments, improve the value and enhance the reputation of the firm, thus contributing to economic growth, job creation and better quality of life (Elliott and Jacobson, 1994; Gallego-Álvarez et al., 2011; Izzo and Fiori, 2016). However, the effectiveness of the signals sent through disclosure also depends on their credibility (Eccles et. al., 2001). In this case, on the one hand, better performing firms, with good news to share, may distinguish themselves from lower quality firms; on the other hand, for companies with bad news (e.g., losses), disclosure may be a reaction to signal their ability and strengths to improve the situation in the future (Hassanein & Hussainey, 2015).

Another theoretical perspective is related to the approaches exploring the cost of disclosure: among these, proprietary cost theory and litigation cost theory. Prior research demonstrated that proprietary costs and litigation costs may affect corporate disclosure: the higher the costs, the more FLI tends to be relatively conservative (Bravo, 2016).

According to proprietary cost theory, companies could choose to reduce the extent of disclosure,

in order to avoid to benefit competitors and other rivals (Elliott and Jacobson, 1994; Radebaugh and Gray, 1997; Frias-Aceituno et al., 2014).
Litigation cost theory posits that the decisions of managers about corporate disclosure may be affected by the risk of shareholder litigation. On the one hand, an increasing of disclosure may derive as a result of legal actions following inadequate or untimely information; on the other hand, the extent of disclosure, particularly FLI, can be reduced due to the threat of potential litigation and related costs, also in terms of reputation (Healy and Palepu, 2001; Celik et al., 2006).
The framework of legitimacy theory (Dowling and Pfeffer, 1975; Lindblom, 1994) posits that there is a social contract between organizations and society, and that companies have to fulfil this contract for retaining their legitimacy (Shocker & Sethi, 1974). Through the disclosure, companies may sustain legitimacy or remedy to a negative situation that threatens it. If a firm acts in accordance with public expectations, then disclosure allows to communicate with interested parties (Deegan, 2002), enhancing its reputation and confirming legitimacy. Some research proved a positive impact on the extent of the disclosure, with particular regard to sustainability reports (Clarkson et al., 2008; Mahoney et al., 2013).
In view of these theoretical frameworks and studies, this research frames into the perspective of signaling theory, as in the study of Kılıç and Kuzey (2018b), since it aims to explore in-depth the extent and the features of the signals (FLI) conveyed to the potential users of the reports analyzed. It does not deal with aspects such as the specific motivations underlying the choices of disclosing - or not - FLI, the appropriateness of FLI communicated with respect to stakeholders' expectations and its impact on the company's reputation, becouse it is important to define, first of all, where and how the FLI is displayed to the users.
In particular, according to the literature analized in this field of study and with the aim of the research, we state the following research questions:

RQ1: What is the extent of the disclosure of FLI in IR?

RQ2: What are the characteristics of the FLI disclosed in IR?

In the next sections, the methodology of the empirical study is illustrated, and then the empirical evidences are analyzed and discussed.

4. METHODOLOGY

The research was run through the methodology of content analysis (Krippendorff, 2004), widely adopted in studies investigating the disclosure of companies using signaling theory. The content of each report was individually examined in order to identify, classify and express in a quantitative way the extent and the characteristics of FLI disclosed. The concept of FLI applied for the analysis is aligned to prior studies and frameworks, as indicated in the literature review.
The information was hand-collected relating to the year of recognition 2017: for this period, 37 IRs were available in the IIRC Database as the "best in class". Most of the reports analyzed are related to South African companies: South Africa was the first country in the world to mandate IR for all listed companies in 2010. This evidence may be seen as a positive effect of the regulation on the quality of the disclosure, confirming the results of other studies (Hąbek & Wolniak, 2016).
In particular, according to Krippendorff (2004), the data collection was organized as follows. Reports were manually content analyzed considering, unlike previous research concerning FLI in

IR (Kılıç and Kuzey, 2018b; Menicucci, 2018), not only narrative text but all kinds of contents, "*text (or other meaningful matter)*" (Krippendorff, 2004), i.e. figures, diagrams and charts, because, particularly in the framework of IR, companies present the issues in these ways. The first phase was the definition of the recording unit. With regard to narrative text, the single sentence is defined as recording unit, since it is generally considered more reliable than other recording units, as pages or paragraphs (Michelon et. al., 2015). The *other meaningful matters* were distinguished according to whether they had or not sentences inside (for example, text boxes in figures, diagrams or charts). Those containing sentences were considered as indicated above, while those not including sentences were considered a recording unit as a whole. Then, a coding procedure was defined on order to capture the disclosure of FLI. For every report the objects are counted and a score of 1 was assigned to the objects containing FLI (sentences and figures, as indicated above), a score of 0 to those objects including no FLI. When an object containing FLI was identified, it was further coded to deeply capture its characteristics from different dimensions.

Each forward-looking object was coded into the IIRC Framework, with regard to Content Elements (Organizational overview and external environment, Governance, Business model, Risks and opportunities, Strategy and resource allocation, Performance). In order to better represent the object of this work, the content identified as "Outlook" in IIRC Framework was included in the section to which it referred, while Chairman's and CEO's statements were considered as separate element, to highlight their characteristics. The coding was carried out with regard to the content of the object, regardless of the title of the section or paragraph of the report in which it was contained. When an object provided information related to more than one Content Element of the IIRC framework, the first element mentioned was considered.

Then, the characteristics of forward-looking disclosure were investigated analyzing the aspects illustrated below.

The research examined the object of FLI, i.e. it referred to company or to external environment. Then, FLI were distinguished according to the type of information disclosed, between qualitative and quantitative. For quantitative FLI, monetary and non-monetary information was further coded (considering three type of objects: with only monetary information, with only non-monetary information, with both monetary and non-monetary information). Then, the tone of FLI was also examined, in order to highlight if forward-looking disclosures, in the analyzed reports, are more frequently positive, neutral or negative. Finally, the statement of indication of short and medium-long term references was also investigated. Forward-looking objects in which at least one reference is set were counted. For these objects was coded the target period, considering three type of objects: with only short term references (within a year), with only medium and long term references (more than one year), with both short term and medium and long term references.

The content analysis was carried out by the authors. In a first phase, a pilot test of the coding activity was performed, then a list of rules for the identification and the classification of the FLI was defined.

For each report, the global extent of forward-looking disclosure was measured, as the ratio of total forward-looking objects divided by the total objects disclosed.

The Forward-Looking Score can be shown as follows:

$$FLS = FLOD / TO$$

FLS = Forward-Looking Score
FLOD = Forward-Looking Objects Disclosed
TO = Total Objects of the report.

A Density Forward-Looking Score (DFLS) was calculated, dividing the number of Total Forward-Looking Objects disclosed by the Number of Pages of the report (Mio, 2016).
The Density Forward-Looking Score (DFLS) can be shown as follows:

$$DFLS = FLOD / NP$$

DFLS = Density Forward-Looking Score
FLOD = Forward-Looking Objects Disclosed
NP = Number of Pages of the report.

5. EMPIRICAL EVIDENCE AND DISCUSSION

In this paragraph are summarized the empirical evidence of the performed content analysis. Table 1 summarizes the results relating to the composition of the reports, in terms of the relative incidence of the pages dedicated to the various Content Elements, according to the structure indicated in the previous section.
The analysis shows a relative heterogeneity in the approaches adopted by companies. On average, the components dedicated to both Performance and Governance account for more than half of the Content Elements. Preparers' choices are therefore still mainly focused on aspects required in other disclosures, often mandatory. On the other hand, considering other aspects that characterize IR more than other types of disclosures, including Business Model, Risks and Opportunities (also requested in the annual report), and Strategy and resource allocation, these together exceed just a fifth of the space dedicated to Content Elements.
The lack of strategic focus and the consequent prevalence of a backward-looking orientation could also be found in other contributions, including Kılıç and Kuzey (2018a) and Pistoni et al. (2018).

Table 1. Content Elements incidence inside IR

CONTENT ELEMENTS (PAGES / TOTAL PAGES)	Organizational overview and external environment	Chairman CEO Statement	Governance	Business model	Risks and opportunities	Strategy and resource allocation	Performance
MEAN	12%	7%	23%	4%	7%	12%	36%
MEDIAN	9%	7%	24%	2%	7%	12%	40%
SD	6%	4%	9%	3%	4%	7%	14%
MAXIMUM	26%	17%	44%	10%	18%	35%	61%
MINIMUM	3%	1%	7%	1%	1%	2%	9%

Below the descriptive statistics related to the presence of FLI in the IRs are presented.
With regard to RQ1, aimed at exploring the extent of FLI in IR, Table 2 provides the results of FLS, for the report as a whole and for each section considered.

Table 2. Forward-Looking Score (FLS), total and in each section

FORWARD-LOOKING SCORE (FLS)	Organizational overview and external environment	Chairman CEO Statement	Governance	Business model	Risks and opportunities	Strategy and resource allocation	Performance	Total
MEAN	0,26	0,26	0,06	0,24	0,41	0,39	0,17	**0,21**
MEDIAN	0,22	0,24	0,05	0,20	0,38	0,38	0,16	**0,19**
SD	0,13	0,12	0,04	0,16	0,18	0,13	0,10	**0,06**
MAXIMUM	0,73	0,57	0,18	0,64	0,79	0,76	0,69	**0,39**
MINIMUM	0,10	0,07	0,01	0,02	0,15	0,18	0,04	**0,11**

The total FLS is not particularly high, achieving an average score equal to 0,21. Even in IRs that can be considered among best practices, the contents are mainly backward-looking, in some cases almost totally, while the information needs of investors and other stakeholders are increasingly future-oriented (PWC, 2016; WBCSD and PWC, 2018). In general, the evidence from previous research concerning the forward-looking disclosure in IR are therefore confirmed (Stacchezzini et al., 2016; Kılıç and Kuzey, 2018a and 2018b; Menicucci, 2018; Pistoni, Songini and Bavagnoli, 2018). Considering the results of the sections, unlike the findings in Menicucci (2018), we notice that all of the areas of the IRs analyzed contain FLI. As may be expected, the highest average FLS, as well as the maximum values, are obtained in the sections Risks and Opportunities and Strategy and resource allocation, while in the Governance area the FL perspective is almost absent, an aspect that has an impact on the average value of the FLS. Furthermore, we note the low average score in the Business Model section. Business Model is therefore represented in a static way, while both the IIRC Framework and other research also require the illustration of its evolution (ACCA, 2018; PWC, 2016).

We observe a relatively high value of the standard deviation of FLS between the IRs analyzed, both at the overall level (the maximum score is almost double the average, and the minimum is about half), both within each section, with evidence in several cases even more significant.

A wide range of variation is found also in the recognized reports, similarly to findings in research that investigated even non recognized reports, although focusing exclusively on narrative text (Kılıç and Kuzey, 2018b; Menicucci, 2018).

Table 3 shows the results for the Density Forward Looking Score.

Table 3. Density Forward Looking Score (DFLS), total and in each section

DENSITY FORWARD-LOOKING SCORE (DFLS)	Organizational overview and external environment	Chairman CEO Statement	Governance	Business model	Risks and opportunities	Strategy and resource allocation	Performance	Total
MEAN	2,70	5,80	0,82	3,12	7,68	5,88	2,09	**2,87**
MEDIAN	2,11	5,75	0,73	3,00	6,67	5,57	1,91	**2,84**
SD	1,58	2,82	0,55	2,11	3,85	2,26	1,19	**0,99**
MAXIMUM	6,17	12,06	2,59	8,17	20,00	11,00	4,81	**6,23**
MINIMUM	0,44	1,29	0,08	0,25	2,18	1,10	0,11	**1,42**

On average, we find 2.87 FLI per page.

The area of Risks and Opportunities has the highest value of DFLS, while the results of the Strategy and resource allocation and Chairman - CEO Statement sections are almost equivalent. With regard to the latter, it could be highlighted that investors would also tend to compare the forward-looking contents of the statements presented by Chairman and CEO (WBCSD and PWC, 2018).

The three sections mentioned above, have relatively little space in the document (in terms of number of pages), but contain more FLI than others. Even for the DFLS the results show that the practices adopted are heterogeneous, with ranges of variation often high.

As regards RQ2, aimed at analyzing the characteristics of the FLI, this research also has explored dimensions not investigated in previous studies dealing with the issue of FLI in the IR. A first aspect concerns the object of reference of the FLI, i.e. the fact that it refers to the company or to the external environment (Tables 4-5).

Table 4. FLI related to the company, total and in each section

FLI RELATED TO THE COMPANY	Organizational overview and external environment	Chairman CEO Statement	Governance	Business model	Risks and opportunities	Strategy and resource allocation	Performance	Total
MEAN	67%	89%	96%	93%	82%	90%	88%	**86%**
MEDIAN	67%	88%	100%	100%	86%	94%	91%	**88%**
SD	23%	9%	10%	14%	15%	12%	17%	**7%**
MAXIMUM	100%	100%	100%	100%	100%	100%	100%	**100%**
MINIMUM	13%	72%	50%	50%	35%	61%	0%	**60%**

Table 5. FLI related to the external environment, total and in each section

FLI RELATED TO THE EXTERNAL ENVIRONMENT	Organizational overview and external environment	Chairman CEO Statement	Governance	Business model	Risks and opportunities	Strategy and resource allocation	Performance	Total
MEAN	33%	11%	4%	7%	18%	10%	12%	**14%**
MEDIAN	33%	13%	0%	0%	14%	6%	9%	**13%**
SD	23%	9%	10%	14%	15%	12%	17%	**7%**
MAXIMUM	87%	28%	50%	50%	65%	39%	100%	**40%**
MINIMUM	0%	0%	0%	0%	0%	0%	0%	**0%**

On average, the FLI is mainly related to the company. In the reports analyzed, therefore, the external environment is represented especially in a backward perspective, in some cases totally. This can reduce the potential effectiveness of the report for the reader, in terms of the possibility of contextualizing the FLI provided by the company with respect to the environment in which it operates, and therefore to better understand the aspects represented. The Organizational overview and external environment section shows, as can be expected, the greatest presence of external FLI, on average one third of the FLI reported. In the Risks and Opportunities section we notice a representation of the risks mainly focused, in some cases totally, on the company. Even the FL disclosure about the Business Model mainly concerns the company: about two-thirds of the IRs contain only company-related FLI.

Tables 6-7 provide the findings about the qualitative or quantitative nature of FLI disclosed.

Table 6. Qualitative FLI, total and in each section

QUALITATIVE FLI	Organizational overview and external environment	Chairman CEO Statement	Governance	Business model	Risks and opportunities	Strategy and resource allocation	Performance	Total
MEAN	93%	92%	92%	98%	99%	89%	78%	**89%**
MEDIAN	97%	94%	100%	100%	100%	93%	83%	**91%**
SD	8%	9%	11%	5%	3%	14%	20%	**6%**
MAXIMUM	100%	100%	100%	100%	100%	100%	100%	**98%**
MINIMUM	68%	57%	67%	75%	81%	40%	17%	**71%**

Table 7. Quantitative FLI, total and in each section

QUANTITATIVE FLI	Organizational overview and external environment	Chairman CEO Statement	Governance	Business model	Risks and opportunities	Strategy and resource allocation	Performance	Total
MEAN	7%	8%	8%	2%	1%	11%	22%	**11%**
MEDIAN	3%	6%	0%	0%	0%	7%	17%	**9%**
SD	8%	9%	11%	5%	3%	14%	20%	**6%**
MAXIMUM	32%	43%	33%	25%	19%	60%	83%	**29%**
MINIMUM	0%	0%	0%	0%	0%	0%	0%	**2%**

FLI are expressed almost exclusively in qualitative terms, as demonstrated in previous studies (Bujaki et al., 1999; Lajili and Zghal, 2005; Abed et al., 2011; Kılıç and Kuzey, 2018b; Menicucci, 2018), with a mean equal to 89%.

The provision of quantitative FLI, also through a range of values, as requested by stakeholders (WBCSD and PWC, 2018), would facilitate the reader's understanding of the future oriented issues disclosed in the IR, compared to using only qualitative information.

In particular, the sections Risks and Opportunities and Business Model are almost totally qualitative, although there are also companies that integrate the narrative with considerable quantitative aspects. Especially with reference to the Risks and Opportunities section, the lack of quantitative FLI is critical, given its importance for stakeholders, especially investors (WBCSD and PWC, 2018).
The analysis related to quantitative FLI (Tables 8-9-10) demonstrates that slightly more than half of the quantitative FLI is expressed only in non-monetary terms.
On the one hand, this aspect may not be taken for granted, as, in any case, the development path of the IR is recent, and the degree of maturity of the processes and systems underlying the generation of non-financial information is generally lower than those related to the financial disclosure. In the case of FLI, this evidence could be even more critical. However, this may be partially explained by the fact that most of the companies analyzed belong to the South African context, in which, as mentioned, the IR has become mandatory since 2010.
On the other hand, it should be noted that especially financial stakeholders are still paying more attention to the financial information, so the companies could consider the risk related to the disclosure of monetary FLI, in terms of impact on future financial statements and consequent risks of legal liabilities (ACCA, 2018).

Table 8. Type of quantitative FLI: monetary, total and in each section

QUANTITATIVE FLI: MONETARY	Organizational overview and external environment	Chairman CEO Statement	Governance	Business model	Risks and opportunities	Strategy and resource allocation	Performance	Total
MEAN	44%	42%	63%	42%	43%	34%	38%	**43%**
MEDIAN	40%	44%	80%	17%	33%	33%	33%	**44%**
SD	39%	35%	37%	50%	45%	34%	27%	**21%**
MAXIMUM	100%	100%	100%	100%	100%	100%	100%	**80%**
MINIMUM	0%	0%	0%	0%	0%	0%	0%	**0%**

Table 9. Type of quantitative FLI: non-monetary, total and in each section

QUANTITATIVE FLI: NON-MONETARY	Organizational overview and external environment	Chairman CEO Statement	Governance	Business model	Risks and opportunities	Strategy and resource allocation	Performance	Total
MEAN	53%	51%	32%	46%	57%	52%	57%	**52%**
MEDIAN	50%	43%	20%	33%	67%	53%	58%	**48%**
SD	40%	38%	35%	50%	45%	36%	29%	**23%**
MAXIMUM	100%	100%	100%	100%	100%	100%	100%	**100%**
MINIMUM	0%	0%	0%	0%	0%	0%	0%	**8%**

Table 10. Type of quantitative FLI: both monetary and non-monetary, total and in each section

QUANTITATIVE FLI: BOTH MONETARY AND NON-MONETARY	Organizational overview and external environment	Chairman CEO Statement	Governance	Business model	Risks and opportunities	Strategy and resource allocation	Performance	Total
MEAN	3%	7%	5%	12%	0%	14%	5%	**5%**
MEDIAN	0%	0%	0%	0%	0%	0%	0%	**2%**
SD	8%	22%	15%	35%	0%	31%	9%	**9%**
MAXIMUM	25%	100%	60%	100%	0%	100%	45%	**49%**
MINIMUM	0%	0%	0%	0%	0%	0%	0%	**0%**

In Tables 11-12-13 the results related to the tone of FLI. As highlighted in previous research related to corporate reporting (Clarkson et al., 1992, 1994; Bujaki et al., 1999; Clatworthy and Jones, 2003; Aljifri and Hussainey, 2007; Aly et al., 2018), we notice that in FLI positive tone is predominant, while the negative tone is negligible. All companies report FLI in a positive and neutral tone, while in five cases no FLI in a negative tone is reported. Considering in particular research on IR, this partially reflects findings in the study of Menicucci (2018), in which neutral and negative tone of FLI were considered together.

The results found can be related to compliance with the principle of completeness and reliability (IIRC, 2013), a particularly critical topic with respect to the FLI, and consequently with the issue of transparency of the disclosure and its credibility. A significant difference is proved between the two sections with the highest FLS (see Table 2), Risks and opportunities and Strategy and resource allocation. In the first one a neutral tone prevails, and in this one the content of FLI with negative tone is more relevant than in the other sections; in the second one the positive tone is definitely predominant.

Table 11. Tone of FLI: positive, total and in each section

POSITIVE TONE	Organizational overview and external environment	Chairman CEO Statement	Governance	Business model	Risks and opportunities	Strategy and resource allocation	Performance	Total
MEAN	72%	84%	66%	93%	37%	86%	78%	**73%**
MEDIAN	74%	86%	71%	100%	34%	89%	81%	**76%**
SD	20%	11%	30%	12%	29%	17%	20%	**12%**
MAXIMUM	100%	100%	100%	100%	100%	100%	100%	**93%**
MINIMUM	27%	58%	0%	50%	0%	32%	0%	**35%**

Table 12. Tone of FLI: neutral, total and in each section

NEUTRAL TONE	Organizational overview and external environment	Chairman CEO Statement	Governance	Business model	Risks and opportunities	Strategy and resource allocation	Performance	Total
MEAN	21%	13%	34%	6%	44%	13%	20%	**22%**
MEDIAN	20%	11%	29%	0%	38%	10%	14%	**19%**
SD	18%	9%	30%	12%	33%	16%	20%	**13%**
MAXIMUM	71%	33%	100%	50%	100%	68%	100%	**63%**
MINIMUM	0%	0%	0%	0%	0%	0%	0%	**5%**

Table 13. Tone of FLI: negative, total and in each section

NEGATIVE TONE	Organizational overview and external environment	Chairman CEO Statement	Governance	Business model	Risks and opportunities	Strategy and resource allocation	Performance	Total
MEAN	7%	3%	0%	1%	19%	1%	2%	**5%**
MEDIAN	5%	2%	0%	0%	12%	0%	0%	**5%**
SD	8%	4%	1%	3%	23%	2%	3%	**4%**
MAXIMUM	33%	14%	4%	13%	87%	9%	13%	**18%**
MINIMUM	0%	0%	0%	0%	0%	0%	0%	**0%**

According to PWC (2016), the presence of time references in FLI is relevant. This aspect was not investigated in previous studies focused on FLI in IR. The findings showed that, in most cases (88%), FLI is presented without an indication, even if only qualitative, of the time period to which it refers (Tables 14-15-16-17).

Table 14. Indication of time horizon in FLI, total and in each section

TIME HORIZON	Organizational overview and external environment	Chairman CEO Statement	Governance	Business model	Risks and opportunities	Strategy and resource allocation	Performance	Total
MEAN	20%	21%	32%	7%	9%	19%	33%	**22%**
MEDIAN	15%	19%	29%	0%	2%	11%	29%	**20%**
SD	20%	15%	23%	12%	17%	19%	25%	**12%**
MAXIMUM	100%	56%	79%	50%	80%	74%	100%	**66%**
MINIMUM	0%	0%	0%	0%	0%	0%	4%	**5%**

Table 15. Time horizon of FLI: short term, total and in each section

TIME HORIZON: SHORT TERM	Organizational overview and external environment	Chairman CEO Statement	Governance	Business model	Risks and opportunities	Strategy and resource allocation	Performance	Total
MEAN	35%	54%	74%	30%	53%	31%	66%	**58%**
MEDIAN	25%	61%	88%	22%	50%	20%	73%	**58%**
SD	34%	29%	35%	34%	45%	34%	28%	**19%**
MAXIMUM	100%	100%	100%	100%	100%	100%	100%	**100%**
MINIMUM	0%	0%	0%	0%	0%	0%	0%	**17%**

Table 16. Time horizon of FLI: medium long term, total and in each section

TIME HORIZON: MEDIUM-LONG TERM	Organizational overview and external environment	Chairman CEO Statement	Governance	Business model	Risks and opportunities	Strategy and resource allocation	Performance	Total
MEAN	54%	31%	19%	47%	32%	43%	20%	**27%**
MEDIAN	52%	26%	0%	50%	9%	36%	15%	**23%**
SD	38%	28%	31%	31%	39%	35%	22%	**16%**
MAXIMUM	100%	100%	100%	100%	100%	100%	100%	**79%**
MINIMUM	0%	0%	0%	0%	0%	0%	0%	**0%**

Table 17. Time horizon of FLI: both short and medium long term, total and in each section

TIME HORIZON: BOTH SHORT AND MEDIUM-LONG TERM	Organizational overview and external environment	Chairman CEO Statement	Governance	Business model	Risks and opportunities	Strategy and resource allocation	Performance	Total
MEAN	11%	15%	7%	23%	14%	26%	14%	**16%**
MEDIAN	0%	7%	0%	20%	0%	15%	3%	**12%**
SD	16%	18%	19%	23%	30%	34%	25%	**15%**
MAXIMUM	50%	70%	100%	60%	100%	100%	100%	**61%**
MINIMUM	0%	0%	0%	0%	0%	0%	0%	**0%**

Where companies choose to disclose the time reference in the FLI, this is mainly (58%) referred to the short term. The Governance and Performance sections, to which, as indicated above (see Table 1), more space is given in the IRs analyzed, contain on average more FLI with a time reference. The overall result conflicts not only with the characteristics of the IR, focused on the creation of value in the medium and long term, but also with the information needs of stakeholders that go beyond the short term.

In addition, in the case of IR, the stakeholders interested are more numerous than in the financial disclosure, and for them different time horizons can be relevant (WBCSD and PWC, 2018). Finally, we notice that, at present, although there is no clearly defined responsibility for the company with regard to the FLI disclosed in the IR, in general, however, a short term perspective is prevailing.

6. CONCLUSIONS

As in premises, it is now widely recognized that stakeholders are asking companies to go beyond the traditional backward-looking corporate reporting approach, and, on the other hand, companies became aware that success in the future will be driven not only by financial profit (PWC, 2016; WBCSD and PWC, 2018). In such a context, IR represents a possible response (Brown and Dillard, 2014; Cheng et al., 2014), fostering "*a more cohesive and efficient approach to corporate reporting*" (IIRC, 2013).

This study confirms that, even in "recognized reports", the level of FLI provided is not particularly high (Stacchezzini *et al.*, 2016; Kılıç and Kuzey, 2018a and 2018b; Menicucci, 2018).

Despite the heterogeneity of behaviors that in several cases is remarkable, on average the higher contents of FLI are found in the sections Risks and Opportunities and Strategy and resource allocation, while the Business Model is represented mainly from a static perspective, failing to show its evolution over time (PWC, 2016; ACCA, 2018).

Among the characteristics of the FLI also investigated in previous studies on IR, our results confirms that companies disclose predominantly qualitative future-oriented information (Kılıç and Kuzey, 2018b; Menicucci, 2018), almost exclusively in positive tone (Menicucci, 2018).

Considering the further perspectives of analysis proposed in this study, it is found that the FLI communicated are mostly related to the company, while the external context is represented mainly from a backward point of view. We carried out an examination of quantitative FLI, showing a slight prevalence of non-financial indicators.

Finally, we demonstrate that the FLI is often presented without the indication of a time horizon, which, where specified, is however mainly oriented towards the short term.

From a theoretical point of view, we framed the research into the signaling theory (among others, Elzahar and Hussainey, 2012; Izzo and Fiori, 2016; Kılıç and Kuzey, 2018b). The transparent disclosure by the company of its future objectives, reducing informative asymmetries, gives more confidence to stakeholders, in particular investors (ACCA, 2018). The results of this research, however, prove that companies, on average, are rather reluctant to disclose FLI. In addition, the main characteristics of FLI (qualitative, with positive tone, lacking in the indication of time horizon), where provided, show that the signals sent to stakeholders are, on the one hand, rather generic or not always clearly specified and contextualized, on the other hand, represented mainly by good news.

The findings of the research have several implications for future research. The study contributes to the current literature on FLI in IR. To the best of the authors' knowledge, a lot of studies have investigated FLI in annual reports, but only a few in IR. Compared to previous research, we focused on IRs regarded among the best practices, considering all the contents of the document and proposing different insights aimed at investigating in a more comprehensive way the characteristics of such information. The findings may be of interest to Standard Setter and Regulators. On the one hand, given that most of IRs analyzed belong to the South African context, where IR is mandatory since 2010, and considered the results of recent studies on non-financial reporting (Hąbek and Wolniak, 2016), the evidence of a positive relation between legislation and the quality of disclosure is strengthened. On the other hand, the heterogeneity of approaches found even among the best practices raises a question about the need or opportunity for action in the definition of guidance that can be useful in the disclosure of a type of information becoming increasingly relevant for stakeholders. Related to this, the topic of IR assurance, recently the subject of an international debate, in which the FLI represents a challenge particularly critical (IIRC, 2015; Simnett and Huggins, 2015). The research can also provide suggestions to managers, in the implementation of IR based on a widespread concept of integrated thinking within the company, considering the impacts at different levels, because "*some people in the business have not made the mental shift to seeing reporting as a future-focused activity as part of the challenge.* […] *Encouraging forward-looking thinking certainly requires support from top leadership*" (ACCA, 2018).

This study has limitations related to different aspects. First of all, the small number of reports examined: although they represent all the recognized reports related to the most recent period available at the date of the analysis, this limits the generalizability of the results. In addition, many of the reports concern the South African context, where IR is mandatory, as mentioned above. Future research may therefore analyze the issue of FLI by considering a larger number of IRs and different geographical contexts. This paper is focused on a single year, thus not allowing to detect evolutionary effects in a diachronic way. Future research could investigate the FLI in IR through a longitudinal analysis. The paper is focused on in-depth analysis, proposing further viewpoints, without investigating the association of the FLI and determinants. Therefore, future studies may use the proposed new perspectives to represent any relationships with firm-specific attributes or external factors. As highlighted by ACCA (2018), the reluctance of companies to communicate FLI could also be due to the fear of providing information from which competitors or other subjects could benefit in an opportunistic way. Other studies could accordingly be framed into different theoretical perspective, in particular, proprietary cost theory and litigation cost theory. Finally, a further limitation of the paper is represented by the subjectivity of the researchers in the application of the manual content analysis.

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CHAPTER 3

PAPER 2:
Integrated Reporting assurance: challenges and perspectives for auditors

Abstract
The purpose of this study is to explore from the auditors' point of view the topic of Integrated Reporting (IR) assurance, examining the main challenges to be addressed and the possible perspectives. The paper uses an exploratory research design for eight semi-structured interviews with Big Four expert auditors in the Italian context.
The research confirms the potential value and usefulness of IR assurance. The main challenges highlighted are the absence of suitable criteria, the difficulty of assuring narrative and future-oriented information, and the low level of maturity of internal systems and processes of companies and stakeholders. The perspectives are framed mainly within current assurance models, although some insights into the need for new assurance approaches emerged.
The paper relies on a small sample of well-informed subjects and the results may not represent the views of all auditors. Furthermore, this study considers Big Four auditors from Italy. The findings identify aspects which assurance provider firms should focus on. Moreover, the study may be useful for Standard Setters and Regulators in the development of guidance or standards for IR assurance.
The research contributes to the currently under-explored area of IR assurance. To the best of the authors' knowledge, relatively few studies have investigated this topic from an empirical point of view and no study involving auditors has been carried out in the Italian context.

Keywords – Assurance; Integrated Reporting; IIRC; Reliability; Auditors; Big Four audit firms; Challenges and Perspectives.

1. INTRODUCTION

The financial crises and scandals involving various companies in recent years have highlighted the inadequacy of the traditional corporate reporting system and amplified the need for greater breadth, transparency and credibility of the information provided by companies (Briem and Wald, 2018; Goicoechea *et al.*, 2019). In an early phase, there was a gradual increase in non-financial information (NFI) (Martínez-Ferrero *et al.*, 2015), which usually converged in stand-alone reports.

However, the consequent subdivision of the corporate reporting system into different documents generates the risk of overload and fragmentation of information provided, and can cause confusion in users (Jensen and Berg, 2012). The reporting paradigm of Integrated Reporting (IR) is intended as a response to the changing information needs of stakeholders, in order to overcome the shortcomings of traditional corporate reporting, such as the predominantly backward approach, the main focus on the financial dimension, as well as complexity, staticity and disconnection (Jensen and Berg, 2012; Ioana and Adriana, 2014; Zhou *et al.*, 2017).

The International Integrated Reporting Council (IIRC) proposed a framework for the implementation of IR, defined as: "*A process founded on integrated thinking that results in a periodic integrated report by an organization about value creation over time and related communications regarding aspects of value creation. […] An integrated report is a concise communication about how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long term.*" In the (IIRC, 2013, pp. 33, 7). This form of reporting spread steadily (Engelbrecht *et al.*, 2018) and increasing numbers of companies termed their reports "integrated" (KPMG, 2017). In some cases these reports became the primary means for companies to communicate with stakeholders (Maroun, 2018b). This strengthened the need to investigate the issue of the reliability of its information, and made IR assurance an issue of growing concern (Adams, 2015; Ruiz-Lozano and Tirado-Valencia, 2016). External and independent assurance is, in fact, one of the mechanisms for improving the reliability of information, together with other mechanisms such as robust internal control and reporting systems, stakeholder engagement, internal audit (Engelbrecht *et al.*, 2018) and similar functions (IIRC, 2013). However, the characteristics of IR increase the complexity of assurance, which raises questions about the adequacy of current assurance models and the need to develop new approaches (PwC, 2014; Maroun and Atkins, 2015; Simnett and Huggins, 2015). A wide range of research opportunities were identified (Cheng *et al.*, 2014; De Villiers *et al.*, 2014; Adams, 2015; Cohen and Simnett, 2015; Simnett and Huggins, 2015), and calls for informed views on the issue were made by IIRC (IIRC, 2014a, 2014b, 2015), whose 2014 - 2015 consultation process confirmed the importance of achieving at least some form of IR assurance, and IAASB (IAASB, 2015).

In the light of the above, this research contributes to the recent debate on IR assurance, exploring the views of a group of expert auditors through semi-structured interviews. The analysis is carried out in Italy, and to the best of the authors knowledge is the first study in this context. In Italy, under Legislative Decree 254/16, which transposed European Directive 2014/95, for certain companies non-financial reporting (NFR) is mandatory for financial years starting on or after 1 January 2017. Unlike most other EU countries, Italian Legislator provides also its assurance as mandatory.

The aim of the research is to identify the critical issues on IR assurance, as well as its significance and future prospects. In particular, the study seeks to answer to four related research questions:

RQ1: What are the auditors' views on the value and usefulness of IR and IR assurance?
RQ2: What are the auditors' views on critical elements to be addressed in IR assurance?
RQ3: What are the auditors' views on conditions or factors that could facilitate the path towards IR assurance?
RQ4: What are the auditors' views on the perspectives of IR assurance?

The research questions are relevant from both a theoretical and a practical perspective.
At the theoretical level, this study adds to a limited body of literature on this topic, and answers in particular the call for in-depth analysis of IR assurance practices and roles of auditors (Cheng, *et al.*, 2014; Simnett and Huggins, 2015; Conradie and De Jongh, 2018).
This paper also gives insights to regulators and standard setters in providing guidance for the implementation of IR assurance, and offers a practical response to requests for informed views on IR assurance from IIRC and IAASB (IIRC, 2014a, 2014b, 2015; IAASB, 2015).
The research is also useful for practitioners, because it highlights the importance of this issue as a future business area, and identifies aspects which assurance provider firms should focus on and invest in.
The paper is structured as follows. Section 2 provides the literature review under two headings: IR, with particular focus on recent studies, and IR assurance. In Section 3 the methodology adopted for the research is described. In Section 4 the results are illustrated and discussed. Finally, in Section 5 the conclusions of the study are presented, as well as its limitations, and suggestions for future research.

2. LITERATURE REVIEW

2.1. Integrated reporting

The concept of IR goes beyond the publication of a single report that includes both financial and non-financial information, combining financial statements with other information usually contained in sustainability reports (Jensen and Berg, 2012; Churet and Eccles, 2014; Maroun and Atkins, 2015).
IR should provide a more comprehensive view of the company, in the perspective of value creation, presenting information on strategy, business model, risks and opportunities, as well as the related links, and should foster the understanding of interconnections between financial and non-financial dimensions (Brown and Dillard, 2014; Cheng *et al.*, 2014; Simnett and Huggins, 2015). According to IIRC, IR fosters "*a more cohesive and efficient approach to corporate reporting*" which, although aimed primarily at improving "*the quality of information available to providers of financial capital to enable a more efficient and productive allocation of capital*", can be useful to all stakeholders (IIRC, 2013, p. 4). Adams and Simnett (2011, p. 292) stated that this new corporate paradigm is "*holistic, strategic, responsive, material and relevant across multiple time frames*".
A number of studies have investigated IR from different viewpoints, both theoretical and empirical.

Some research analyzed its impacts and benefits, emphasizing aspects related to the perspective of value creation and the forward-looking approach (Adams and Simnett, 2011; Burke and Clark, 2016; Barth *et al.*, 2017; De Villiers and Sharma, 2017; Bernardi and Stark, 2018).
As shown by Dumay *et al.* (2016), most of the research deals with normative arguments, and relatively few studies examine IR practice. Recently some authors have analyzed aspects of the implementation of IR and its determinants, often with particular regard to the early adopters. Overall, research shows that, although in some cases the results are considered satisfactory, there is still a long way to go.
There are still a number of open and controversial issues regarding how IR can be effectively implemented, and, more broadly, the central purpose of IR. Often, the context appears fragmented and companies fail to fully understand of the value of this tool (Perego *et al.*, 2016). There are also varying opinions among researchers about the strength of IIRC's proposals to generate effects on reporting practices and their relations with the issue of sustainability. Some authors criticize the perspective adopted (Flower, 2015; Thomson, 2015), while others show a more positive appreciation (Adams, 2015). However, there is an overall awareness of the need for evolution.
The IIRC Framework (IRF), its leadership of the IR movement and the difficulties in pursuing IIRC vision, have been analyzed from a critical viewpoint, and problems on an implementation level highlighted (McNally *et al.*, 2017; Conradie and De Jongh, 2018), affecting the usefulness of IR in the decision-making process, especially with regard to financial stakeholders (Slack and Tsalavoutas, 2018). In addition, companies do not seem to fully understand and provide the information relevant for stakeholders (Rupley *et al.*, 2017; Naynar *et al.*, 2018). Kılıç and Kuzey (2018) find that overall IR practices are still relatively far from an adequate adoption of the Framework.
Other studies analyze the application of the principles of the IRF. Critical issues with regard to materiality and conciseness are identified (Ruiz-Lozano and Tirado-Valencia, 2016; Lai *et al.*, 2017). Melloni *et al.* (2017) prove that IR tends to be less concise and balanced (more "optimistic") in presence of a weak financial performance, while inadequate social performance negatively influences not only the conciseness, but also the completeness of the report. Other research highlights concerns relating to the credibility of IR and the likelihood of obtaining benefits from it, because of a lack of adequate guidance and of high preparation costs (Chaidali and Jones, 2017).
The various unresolved issues raise important questions in terms of the credibility of IR. In this context, external assurance mechanisms could help to improve the quality and reliability of the information disclosed (IIRC, 2014a, 2014b, 2015; IAASB, 2015).

2.2. Integrated reporting assurance

Although there is increasing interest in IR assurance, it is still a relatively under-explored area. From a theoretical and an empirical point of view, there are many critical issues to be addressed in order to achieve mature assurance practices (Cheng *et al.*, 2014; Dumay *et al.*, 2016; Maroun, 2017). And in spite of the various calls for research in the field, relatively few studies have as yet been carried out (Briem and Wald, 2018; Maroun, 2018b).
Some authors investigate IR assurance from a theoretical perspective, highlighting the challenges which are
particularly significant given that it is at an initial stage (Cheng *et al.*, 2014; Maroun and Atkins, 2015; Oprisor, 2015), and outlining future research opportunities. General issues, such as the value of IR assurance and its role in increasing credibility of disclosure are discussed in a context in which there is no convergence of views on the concept of "true and fair" IR (Eccles

et al., 2012). Some authors investigate the appropriateness of traditional assurance models in the context of IR, providing suggestions for innovative approaches (Cohen and Simnett, 2015; Maroun and Atkins, 2015; Simnett and Huggins, 2015; Maroun, 2017; Maroun, 2018b). As highlighted by PwC (2014, p. 1): "*today's broader assurance model is not always an easy fit with corporate reporting, which is transitioning to a model that is broader, more forward-looking and more integrated*."

Various issues are deemed high-level challenges for IR assurance and noted as such by IIRC (IIRC, 2014a, 2014b). These include whether it is possible to carry out the assurance of the information contained in the IR without carrying out the assurance of the underlying process as well (Eccles *et al.*, 2012; Cheng *et al.*, 2014), and whether the current version of the IRF provides suitable criteria and appropriate subject matter for the assurance (Cheng *et al.*, 2014; Huggins *et al.*, 2015). Some studies discuss the possibility of producing integrated assurance, instead of the current separate assurance (Eccles *et al.*, 2012), and the level of assurance that can be provided (Huggins *et al.*, 2015; Simnett and Huggins, 2015).

Other critical topics include the way in which the contents of IR, particularly forward-looking and narrative-style information, can be assured (Cohen and Simnett, 2015; Huggins *et al.*, 2015; Simnett and Huggins, 2015; Simnett *et al*., 2016). For investors, assurance on the disclosure of risks, policies adopted by the organization, assumptions underlying the scenarios and the reasonableness of the estimates presented are particularly important (WBCSD and PwC, 2018). Some research also highlights the need for guidance with regard to the assurance of IR principles, in particular materiality (and the related issue of boundary reporting), connectivity, reliability, completeness and connectivity (Cheng *et al.*, 2014; Huggins *et al.*, 2015; Simnett and Huggins, 2015; Burke and Clark, 2016; Simnett *et al.*, 2016).

The effects on the assurance service providers are also analyzed, in terms of liability, skills and composition of the assurance team, as well as changes in audit and assurance standards, and the way to carry out engagements regarding combined financial and non-financial information (de Villiers *et al.*, 2014; Cohen and Simnett, 2015; Huggins *et al.*, 2015; Simnett and Huggins, 2015).

In order to analyze practice and provide insights on the challenges noted above, a number of calls for empirical research on IR assurance have been made (Cohen and Simnett, 2015; Maroun, 2018a). Extant studies include investigations from the perspectives of auditors, companies that produce IR and users of reports, often within national contexts.

Maroun and Atkins (2015) interview auditors on the value of IR assurance, its subject matter, auditor liability and the possible impacts of the assurance on the contents of the report. They identify a medium to long-term path leading towards an "integrated assurance model" which fundamentally redefines the approach to assurance.

Briem and Wald (2018) investigate the company's motivations for voluntary assurance of IR and the role of auditors in the assurance process. With regard to companies, IR assurance is found to be linked to coercive pressures from stakeholders, together with the willingness to improve credibility and reliability. Auditors identified a lack of standardization of IR assurance processes, and highlighted their role as agents of change, promoting the adoption of IR, and a correct understanding and implementation of the IRF.

Maroun (2017, 2018b) proposes different assurance models, and in particular identifies elements of an interpretive assurance model. This is based on strategic systems audit principles and existing risk-based audit models, and is deemed to be more effective in evaluating the analysis or interpretation process followed by management in preparing the IR.

Corrado *et al.* (2019) confirm the challenges regarding the assurance of qualitative information (in particular strategic and forward-looking), and the related need for additional and special guidance, as well as an impact in terms of skills that auditors must develop in order to carry out these engagements.

The main findings of Goicoechea *et al.* (2019) concern the need to improve the quality of NFI produced by companies and the need for a change in the procedures adopted by auditors. They find that assurance should be provided on the entire content of IR, and aimed at a reasonable level. They consider separate audit reports, one for annual accounts and the other for the remaining content of the IR, to be appropriate.

Burke and Clark (2016) find that IR assurance is strongly recommended as it provides both internal and external benefits for companies. Critical aspects include the definition of a standard ensuring rigor in the assurance process, the skills of individuals providing such service (accountant vs. non accountant) and the costs of engagements.

Consistently with other studies, including Cheng *et al.* (2014), Maroun and Atkins (2015), Cohen and Simnett (2015), the present study, as highlighted above, aims to investigate the critical challenges and perspectives related to IR assurance, according to IRF. The topic is analyzed from a qualitative point of view, following research opportunities defined by recent literature which calls for more in-depth analysis on the theme, to be developed in different countries. An exploratory research is performed in the Italian context, and expert auditors from Big Four audit firms are interviewed in order to understand their views on this topic.

The research is thus intended to provide insights in a context like Italy, where NFR and its assurance are both mandatory for certain companies.

3. DATA AND METHOD

The analysis is based on an exploratory research design (Brennan and Solomon, 2008; O'Dwyer *et al.*, 2011), taking account of the following aspects.

Firstly, IR is considered a relatively recent phenomenon (Briem and Wald, 2018) and practices adopted by companies are heterogeneous.

Moreover, as noted above, there are currently no specific professional guidelines on IR assurance, and there is no extensive academic research on the topic (Simnett and Huggins, 2015; Maroun 2017 and 2018b).

Therefore, as highlighted in recent empirical research on IR assurance (Maroun 2017 and 2018b; Briem and Wald, 2018), it is useful to make an initial investigation from a qualitative point of view before dealing with quantitative research based on large samples (Eisenhardt, 1989; Brennan and Solomon, 2008; O'Dwyer *et al.*, 2011; Mayring, 2014). A qualitative approach, based on semi-structured interviews, was thus used in order to explore the auditors' points of view and perspectives on the topic, and answer the above-mentioned research questions.

3.1. Selection of respondents

As in other studies (Maroun 2017 and 2018b; Briem and Wald, 2018; Segal, 2019), a purposeful selection was made. Given that IR includes both financial and non-financial dimensions, subjects with more than 10 years' experience were identified, in the field of financial audit and in the field of NFR assurance. The 8 participants were specifically identified within the Big Four audit firms (as in Maroun, 2018b), which dominate the market in Italy, as in other countries. Of the 23 reports from Italian companies in the IIRC database (as at 11 February 2019), 17 contain an NFR assurance , carried out in 14 cases by one of the Big Four. For each of the Big Four, 2 subjects were interviewed, one belonging to the accounting area and one to the NFR assurance area. Although not all the subjects involved in the IR assurance process were considered, the evidence collected is based on the views of a well-informed group of auditors, giving quality and representativeness to the results obtained (Creswell, 2009; Maroun 2017).

3.2. Data collection

The interviews were conducted in the period March - June 2019 (the period in which auditors are closely involved with the final process of the assurance activity), lasted between 1 and 2 hours and were digitally recorded, with the approval of the respondents. 6 interviews were conducted in person, and 2 by phone. Each interview was immediately transcribed, and notes were taken during the transcription in order to capture particular aspects (Patton, 2002). After the first interview, each respondent was sent a draft of the overall findings, and further consultations followed. The transcription of the specific words spoken by the respondent and used to summarise findings were identified to each respondent. Any comments and feedback were taken into account.

The respondents were identified by one of the authors, thanks to collaboration between the University and the company. The purpose of the research and therefore the requirements for the potential participants were explained, and the authors contacted them by e-mail to verify their actual availability. Participants also received an outline of the interview and were informed that the results would be processed anonymously (Segal, 2019).

At the beginning of each interview, the content and purpose of the research were again explained to the respondents, and it was emphasised that it was carried out for academic purposes (Maroun, 2017).

The interviews were semi-structured, and the outline given to the participants was a useful guide for the discussion. Each interview began with a general question regarding point of view on IR and IR assurance, and respondents were able to express their own opinions without interruption. The sequence in which the issues were discussed varied from inteview to interview, but the authors ensured that all the issues related to the reserarch questions were addressed with each respondent. In addition, in order to prevent any possible misunderstandings, in some cases respondents were asked to provide examples or describe concepts in different words (Alvesson, 2003).

3.3. Data analysis

The data analysis was driven by the cognitive aims of the interview, formalized in the research questions, adopting a standard procedure of qualitative content analysis. In particular, an open coding approach was combined with an axial coding approach (Mayring, 2014), using a three-stage process in order to reduce the amount of information obtained, to present the data and to draw conclusions (Creswell, 2009; O'Dwyer *et al.*, 2011; Maroun, 2018b; Toy *et al.*, 2019).

After transcribing the interviews, the phases of the review and analysis of the answers began. The content of the interviews were openly coded, read several times, and the first-order categories were defined following the research aims. Subsequently, the relations between open codes (axial-coding procedure) were identified, which led to the definition of the second-order categories, which were linked to the four research questions (Briem and Wald, 2018).

Figure 1 shows an example of the coding procedure starting from a quote extracted from an interview. Through the first-order code, the quote is assigned to the category "Criticality of the report: information and principles". Subsequently, the axial coding assigns the first-order category to the second-order category "Critical aspects on IR assurance", relating to the RQ2.

Figure 1. Coding example

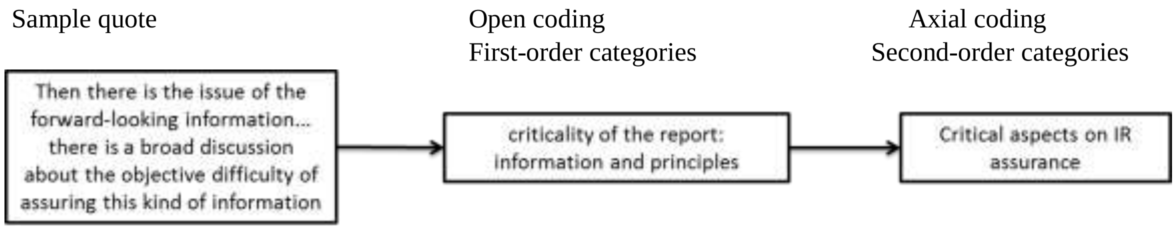

Table 1 summarises the first-and second-order categories and the research questions to which they are linked.

Table 1. Coding procedure: first- and second-order categories

First-order categories	Second-order categories	Research Questions
characteristics of the practices adopted for IR usefulness for stakeholders and companies	*value and usefulness of IR and IR assurance*	*RQ1: What are the auditors' views on the value and usefulness of IR and IR assurance?*
suitability of the IIRC Framework criticality of the report: information and principles criticality of internal processes and systems of companies level of maturity of stakeholders and stakeholder expectations	*Critical aspects in IR assurance*	*RQ2: What are the auditors' views on critical elements to be addressed in IR assurance?*
definition/improvement of reporting standard and assurance standard use of IR by stakeholders in the decision-making process legislative measures (mandatory IR and IR assurance) growth and investment in resources, processes and internal systems by companies growth of auditor skills and composition of the assurance team	*Conditions for the evolution of IR assurance*	*RQ3: What are the auditors' views on conditions or factors that could facilitate the path towards IR assurance?*
evolution in the current model (level and scope of assurance) auditor liability and engagement risk evolution of the assurance report new approaches	*Perspectives of IR assurance*	*RQ4: What are the auditors' views on the perspectives of IR assurance?*

The open and axial coding process itself presents elements of subjectivity. For this reason, the process was carried out autonomously by one of the authors and reviewed by the other author, in order to reach a shared representation.

4. RESULTS

The presentation of the results of the analysis includes quotations from the digitally recorded interviews, here translated into English. The utterances quoted below express either a point of view shared by all respondents or by most of them, or an outlier opinion, or an opinion that is deemed appropriate to consider.

RQ1: What are the auditors' views on the value and usefulness of IR and IR assurance?
All the participants highlighted the potential usefulness of IR for both stakeholders and companies, which they believe overcomes the shortcomings of traditional financial reporting (De Villiers and Sharma, 2017; Zhou *et al.*, 2017).
It was pointed out that the introduction of mandatory NFR in Europe had an important impact on the evolution of corporate reporting:

> This was a rather epochal step because companies had to communicate a kind of information that until that moment only the most virtuous companies had provided [...] It is clear that a hard line has been drawn and it leans towards IR. (A6)

It is unambiguously recognized that the path towards IR is still at the beginning (Cheng *et al.*, 2014; Maroun and Atkins, 2015; Burke and Clark, 2016):

> In my opinion the most important topic is the clear understanding of what we mean by IR. I do not think, considering the aim of IIRC, that it is simply a juxtaposition of financial and non-financial elements. When you simply use the capital model to find a “two-way match” with the sustainability aspects, you risk using IR but not expressing the full potential of the Framework. […] I see the risk of the diffusion of a weakened IR, which takes some element of the IRF, but which overlooks integrated thinking. There is a need to be clear about this. I think of a very concise and very strategic document. (A7)

According to the respondents, IR is undoubtedly useful for stakeholders:

> IR is useful to provide an additional view of the organization. (A3)

> In an accounting perspective, “numbers” are basically “numbers”. The reading of these data does not make it possible to understand the real underlying dynamics or why the company made certain choices, including those related to the business. It’s all that "embroidery" that, however, is what makes the company's work truly transparent, also clarifies certain dynamics. (A8)

Participants agree that IR is also useful for the company itself, as a tool that can help to trigger paths of change, with the approach of integrated thinking and a new conception of the organization (Burke and Clark, 2016).
All respondents confirmed the importance of IR assurance as a way of improving the reliability of information for third parties, limiting the risk of self-referentiality of the disclosure (Maroun and Atkins, 2015; Burke and Clark, 2016; Goicoechea *et al.*, 2019).

> The usefulness of the assurance remains that of having a third party that affirms the conformity of the document and therefore to leave aside self-referentiality, having a further verification. (A3)

RQ2: What are the auditors' views on critical elements to be addressed in IR assurance?
Two basic types of elements emerged. The first type concerns the IRF, in particular certain content elements and principles, and the second type concerns the parties involved (companies and stakeholders).
With regard to the IRF, all the respondents highlighted the absence of suitable criteria to evaluate the underlying subject matter (Cohen and Simnett, 2015; Maroun and Atkins, 2015; Maroun, 2017, 2018b).

> […] nowhere is it written "how to describe a Business Model", "how to measure performance". The Framework itself cannot be assured. […] and to say: "the summary [of the document] corresponds to that of the Framework" is not so much an assurance, it is a kind of a "tissue paper". (A5)

The interviewees cited certain types of information considered critical for assurance.

In particular, they highlighted difficulties in assuring soft narrative and future-oriented information (Maroun and Atkins, 2015; Corrado *et al.*, 2019; Goicoechea *et al.*, 2019). They pointed out that in some cases the assurance could be linked to underlying elements, commitments or processes (Maroun, 2018b), making it possible to assess its reasonableness, but the level of assurance that can be provided is not the same as that for objectively verifiable aspects.

> It will be possible to assure the underlying elements, where there is a representation of what was accomplished in order to achieve a goal. If the company says: "We will reduce CO2 emissions next year, because this investment has been made", as an auditor, I can see the plan, I can verify that it is allocated. But to assure for the future… I think it is really difficult. [...] Many sections of IR are of aspirational nature, I see it as quite complex. It is very difficult for a company to have solid and verifiable underlying elements for certain information. In the case of a managerial judgement, making an assurance is always complex, the managerial judgement is not always "assurable". (A1)

With regard to the principles of the IRF, the auditors highlighted considerations particularly on the principles of materiality, completeness and reliability (Cheng *et al.*, 2014; Maroun, 2017). They noted that, before the issue of assurance is dealt with, the application of these principles needs to improve (Ruiz-Lozano and Tirado-Valencia, 2016).
With regard to materiality in IR, the respondents cited the substantial difference with other corporate reports, as a plurality of interconnected aspects and qualitative elements affect the identification of material issues (Simnett and Huggins, 2015):

> I do not see specific problems when it is clear that materiality has an object, a field of action, a universe of issues wider than what we normally consider in sustainability [reporting] and that may not be totally overlapping. When I consider corporate strategy, I may have issues that are linked to markets, business,... that "crush" issues more linked to sustainability. I expect that in a materiality analysis with a specific focus on IR, there may be situations in which some aspects of sustainability are re-focused. However, these are issues linked more to the analysis of materiality than to the assurance activity, which is always focused on the process, and it is formalized on the retraceability of the analysis itself and on its substantial adequacy. (A7)

This could result, among other things, in a wider "freedom" for the company (Corrado et al., 2019), which could be used in an opportunistic way:

> It is important that the company does not consciously keep out issues just because it has more difficulty in talking about them. So that is what is being checked out... if IR has "missing" part. Not working with double entry bookkeeping, we have no "holes in transactions" and so I must always ask myself the relevance of the information to the recipients. Why aren't we talking about that topic? Media analysis is useful to confirm the result of the materiality analysis. (A5)

Regarding the principle of completeness and reliability, the respondents again pointed out that the absence of suitable criteria increases the difficulty of the assurance, allowing companies more discretion in disclosure (Melloni *et al.*, 2017; Corrado *et al.*, 2019).

> It is difficult to say whether a strategy is complete or not. Even in the case of the mission: it is difficult for an auditor to say whether that mission is correct or incorrect. A manager can

> exercise his or her professional judgment to say: "this is for me the Business Model"… but the auditor's job, to say no, affirming "I do not think it is the Business Model", is more difficult. (A1)

The respondents cited critical elements in companies and stakeholders.
With regard to companies, they pointed out aspects related to the processes underlying the generation of NFR, on which assurance is currently issued.
Some respondents noted that for the majority of companies, these processes have, at present, a relatively low degree of maturity and formalization (Maroun and Atkins, 2015; Goicoechea *et al.*, 2019).

> When we review the financial data, we base more or less half of our work on the company's internal control system. About NFR I would say that normally the internal control system is absent. (A2)

However, the interviewees acknowledged the positive effects generated by mandatory NFR highlighting that "*the organizations that approached IRF had already more mature processes* [than companies publishing only NFR]" (A3).

With regard to the processes underlying the generation of specific information included in IR (not overlapping with those of NFR), it was rightly pointed out that "*this is not the main aim of our activity today. I can intuitively say that they should be strengthened, but it is not something we currently practice at present.*" (A7)

The other critical aspect emerging is the current low level of maturity of the stakeholders regarding IR, in terms of knowledge about this type of disclosure and actual usefulness for decisions (Slack and Tsalavoutas, 2018).

> The big doubt is that, you know, there is a lot of information in IR, and it is not certain that all readers of that document will be able to understand it. (A6)

This situation has an impact on the expectations of the stakeholders themselves, particularly with regard to the level of assurance. According to the majority of the respondents, for almost all companies and stakeholders, limited assurance would be appropriate in the current situation. However, they noted a different level of maturity between stakeholders like investors and financial analysts and other categories.

> Limited assurance is not "insignificant". [...] it means that the company is not "free" [...]. Alternatively, you would see written in those documents really "everything and more", so it certainly has its value. Then, the fact that the market understands the difference between limited and reasonable assurance already requires good knowledge. Operators and financial analysts understand very well and know this topic very well, but the analyst also knows that this kind of information [at present] can only have limited assurance. (A4)

The limited degree of maturity of the stakeholders probably affects the behavior of the companies, which "*at this time have no interest in asking for reasonable assurance*" (A3), which would be obviously more expensive for companies and riskier for assurance provider (Eccles *et al.*, 2012; Maroun and Atkins, 2015; Oprisor, 2015).

RQ3: What are the auditors' views on conditions or factors that could facilitate the path towards IR assurance?

The interviewees mentioned some issues that can be considered as drivers of IR assurance, in part linked to some of the critical elements previously highlighted.

The first issue, cited by all respondents, is the definition of standards, both for reporting and assurance (Cohen and Simnett, 2015; Maroun and Atkins, 2015; Oprisor, 2015; Maroun, 2017, 2018b; Goicoechea *et al.*, 2019).

> In the end, if there are no clear and defined rules, it is impossible for the auditor to assure anything. (A2)

> Assurance, by definition is, in most cases, codified. Whatever the type of opinion, be it an opinion on a reasonable or limited assurance, it is always codified and complies with precise rules. (A8)

The interviewees did not however completely agree on the need for a specific reporting standard. There was concern about the effect of the standardization of the IRF with respect to its underlying "spirit":

> If the IRF were standardized, it could perhaps betray the initial spirit, it could misrepresent IR, which aims to be very "high", but this… I don't know... it would help the assurance. The standard will be as much necessary as more companies will go towards the adoption of the IRF, pushing for an adoption of the IRF that is not a transcoding of the GRI, using the Framework as a reference, but which is a "different" document. If it remains like this, as an ideal model in which, however, GRI is perfectly diluted and embedded, there is perhaps no need for standardization of the IR. (A7)

But according to the majority of auditors, a more precise definition of the contents of the IRF is needed.

> I cannot act with the principle or with the assurance technique on something undefined or not well defined. […] The principles, the scope of reporting must be better stated. (A4)

One auditor proposed also an approach that combines fixing the existing reporting standards, recognized as suitable criteria, and standardizing content not included in these, without developing a new specific reporting standard for IR.

> Either the IRF is standardized or a combination of existing standards must be made on the different areas of reporting. […] maybe more qualitative, more descriptive issues will remain outside. I would avoid excessive proliferations of standards, because many are already available and then you do not even know what to use. (A5)

The respondents expressed different opinions with regard to the possible evolution of assurance standards.

Some consider the definition of a specific assurance standard for IR appropriate.

> If 20 pages tell you about the company's strategy... this requires a different type of assurance and assurance activities from those adopted for a more "traditional" reporting. (A7)

Other respondents on the other hand do not believe that significant action is needed on the assurance standard.

> The implementation of a few more ISAs is not the solution, quite the opposite… first you have to define the content well... because all ISAs are consequent to the object to be analyzed. (A4)

Another driver cited by the respondents is the use of the information contained in the IR by stakeholders. Some auditors stated that this already happens, particularly in financial markets (Zhou *et al.*, 2017).

> IR will spread, I don't know if in this form or if it will change. Because the markets ask for this information, it is not only a B2C matter, but also a B2B matter. […] Companies are also pleased to disclose this information “under the hat” of: "Look, I'm not the only one to tell you this, but there's a third party who assures it”. (A6)

Some respondents also noted the possible positive impact of legislation making both IR and IR assurance mandatory. The obligation to prepare and assure IR may have positive effects for the evolution of professional practice, standard setters and auditors, and for companies, as was the case when NFR became mandatory (Eccles *et al.*, 2012).

> I wish to see a strengthening by the regulators or the legislator that require certain disclosures, not to have an obligation, but to provide a regulatory direction. […] A shared path through compliance, because it helps, stimulates, obliges, and encourages use... […] Companies have generally complained about mandatory NFR, but what is emerging is a very interesting stimulus. […] in my opinion in a year, maybe two but not more, there will be a big leap forward. (A5)

Another condition cited by several auditors is the need for companies to invest in processes and systems underlying IR (Maroun and Atkins, 2015; Goicoechea *et al.*, 2019).
Some respondents stated that auditors can play an important role, stimulating the path of companies, disseminating knowledge and skills (Burke and Clark, 2016; Briem and Wald, 2018), because “*being close to people who know how to do it, it is clear that you learn, isn't it?*” (A4)
The respondents widely recognized the need to develop auditor skills on issues specifically related to IR (Maroun and Atkins, 2015; Maroun, 2018b; Corrado *et al.*, 2019).
They agreed about the need for multidisciplinary teams, not only in terms of expertise on financial and non-financial issues, but also in terms of specialization in the various businesses of companies, for an effective understanding of all the aspects contributing to the value creation (Maroun and Atkins, 2015).

> You have to understand all the components: capitals, strategy, risks, governance, and so on. You must strive to understand the business really within the context of the organization. In the future, if you can assure everything, also high skills on the business and sectors of the companies will be needed. (A5)

RQ4: What are the auditors’ views on the perspectives of IR assurance?
The findings on opinions about the development of IR assurance can be divided into two areas: those about developments within the framework of the current assurance model and insights about new approaches.

Regarding the evolution of the current assurance model for assessing IR, respondents cited concerns related to the scope and the level of assurance. They revealed different views on the possibility of assuring the entire report. The definition of the reporting standard and suitable criteria for it is the central issue here, as this could allow assurance on wider areas of reporting. Given the current absence of a suitable criteria for IR, a "transitional" approach was proposed:

> Assurance on the entire IR is complicated, because now the IRF is not "assurable". The transition could be through the principles. Therefore, not an assurance on an IIRC report but an assurance that says: I have verified the compliance with the principles stated in the Framework, and the compliance of the performance elements in accordance with the selected performance standards. (A7)

According to some auditors, the critical issues identified in RQ2, especially assessment of soft narrative and future oriented information, will probably mean that assurance of the entire IR is not feasible.

> The forward-looking information is certainly useful, but in my opinion it is very unlikely that one day this will be assured… that is, no one can assure the future. (A1)

A response could be an assurance focused on underlying process and document-based evidence (Maroun and Atkins, 2015; Maroun, 2017), although critical elements were cited:

> We need to understand what is meant by process, because it is difficult to codify in some cases. How a business plan process should be done… yes… but how the process that leads to the definition of the vision should be... I don't know... I think it's a little more complicated. […] It is difficult to frame something that by definition must arise from instinct, rather than from specific steps. The issue is: does it exist or does it not exist? More than: does it comply with a number of requirements, steps of approval? Is there a time when the company really asks itself some questions? … once a year, directors... shareholders… think "what are we doing", "where are we going", in my opinion is a good message. I think there is more a reasonable expectation to understand if there is a more or less structured mechanism. Unfortunately, in my opinion it is difficult to find anything else. (A8)

With regard to the level of assurance of an IR, auditors' opinions differ. The majority believe that a mix of assurance levels ("hybrid") would be appropriate. A reasonable level was mainly indicated as one covering selected KPIs ("*which must be followed over time by a reasonable assurance on the whole NFR*" (A7)). The limited level would cover the remaining contents.
One auditor (A6) considered limited assurance the most appropriate level for the entire report, because a hybrid level might be difficult to understand for readers.
Finally, one respondent (A5) stated that "*a reasonable level potentially could be achieved*", although only in the medium-long term (Burke and Clark, 2016; Goicoechea *et al.*, 2019).
Auditor liability is another significant issue (Maroun and Atkins, 2015; Goicoechea *et al.*, 2019). The respondents cited aspects related to the type of information disclosed in an IR and the more heterogeneous range of potentially interested stakeholders:

> The risk for the auditor in the case of IR is a bit more complicated "to bridle", because what differs is the type of reliance that each stakeholder makes on specific information that more or less can affect them, which may be of interest to them. (A5)

In addition, the interviewees noted that if IR assurance were mandatory, particularly with a required reasonable level, auditor liability could become very critical in the assessment of narrative and future-oriented information.

> If there is an expectation that an auditor will say that the company's strategy will be achieved… I think it is very difficult… because they are many intangible elements, none of us has a "crystal ball", because if something happens tomorrow… "In 2018 the auditor said that...". The auditor always gives an opinion based on the principles of reporting and assurance, you cannot force his opinion, it would not even be fair. (A1)

The auditor's liability has also a temporal dimension, considering a potential evolution of information disclosed in the report:

> I invested in a Business Model described in a certain way and then it proved to be different. Can this happen? Maybe so. There's an issue of temporality there. Maybe it's different the year after. Because obviously companies are managed, things evolve. These are issues that still need to be focused on. (A5)

Another theme is the evolution of the assurance report, in particular in terms of convergence towards an integrated assurance, rather than separate assurance communications relating to different areas.
Integrated assurance is not simply an assurance report in which financial and non-financial aspects are considered together, but it is an assurance on IR, covering in particular important principles of the IRF such as conciseness and connectivity (Eccles *et al.*, 2012; Simnett and Huggins, 2015).
The insights from respondents point to the need for change, which could in fact be very deep.

> It is possible to think that we are going to think about an "ad hoc document", which for each part must specify what is expected, what is expected to assure. […] In my opinion, we must completely distance ourselves from the concept of audit report in the field of accounting and "invent" something completely different, because it responds to different rules, different concepts. (A8)

According to some respondents, however, integrated assurance is not a viable solution in the short term (Maroun, 2017). It would even require specific legislation, in addition, of course, to the definition of standards.

> In my opinion there will be two different assurance reports, because one is regulated by specific legislative provisions, the principles of assurance are different, so I do not see any convergence in the short term. When there will be more integrated principles of reporting and assurance, perhaps we can get there, but to date there is no possibility of convergence... it would only create confusion. (A1)

Respondents were asked to consider possible new approaches described in research (PwC, 2014; Maroun and Atkins, 2015; Maroun, 2017, 2018a and 2018b), which would be complementary to current approaches rather than substitutes. They had varying opinions about a possible change in the way they perform assurance.
Some auditors expressed concerns regarding the possibility of implementing approaches considered incompatible with a concept of assurance based on the current model.

> I see "interpretive" assurance as a bit difficult, [...] the judgment is always a professional judgment about compliance with the guidelines. It's not an auditing activity, we are not thinking about evolving in this direction, it's not our job. (A1)

On the other hand, other interviewees believe that change is possible, but the evolution of assurance towards new approaches will depend on the evolution of IR and the way in which it is implemented.

> In this debate there is a great absence: strategic IR, future-oriented. There are praiseworthy attempts, which approach, taking some elements, but with a whole series of areas still to clarify. Assurance is also a bit adaptive. I believe that there can be an evolution in this sense if IR evolves in the direction originally intended by the Framework, if it becomes a different and high document, inspired by the principles and very future-oriented. So if the interpretation given is a high, strategic interpretation… then it is clear that assurance must follow this type of evolution [...] in the light of elements such as narratives, forward looking... because we may have few performance data, but more narratives… this could shift the emphasis of assurance. If the interpretation given is tragically the juxtaposition of financial and non-financial reporting, the current approach of assurance is adequate [...] I do not see the need for an evolution of assurance. (A7)

5. CONCLUSIONS, LIMITATIONS AND SUGGESTIONS FOR FUTURE RESEARCH

This research presents the first empirical evidence relating to the views of auditors on the topic of IR assurance in Italy. The study responds in particular to calls for in-depth analysis of IR assurance practices and roles of auditors (Cheng, *et al.*, 2014; Simnett and Huggins, 2015; Conradie and De Jongh, 2018).

Experienced auditors purposefully selected in the fields of financial audit and NFR assurance were interviewed, and their opinions about the challenges and perspectives of IR assurance were described and analyzed.

All respondents agreed on the value and usefulness of IR assurance and on the fact that, at present, the absence of suitable criteria is the main obstacle to its implementation (Cohen and Simnett, 2015; Maroun and Atkins, 2015; Maroun, 2017, 2018b).

Assuring specific IR components, such as soft narrative and future-oriented information, is considered particularly difficult, as are complexities related to the application of principles of materiality, reliability and completeness.

Moreover, the respondents highlighted the low maturity of the processes and systems underlying the generation of company information disclosed in IR, which is negatively affected by the lack of knowledge and use of IR by stakeholders in decision-making processes.

Several auditors believe that a legal obligation to draft and assure IR could be potentially effective in developing IR, but in the context of Italy, particular attention needs to be paid to other existing assurance obligations.

In addition, for the assurance team there is the need to develop skills on issues related to IR, with specialization in terms of sectors of activity.

With regard to perspectives, some respondents believe that IR assurance should be developed within the framework of current assurance models, which would however bring the need to manage repercussions in terms of auditor liability. Other respondents believe that it is possible and appropriate to switch to new assurance models in order to capture the specificity of IR.

In general, the financial auditor respondents emphasized the need for definition of guidance and legislative aspects. On the other hand, respondents dealing with NFR assurance, although aware of the critical elements highlighted above, mainly expressed views on new assurance models.
This study provides insights for standard setters on the opinions of qualified auditors on the implementation of IR assurance. It will also help regulators to better understand limits and opportunities of making assurance compulsory on IR, and more in general, making assurance on specific information not strictly related to financial information compulsory. The research should help practitioners by highlighting the importance of this issue as a future business area, and by identifying aspects on which assurance provider firms and accountants should focus. Finally, the research could help companies to correctly understand future evolution and importance of producing and collecting information accompanying traditional financial disclosure.
This research however has several limitations. First, the number of auditors interviewed is low, which limits the generalizability of the results. Further studies could be carried out involving a higher number of subjects, both in Italy, where IR is gradually spreading, and in other countries where it is more widespread.
A second limitation of the research is that the auditors selected belong only to the Big Four, which although they dominate the market, do not represent all assurance firms.
A more important limitation is that the point of view of other subjects involved in IR is not considered in this study. In particular, although investors are indirectly represented by the perceptions of the respondents, their expectations and requirements are not examined.
It would be important to understand whether the assurance is indeed a necessary condition for the "*survival of the <IR> movement over the short-to-medium term*" (Cheng *et al.*, 2014, p. 99). Further research involving companies would also be useful to explore the possible conditions and synergies between internal and external mechanisms aimed at ensuring the reliability of information disclosed in IR.

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CHAPTER 4

PAPER 3:
Stakeholder engagement in mandatory non-financial reporting: first results for first-time reporters in Italy

Abstract

This study aims to analyze the issue of Stakeholder Engagement (SE) in mandatory non-financial reporting (NFR) in Italy, also as element supporting the quality of non-financial disclosure. In particular, following previous research that demonstrated critical aspects with regard to this issue in the first reporting period (2017 fiscal year), this paper explores whether and how an activity of SE has been performed and disclosed by first-time reporters in the second year of the application of the law.
A SE Score is proposed to assess the level of SE disclosed by Italian companies that, before the transposition of the European Directive 2014/95/EU, did not communicate voluntarily non-financial information. In addition, the effect of board characteristics and strategic posture on the level of SE disclosed is examined.
The study shows that the level of SE is positively affected by board independence and active strategic posture (represented by social and environmental certifications), while board size is negative related to the result of the SE Score.
To the best of authors knowledge, this is the first research that explores in depth the issue of SE in mandatory NFR in the Italian context, testing the impact of possible determinants.
This study provides some insights for companies and policy makers and extends previous literature on both SE and mandatory NFR.

Keywords - Stakeholder Engagement; Non-Financial Reporting; Mandatory Non-Financial Reporting; First-Time Reporter; Corporate Governance; Board Characteristics; Active Strategic Posture.

1. INTRODUCTION

The issue of Stakeholder Engagement (SE) has long been explored in literature from a number of perspectives. Moreover, among scholars there is not a unique framework and conceptualization of its meaning, applications and features (Sloan, 2009; Civera et al., 2019). It has often been viewed in conjunction with the concept of Corporate Social Responsibility (CSR), arguing that SE activities are automatically responsible practices, although, as noted by Greenwood (2007), the aims underlying the implementation of SE do not necessarily imply an orientation of the company towards CSR. The different conceptualizations of SE proposed by scholars may be framed into two principal dimensions, which can be substantially related to the goal of the approach adopted and a particular vision of the role of stakeholders. On the one hand, a SE approach realizing in activities and tools aimed to monitor and control stakeholders, managing the risks of potential conflicts of interests; on the other hand, an approach oriented to collaborations and partnerships with stakeholders, leading to shared values, goals and strategies, into a shared value creation perspective (Rasche and Esser, 2006; Sloan, 2009; Manetti, 2011; Civera et al., 2019).

The increasing attention paid by the companies to the relationships with stakeholders is motivated, among other aspects, by the growing pressures exercised the stakeholders, often result of negative social and environmental impacts generated by 'irresponsible' behaviors of the organizations (Mena et al., 2010). In this regard, the disclosure of information related to environmental and social aspects has represented for the companies one of the most important tools aimed to face the requirements and expectations of stakeholders. Since the first experiences of non-financial reporting (NFR), mainly voluntary, one of the main issue that raised criticism was its quality (Venturelli et al., 2017), that affects the reliability of the information provided, in particular as a result of opportunistic behaviors that led to disclosures mainly focused on positive point of views and impacts of the company, disregarding negative aspects, or even to communicate results other than those actually achieved (such as in the case of 'greenwashing'). In this regard, SE is one of the mechanisms that the companies may use in order to improve the process and the quality of NFR. Indeed, it should be noted that in the most important non-financial reporting (NFR) international standards, SE is a fundamental element in the reporting process, supporting, among other aspects, the identification of the information to be disclosed (AccountAbility, 2015; Global Reporting Initiative, 2016); in addition, through NFR the company has to communicate information about its SE approach and activities.

The relevance of NFR has been widely acknowledged even by Institutions and, in this regard, the European Union has issued the Directive 2014/95/EU (European Union, 2014), that requires large companies headquartered in Member States to disclose non-financial and diversity information for financial years starting on or after 1 January 2017. SE is mentioned various times in the guidelines issued by EU (European Commission, 2017) in order to orient obligated companies in the reporting process. In particular, one of the factors that should be considered when the company assesses the materiality of information to be included in NFR is "*interests and expectations of relevant stakeholders: companies are expected to engage with relevant stakeholders and seek a good understanding of their interests and concerns*" (European Commission, 2017, p. 7). In addition, companies should engage effectively with stakeholders in order to give "*fair consideration to favourable and unfavourable aspects*" (European Commission, 2017, p. 7). Finally, the EU guidelines stated that the undertakings should provide "*relevant, useful information on their engagement with relevant stakeholders, and how their information needs are taken into account*" (European Commission, 2017, p. 9).

The concept of SE in the NFR Directive is framed into a perspective mainly focused on the definition and understanding of stakeholders expectations, in order to support the materiality analysis and also to manage the issues emerged, avoiding or mitigating potential risks of negative consequences. The Directive does not directly require elements related to the above-mentioned more pervasive approach of SE, such as collaboration or partnerships with stakeholders, even that, as highlighted above, this information is cited among the aspects to be disclosed according to the most widespread NFR guidelines, that the same Directive suggests should be adopted by the companies.

In the light of the above, this research aims to analyze the SE activity disclosed in mandatory NFR in Italy, with regard to the first-time reporters (FTRs), in the second year of implementation of the law. This study answers to call for further research on how companies communicate on their SE approaches and practices in NFR (Devin and Lane, 2014). The choice of analyzing SE disclosure in mandatory NFR issued by Italian FTRs is motivated by the following aspects. First, SE has been studied as an important determinant on the quality of NFR (Daub, 2007; Boesso and Kumar, 2007; Asif et al., 2013; Michelon et al., 2015). Second, most of the studies performed have explored SE in voluntary NFR (Belal, 2002; Manetti, 2011; Bellucci et al., 2019), while relatively few studies have analyzed aspects related to SE in mandatory NFR (Torelli et al., 2019). This research aims to investigated the behavior of companies that, before the implementation of the law, had chosen not to communicate non-financial information in a structured way to their stakeholders. Third, it should be noted that, in Italy, even before the transposition of the EU Directive by the Legislative Decree 254/2016, the Article 2428 of civil code required companies to provide, where relevant, non-financial information in annual report, with particular regard to the environment and human resources. Therefore, the Italian legislator had already paid attention to this issue before the EU Directive. However, some studies carried out in the Italian context in order to examine the potential impact of the Directive, analyzing the quality of non-financial information disclosed before its implementation, demonstrated the existence of an information gap with respect to the requirements, highlighting the role of further regulation in enhancing the quality of NFR (Venturelli et al., 2017, 2019).

In view of this, the paper seeks to analyze whether and how an activity of SE has been performed and disclosed by companies that, before NFR became mandatory, did not publish voluntary non-financial information. Some studies carried out in the Italian context, in the first year of the implementation of the Decree, have demonstrated, as expected, critical issues with regard to FTRs, among which the low involvement of external stakeholders in the materiality analysis (Deloitte and Bocconi SDA, 2018; KPMG, 2018). Following these findings, this paper aims to understand the level of SE that FTRs disclosed in the second year of application of the law. In addition, the research aims to test the effect of board characteristics and strategic determinants on the level of SE disclosed.

To the best of authors knowledge, this is the first study that explores in depth the issue of SE in mandatory NFR in the Italian context, testing the impact of possible determinants.

The research contributes to both SE and mandatory NFR literature.

The rest of the paper is organized as follows. In the second section the literature review is illustrated. The third section develops the research hypotheses. The fourth section presents the methodology employed and in the fifth section the results are illustrated and discussed. Finally, the sixth section concludes the research.

2. LITERATURE REVIEW

The literature review is developed under two headings.
First, an overview of research on SE is illustrated, second, the literature of SE in voluntary and mandatory NFR is presented.

2.1. Stakeholder engagement

The issue of the SE has been widely addressed in literature, from a number of perspectives.
The extant studies highlight that SE may be differently performed by companies, with various aims, approaches, levels and tools. It was noted that, although SE is often interpreted as "*corporate responsibility in action*", it is a "*morally neutral activity*" (Greenwood, 2007; p. 315). Companies can engage stakeholders for different motivations, and this does not automatically lead to a moral or responsible treatment of stakeholders and to a sustainable development (Steurer et al., 2005; Greenwood, 2007). Moreover, it was argued that social and environmental business impact is one of the main determinants of SE (García-Sánchez and Noguera-Gámez, 2017) and, vice versa, SE is one of the key elements of the success of CSR (Romolini et al., 2014).
Considering the different approaches, a first distinction is made in literature between stakeholder management and SE. The first, stakeholder management, is focused mainly on the identification and understanding of requirements, expectations, preferences of stakeholders in order to manage them and attenuate unfavorable consequences, avoiding conflicts of interests and mitigating risks; in a SE approach stakeholders not only share information with the company, but they also dialogue and are empowered in decision-making processes, creating models and network of mutual responsibility (Belal, 2002; Steurer et al., 2005; Rasche and Esser, 2006; Sloan, 2009; Manetti, 2011; Onkila, 2011; Girard and Sobczak, 2012; Bellucci et al., 2019). In a perspective in which stakeholders have rights and responsibilities, then the approach of the company should go beyond a mere satisfaction of their expectations or prevention and mitigation of negative repercussions, in order to maintain supportive relationships and to attenuate the negative repercussions of possible unsupportive stakeholders (Bellucci 2019). The adoption of more interactive forms of SE is potentially deemed more effective, but it requires a long term approach by the companies, because the results are difficult to express and quantify on a short-term horizon (Unerman and Bennett, 2004; Burchell and Cook, 2006, 2008; Mena et al., 2010).
A further distinction in the construct of SE has also been proposed between the concept of 'engagement with stakeholders', which at its highest level takes the form of a two-way dialogue and joint decision-making, and the concept of 'engagement of stakeholders'. In an 'engagement of stakeholder' perspective, stakeholders collaborate with company, become active partners, feel engaged and committed, their values are aligned to those of the company (Kumar and Pansari, 2016; Civera et al., 2019). This level of engagement may generate positive impacts in terms of learning and innovation, leading to fundamental corporate transformation (Sloan, 2009; Sharma and Henriques, 2005). In this approach the 'strategic posture' of the company, defined as "*the mode of response of an organization's key decision makers towards social demands"* (Ullmann, 1985, p. 552), involving the inclination of the company to adopt and implement strategies along a particular dimension, becomes 'cooperative', that is the company considers its stakeholders as potential partners in cooperation, and not as potential adversaries in competition (Freeman et al., 2010; Strand and Freeman, 2015). Stakeholders are so considered an internal part of an organization's strategies and operations in the value creation process. The relationships with stakeholders do not have a competitive or defensive feature, for

a mitigation of risks, but lead to, among other aspects, a shared value approach (Porter and Kramer, 2011), that results in a shared definition of strategies and goals (Rodrigue et al., 2013; Shubham et al., 2018). In this regards, some studies have investigated the influence of stakeholders on strategic decisions, in terms of adoption of sustainable practices (Shubham et al., 2018), as well as the critical role of a responsible leadership in the building of a responsible and sustainable business (Maak, 2007).

2.2. SE in voluntary and mandatory NFR

The issue of SE has been extensively investigated with regards to NFR in particular in a voluntary context.

It should be highlighted that the approach underlying most of the definitions of CSR proposed in the extant literature and by institutions implies a voluntary choice by the organization (Dahlsrud, 2008). In addition, the spread of NFR mainly occurred in a voluntary context (Venturelli et al., 2017).

NFR is considered a strategic tool to manage SE (Romero et al., 2018) and it was proved that firms disclosing information about SE have benefits in terms of higher market-to-book value of equity, so SE is a value-relevant information (Dal Maso et al., 2017), as well as the process of SE is critical even in the development of corporate reputation (Neville et al., 2005; Venturelli et al., 2017).

Through NFR companies should disclose information on their SE approach, on the issues emerged and on the related impacts generated in terms of behaviors, in the perspective of CSR. According to Devin and Lane (2014), further research about how companies communicate in NFR about their SE approaches and practices would be needed. In the extant studies, a relatively low level of SE has been demonstrated (Venturelli et al., 2018), mainly focused on a simple consultation of stakeholders, underlining a 'stakeholder management' rather than a 'stakeholder engagement' approach, proving in this regard room for improvement (Belal, 2002; Skouloudiset al., 2010; Manetti, 2011). More recently, some insights in the direction of a higher level of SE have emerged (Bellucci et al., 2019), confirming the role of NFR in fostering a more proactive and interactive SE approach.

Some studies analyzed SE as determinant of issues related to NFR. According to Ullmann's conceptual framework (1985) stakeholder power is one of the three dimensions that could explain social disclosure, together with strategic posture and economic performance. Some research investigated SE as determinant of the decision of the company to disclose NFR (Prado-Lorenzo et al, 2009) and the quality of NFR (Daub, 2007; Boesso and Kumar, 2007; Asif et al., 2013; Michelon et al., 2015). A positive relationships was found, in a perspective in which organizations would choose to voluntarily disclose information about their SE efforts, even beyond mandatory requirements (Boesso and Kumar, 2007) . In other studies SE was explored with regard to materiality analysis, finding significant relationships with industry and some board characteristics (size and diversity) (Fasan and Mio, 2017). Furthermore, the level of SE and the stakeholder specificity are deemed drivers that may influence the credibility of CSR reports (Lock and Seele, 2016).

In the most recent field of mandatory NFR the issue of SE could be further analyzed. In the extant literature the impact of the legislation on NFR has been addressed mainly in order to understand if the obligation to issue a non-financial disclosure may improve its extent, quality and credibility. In this regards, scholars have provided mixed results. On the one hand, positive effects were demonstrated, both in the quality and transparency of NFR (Hąbek and Wolniak, 2016), and in terms of corporate value (Ioannou and Serafeim, 2017). Other research did not find consistent evidence with regard to the credibility of the report (Lock and Seele, 2016).

Finally, some studies proved that mandatory NFR have only limited impact on the quality of the information (Chauvey *et al.*, 2015; Luque-Vílchez and Larrinaga, 2016). Other research have investigated the possible determinants of mandatory NFR, highlighting the influence of ownership structure (Andrades Peña and Jorge, 2019). Considering specifically mandatory NFR in Italy, in the first year of implementation of the Decree, it was shown that the level of SE is positively related to the quality of the information, in particular with regard to the materiality analysis (Torelli et al., 2019), to some governance characteristics (the presence of a sustainability committee and the independence of the members of the Board) and to the ownership structure (public companies, and the presence of ESG investors) (Deloitte and Bocconi SDA, 2018).

3. HYPOTHESIS DEVELOPMENT

This research aims to test the effect of the following determinants on the level of SE disclosed in mandatory NFR by Italian FTRs. In particular, according to previous studies, determinants representing possible drivers in decisions-making processes related to SE have been selected.

3.1. Determinants of the level of SE disclosed: active strategic posture

The first hypothesis aims to test whether companies that have an active strategic posture disclose a higher level of SE.

Strategic posture refers to the mode of response of a company towards social demands (Ullmann, 1985). An active posture implies an approach in which the company deliberately seeks to enhance the relationships with stakeholders, with expected greater social responsibility activities (Prado-Lorenzo et al., 2009). According to Freeman (1984), the adoption of social responsibility programs should express an active posture of the company with regard to the issues and concerns of stakeholders. In order to represent the strategic posture, according to Prado-Lorenzo et al. (2009), the presence of social and environmental certifications has been selected. As highlighted by Prado-Lorenzo et al. (2009, p. 102), with specific regard to ISO14001 and OHSAS18001, "*these certifications involve a rigorous process in order for the firm to be seen as environmentally and socially compliant, respectively, and are thus significant in the strategic posture of the firms*".

It has been noted, however, that the approach of the company with regard to social and environmental certifications is relevant. In particular, if the company consider the standard a mere obligation to comply with, without going beyond, in a proactive way, it could not achieve high benefits, in particular towards the goal of sustainable development (Oskarsson and Von Malmborg, 2005), nor it is sure a positive impact on stakeholder involvement (Gnan et al., 2013). A number of studies, however, have confirmed the positive effect of certifications, in particular environmental standards (Adams, 1999; Delmas, 2000), specifically on stakeholder relationships (Gavronski et al., 2008). In this regard, and according in particular to Ullmann (1985) and Prado-Lorenzo et al. (2009), the following hypothesis is proposed.

> *H1: The level of SE disclosed in mandatory NFR is positively affected by the presence of social and environmental certifications*

3.2. Determinants of the level of SE disclosed: board characteristics

The board of directors plays a central role in fostering the adoption of good practices of CSR (Gnan et al., 2013) and in particular in terms of fulfillment of SE policies (Frias-Aceituno et al., 2013), as well as affecting company disclosure (Fasan and Mio, 2017).
In this research the relationship between the board of directors and the level of SE disclosed in mandatory NFR is examined through three different characteristics of the board: board independence, board size and board gender diversity.
The following hypothesis is proposed.

H2: The level of SE disclosed in mandatory NFR is affected by board of directors.

Board Independence

This hypothesis aims to test whether companies with more independent boards disclose a higher level of SE.
According to previous studies, more independent boards should be more interested and oriented in demonstrating compliance with regulations, socially responsible behavior (Zahra and Stanton, 1998; Prado-Lorenzo et al., 2009; Sahin et al., 2011) and the achievement of the goals of the company, given that their reputation is strongly affected by the proper conduct of the organization whose board they belong (Fama and Jensen, 1983). Independent directors should show more attention to demands and interests of minority shareholders (Prado-Lorenzo et al., 2009) and other stakeholders, also fostering CSR activities, even beyond mandatory requirements (Ibrahim et al., 2003), in particular in terms of involvement in collaborative approaches of SE, through the realization of value maximizing social projects (Jizi, 2017) and positively influencing sustainability reporting (Anazonwu et al., 2018; Alotaibi et al., 2019).
The following hypothesis is proposed.

H2a: The level of SE disclosed in mandatory NFR is positively affected by board independence.

Board Size

This hypothesis aims to test whether companies with smaller boards size disclose a higher level of SE.
Previous studies on board size provided mixed results, which may lead to different expectations about the influence of this variable on the level of SE.
On the one hand, in larger boards are more likely to be represented and included a wider range of stakeholders (Aggarwal and Nanda, 2004), which could orient the company towards the implementation of a higher level of SE. In addition, larger boards are correlated with higher levels of corporate social performance and non-financial disclosure quality (Jamali et al., 2008; Li et al., 2010; Alotaibi et al., 2019).
On the other hand, some scholars have proved that a larger board size probably entails weaker monitoring or creates coordination problems and collusion (Fama and Jensen, 1983; Lipton and Lorsch, 1992; Beasley, 1996). In addition, smaller boards are more efficient in monitoring because they are better coordinated and less vulnerable to free-riding (Jensen, 1993) and are associated with better firm performance (Yermack, 1996; Eisenberg et al., 1998). In the context of SE, smaller boards probably could reach more easily an agreement on the related issues, i.e. in terms of which stakeholders to engage with and at what degree, what actions, programs or projects to carry out with stakeholders. In particular, according to Fasan and Mio (2017), board size is negatively correlated with materiality analysis.

The following hypothesis is proposed.

H2b: The level of SE disclosed in mandatory NFR is negatively affected by board size.

Board Gender Diversity

The third hypothesis related to the board of directors aims to test whether companies with greater gender diversity disclose a higher level of SE.

A number of studies have proved the positive association between board gender diversity and non-financial issues, in particular in terms of quality of sustainability reporting (Frias-Aceitunoet al., 2013; Fernandez-Feijoo et al, 2014; Al-Shaer and Zaman, 2016; Anazonwu et al., 2018; Bakar et al., 2019).

The following hypothesis is proposed.

H2c: The level of SE disclosed in mandatory NFR is positively affected by board diversity.

4. METHODOLOGY

In order to pursue the above-mentioned research objectives a number of statistical analysis were performed on a hand-collected dataset including Italian FTRs for the 2018 fiscal year.

4.1. Sample and data

This research is focus on NFRs issued by Italian FTRs in the second year of the implementation of the Legislative Decree 254/2016 (2018 fiscal year).

The FTRs have been identified starting from the lists published by Consob, the supervisory authority for the Italian financial products market, at 31 August 2018 and 31 December 2018 (related to 2017 fiscal year), considering only mandatory NFRs. The companies that have not made available the non-financial information required (both published as separate document or included in the annual report), with regard to 2018 fiscal year by 1 October 2019 have been excluded from the analysis, as well as companies for which any other needed information for the statistical analysis were not found. The final sample consists of 107 companies from different sectors, both financial and non-financial.

Data on 2018 NFRs have been hand-collected, as well as data on the presence of social and environmental certifications. Data on board characteristics and financial performance have been gathered through the AIDA Bureau Van Dijk database and, when not available, have been hand-collected.

4.2. Dependent Variable

The dependent variable is represented by an incremental score measuring the level of SE disclosed in NFR. In order to construct the SE Score a grid with 11 variables was built, relying on frameworks proposed in previous studies and guidelines (Cummings, 2001, AccountAbility et al., 2005; AccountAbility et al., 2015; Friedman and Miles, 2006; Manetti, 2011; Birindelli et al., 2015; Global Reporting Initiative, 2016; Venturelli et al., 2018; Bellucci et al., 2019), which are based, as regards the identification of different SE degrees, on Arnstein's Ladder of Citizen Participation conceptual model (Arnstein, 1969). The variables identified consider some aspects of SE, in order to represent the approach disclosed by the companies analyzed. Particular attention is paid to tools related to different degrees of SE, according to the above-mentioned studies and guidelines, with particular regard to AccountAbility et al. (2005, p. 62), distinguishing the following:

- information, i.e. tools aimed to inform or educate stakeholders;
- consultation, i.e. tools aimed to gain information and feedback from stakeholders to inform decisions made internally;
- involvement, i.e. tools aimed to work directly with stakeholders to ensure that their concerns are fully understood and considered in decision making;
- collaboration, i.e. tools aimed to partner with or convene a network of stakeholders to develop mutually agreed solutions and joint plan of action;
- empowerment, i.e. tools aimed to delegate decision making on particular issues to stakeholders.

The grid was used to perform a manual content analysis of the disclosed information on SE. Among the various definitions proposed by the scholars, according to Berelson (1952), the content analysis is a research technique based on the objective, systematic and quantitative description of the manifest content of communication, allowing the transformation of qualitative data into quantitative data. Such methodology was widely used in previous NFR studies (Wiseman, 1982; Patten, 2002; Al-Tuwaijri et al., 2004; Cho and Patten, 2007; Michelon et al., 2015; Romero et al., 2018), including studies on SE (Manetti, 2011; Venturelli et al., 2018; Bellucci et al., 2019). To ensure the reliability of the data produced by the content analysis, first a pilot test of the coding activity was performed, then a list of rules was defined by the authors. The variables investigated and the relative values are illustrated in Appendix 1.

The SE Score is calculated for each company according to the methodology used by Venturelli et al. (2018). More specifically, the score of each variable, var (i), was related to the highest value attributed [max var (i)] and multiplied by 100. The average of these scores determine the SE score for each company:

$$\text{SE Score} = \frac{\sum_{i=1}^{11}\left(\frac{\text{var(i)}}{\text{max var(i)}} * 100\right)}{11}$$

4.3. Independent Variables

The independent variables are different for the two hypotheses.

For the first hypothesis, a dummy variable linked to the number of certification adopted by the companies is considered. In particular, this research considers 4 different typologies of certifications, the most diffused in praxis, on social and environmental matters:

- ISO14001 (Environmental Management System);
- OHSAS18001 (Occupational Health and Safety Assessment certification);
- SA8000 (Social Accountability);
- EMAS (Eco-Management and Audit Scheme).

This independent variable (Certification) equals to 1 if the firm has more than the half of the certification analyzed, that means that the company has at least three out of four certifications. This aspect is considered as a proxy for active strategic posture (see Prado-Lorenzo et al., 2009) of the company.

As regards the second hypothesis, three main board characteristics are considered, representing proxy of high-quality level of corporate governance: board size, board independence and board gender diversity.
Moreover, according to previous research (Post et al., 2011; Frias-Aceituno et al., 2013; Kassinis et al., 2016), the size of the company measured by the logarithm of the assets and profitability measured by the ROA (Prado-Lorenzo et al., 2009; Fasan and Mio, 2017) can also exert some influence on a firm's responsible behavior. Thus, we have included them as control variables.
Summarizing, the independent variables are the following:

- logarithm of the total assets (LnTotalAssets), size of the company, numerical variable, proxy for size;
- return on assets (ROA), numerical variable, proxy for profitability;
- board size (Board Size), numerical variable represented by the total number of board members;
- board independence (Independent Directors (%)), numerical variable represented by the percentage of independent directors in the board;
- board gender diversity (Women(%)), numerical variable represented by the percentage of women in the board of directors, proxy for board diversity;
- certification, dummy, takes the value of '1' if the firm has 3 out of 4 certifications, and '0' otherwise, proxy for strategic active posture towards sustainability.

4.4. Statistical Analysis

In order to test the first hypothesis, whether social and environmental certifications influence the level of SE, the following OLS regression is run:

$$SE\_score = \beta_0 + \beta_1\, Certification_i + \beta_2\, LnTotalAssets_i + \beta_3\, ROA_i + \varepsilon_i \quad \text{(i)}$$

In order to test the second hypothesis, which board characteristics influence the level of SE, the following OLS regression is run:

$$SE\_score = \beta_0 + \beta_1\, BoardSize_i + \beta_2\, IndependentDirectors\%_i + \beta_3\, Women\% + \beta_4\, LnTotalAssets_i + \beta_5\, ROA_i + \varepsilon_i \quad \text{(ii)}$$

See please Appendix 2 for variables definitions.

5. REGRESSION RESULTS AND DISCUSSION

Table 1 shows descriptive statistics for dependent, independent and control variables.
Looking at the dependent variables, the mean of the SE score in the observed companies is 42.75 out of 100, while the minimum value shown is 13.6 and the maximum is 65.2, with a standard deviation of 10.85.
As regards the certification, as proxy for active strategic posture towards sustainability, the mean of the presence of more than the half of the certification analyzed (3 out of 4) in the companies of the sample is 10.3%.
Focusing on the board characteristics, the number of directors appointed on the board is 9.8 on average, with a maximum of 18 directors. It is aligned with the mean of the full sample of the Italian companies that is 9 (Bianco et al., 2015). The number of independent directors

appointed in the board in the sample is, on average, 28.8% and the number of women on the board is 28.7%.
Regarding the size of the sample firms, the total asset is approximately 11.241,2 billion euros on average (untabulated, consistent with (S. Bar-yosef and Prencipe, 2013). Regarding the profitability, the ROA is 6.40% on average.
Table 2 shows the univariate correlation between variables.
The only two dependent variables that are significantly and positively correlated are board independence and board gender diversity (Pearson correlation 40.4%). Moreover, for these two variables with high correlation (> 40%), we check the variance inflation factor (VIF) that is lower than 10. Both the independent and the control variables have a low correlation and their VIF is also very low. Thus, we conclude that there are no problems of multicollinearity.
Table 3 and 4 present the results of the OLS regression. Table 3 shows the multivariate analysis between the presence of social and environmental certifications, as proxy for active strategic posture and SE Score, while Table 4 shows the multivariate analysis between board characteristics and SE Score.
In detail, Table 3 proves a significant positive relationship between active strategic posture, operationalized as the presence of at least 3 social and environmental certifications, and the SE Score. These results are consistent with previous studies that highlighted the positive influence of environmental and social certifications on the relationships with stakeholders and NFR disclosure (Gavronski et al., 2008; Prado-Lorenzo et al., 2009). However, considering that the positive effect is demonstrated only beyond the threshold of three certifications, we can argue that these organizations probably have a proactive approach, going beyond a mere compliance with these standards, as noted by Oskarsson and Von Malmborg (2005).
Table 4 answers to our second hypothesis (sub-hypothesis H2a, H2b and H2c), in which we examine whether some board characteristics (board independence, board size, and board gender diversity) are positively related to the level of SE disclosed by the companies analyzed.
With regard to H2a, we find a significant and positive association between board independence and SE score (β_2= 9.062 and p-value = 0.059). Our results underline that more independent directors increase the sensibility of the company to engage with stakeholders. These findings are consistent with previous research that highlighted that the presence of more independent directors foster the adoption of socially responsible behavior and the realization of CSR activities (Zahra and Stanton, 1998; Ibrahim et al., 2003, Prado-Lorenzo et al., 2009; Sahin et al., 2011; Jizi, 2017), paying more attention to demands and interests of minority shareholders (Prado-Lorenzo et al., 2009) and other stakeholders, influencing positively NFR (Anazonwu et al., 2018; Alotaibi et al., 2019) and therefore the disclosure of the SE approach.
As regards the influence of board size, we find a significant negative association with the SE score (β_1= -0.471 and p-value = 0.104). Among the companies analyzed, those with smaller boards achieve a higher SE Score. These companies probably avoid or attenuate problems related to larger boards, such as inefficiency, weaker monitoring, coordination problems and collusion (Fama and Jensen, 1983; Lipton and Lorsch, 1992; Jensen, 1993; Beasley, 1996) and may carry out and disclose a higher level of SE.
We find instead no significant relationship for H2c. For the companies analyzed, a higher presence of women in the board of directors demonstrates no significant effect on the level of SE.
Overall, we can argue that strategic posture and board characteristics have an impact on the firm’s choice to implement and disclose practices of SE in NFR.

6. CONCLUSIONS

This paper analyzes SE in mandatory NFR issued by Italian FTRs. In particular, the study, through a SE Score, assesses the level of SE disclosed in NFRs and tests the effect of two potential determinants of the SE approach adopted by companies: active strategic posture (represented by the presence of social and environmental certifications) and board characteristics (represented by board independence, board size and board gender diversity).

The results show that active strategic posture and two of the three board characteristics examined (board independence and board size) affect the SE Score.

In particular, active strategic posture has a positive relationship with the level of SE disclosed, consistently with previous studies which demonstrated that social and environmental certifications can improve the relationships with stakeholders and NFR disclosure (Gavronski et al., 2008; Prado-Lorenzo et al., 2009). However, the way in which the variable has been operationalized, i.e. the presence of at least 3 out of the 4 environmental and social certifications considered, proves that the approach of the company is determinant in generating positive effects in terms of SE (Oskarsson and Von Malmborg, 2005). Probably, for organizations with at least three certifications the goal is not the mere achievement of the certification itself, and proactively consider the implementation of the required processes, tool and systems as drivers enabling more socially responsible behaviors, even in terms of SE.

Table 4 answers to our second hypothesis (sub-hypotheses H2a, H2b and H2c), in which we examine whether some board characteristics (board independence, board size, and board gender diversity) are related to the level of SE disclosed by the companies analyzed.

With regard to board characteristics, our study shows a significant and positive association between board independence and SE score, confirming the findings of other scholars which noted that independent directors orient the company towards the principles of CSR (Zahra and Stanton, 1998; Ibrahim et al., 2003, Prado-Lorenzo et al., 2009; Sahin et al., 2011; Jizi, 2017), with effects even in terms of better quality of NFR (Anazonwu et al., 2018; Alotaibi et al., 2019) and therefore in the disclosure of issues related to SE. The board size, in our study (as in Fasan and Mio, 2017, with regard to the materiality analysis), is negatively correlated with the SE score. For the FTRs analyzed probably, the advantages associated with small boards in literature (Fama and Jensen, 1983; Lipton and Lorsch, 1992; Jensen, 1993; Beasley, 1996), i.e. efficiency, better monitoring and coordination, generate benefits even in terms of SE activities disclosed in NFRs.

Overall, we can argue that active strategic posture and board characteristics have an impact on the firm's choice to implement and disclose practices of SE in NFR.

The results provided by this paper may be extended by future research. Further studies may analyze the issue of SE in mandatory NFR by considering different geographical contexts, comparing the approach of FTRs in different European countries. Moreover, it could be useful to examine the behavior of the companies with regard to this issue in a diachronic way, through a longitudinal analysis. Finally, other determinants influencing the level of SE could be investigated.

Appendix 1 – SE Score - Variables investigated and scores

Variable label	*Score*
SE_section	0 = NFR has no information on SE 1 = information on SE disclosed in the methodological note of NFR 2 = presence of a SE section in NFR
Stakeholders_mapping	0 = the company does not specify the groups of stakeholders engaged 1 = the company specifies the groups of stakeholders engaged 2 = the company specifies the groups of stakeholders engaged, ranking them on a scale of priorities
Channels	0 = The company does not disclose the use of any channel of dialogue 1 = The company discloses the use of channels of dialogue in a range from 1 to 5 2 = The company discloses the use of channels of dialogue in a range from 6 to 10 3 = The company discloses the use of more than 10 channels of dialogue
Degree_SE_Information	0 = the company does not disclose the use of any information tool 1 = the company discloses the use of information tools not for all stakeholder groups 2 = the company discloses the use of information tools for all stakeholder groups
Degree_SE_Consultation	0 = the company does not disclose the use of any consultation tool 1 = the company discloses the use of consultations tools not for all stakeholder groups 2 = the company discloses the use of consultation tools for all stakeholder groups
Degree_SE_Involvement	0 = the company does not disclose the use of any involvement tool 1 = the company discloses the use of involvement tools not for all stakeholder groups 2 = the company discloses the use of involvement tools for all stakeholder groups
Degree_SE_Collaboration	0 = the company does not disclose the use of any collaboration tool 1 = the company discloses the use of collaboration tools not for all stakeholder groups 2 = the company discloses the use of collaboration tools for all stakeholder groups
Degree_ SE_ Empowerment	0 = the company does not disclose the use of any empowerment tool 1 = the company discloses the use of empowerment tools not for all stakeholder groups 2 = the company discloses the use of empowerment tools for all stakeholder groups
NFR_process	0 = the company does not disclose the engagement of stakeholders in NFR process 1 = the company discloses the engagement of not all stakeholder groups in NFR process 2 = the company discloses the engagement of all stakeholder groups in NFR process
Stakeholder_issues	0 = the company does not disclose key topics and concerns raised through SE 1 = the company discloses key topics and concerns raised through SE not for all stakeholder groups 2 = the company discloses key topics and concerns raised through SE for all stakeholder groups
Answers_to_issues	0 = the company does not disclose answers to key topics and concerns raised through SE 1 = the company discloses answers to key topics and concerns raised through SE not for all stakeholder groups 2 = the company discloses answers to key topics and concerns raised through SE for all stakeholder groups

Appendix 2 - Variables definitions

Dependent Variables	
SE_score	Equals to the average of each single SE variables calculated as in Venturelli et al. (2018).
Independent Variables	
BoardSize	The number of directors on the board.
IndependentDirectors%	The number of independent directors on the total number of directors.
Women%	The number of female directors on the total number of directors.
Certification	Equals to 1 if the firm has at least three social and environmental certification, 0 otherwise.
Control variables	
LnTotalAssets	The natural logarithm of total assets at the end of the fiscal year.
ROA	Ratio of earnings before interest and taxes to total assets.

Table 1 - Descriptive statistics

Dependent variables	N	Min.	Max.	Mean	SD
SE score	107	13.6	65.2	42.750	10.8464
Independent variables	**N**	**Min.**	**Max.**	**Mean**	**SD**
BoardSize	107	2.0	18:0	9.766	3.1371
IndependentDirectors%	107	0	0.9	0.288	0.2423
Women%	107	0	0.6	0.287	0.1286
Certification	107	0	1	0.103	0.3051
Control variables	**N**	**Min.**	**Max.**	**Mean**	**SD**
LnTotalAssets	107	14.2	26.8	20.856	1.8871
ROA	107	-0.3	0.6	0.064	0.1002

Table 2 - Pearson correlation matrix

		1	2	3	4	5	6	7
1	SE score	1						
2	BoardSize	-0.077	1					
3	IndependentDirectors%	**0.199**	-0.038	1				
4	Women%	**0.123**	0.051	**0.404**	1			
5	Certification	0.137	-	-	-	1		
6	Size	0.066	**0.287**	**-0.262**	**-0.268**	0.044	1	
7	ROA	0.035	0.116	-0.014	-0.051	-0.028	-0.031	1

Correlation is measured by Pearson coefficients. Bold are coefficients significant at 10% level.

Table 3 - Multivariate Analysis of SE Score and Certification

HP 1: SE Score and Certification		
Linear regression	Coefficient	p-value
BoardSize	-	-
IndependentDirectors%	-	-
Women%	-	-
Certification	4.800	0.109
Size	0.355	0.527
ROA	4.373	0.679
Intercept	34.564	0.004
R^2	0.024	
Number of observation	107	

Table 4 - Multivariate Analysis of SE Score and board characteristics

HP 2: SE Score and board characteristics		
Linear regression	Coefficient	p-value
BoardSize	-0.471	0.104
IndependentDirectors%	9.062	0.059
Women%	8.634	0.343
Certification	-	-
Size	1.081	0.080
ROA	6.975	0.507
Intercept	19.273	0.146
R^2	0.078	
Number of observation	107	

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CHAPTER 5

CONCLUSIONS

1. CONCLUSIONS

This thesis has analyzed some aspects related to the evolution of the corporate reporting system, in the light of shortcomings of the traditional systems (Jensen and Berg, 2012; Brown and Dillard, 2014; Cheng *et al.*, 2014; Mio, 2016). In particular, issues related to IR and mandatory NFR, recently introduced in the European context with Directive 2014/95/EU, have been investigated.

The relevance of the aspects examined is underlined both in the literature and by recent empirical research.

The findings of the three papers show that there are still a number of steps to be taken and issues to be resolved in the evolutionary path of corporate reporting, also in order to increase the credibility and usefulness of the information for the recipients.

In particular, with regard to the IR paradigm, the two issues investigated confirm their criticality and the consequent need for further investigation both from the point of view of literature and the evolution of business practices.

The research focused on FLI in IR has confirmed in some common respects the results of previous studies, showing that companies are still rather reluctant to communicate future-oriented information (Stacchezzini et al., 2016; Kılıç and Kuzey, 2018a and 2018b; Menicucci, 2018). In a reporting paradigm in which the forward-looking perspective should be a pivotal element, the concerns already expressed with regard to the implementation of the IIRC Framework are proved (Perego et al., 2016; McNally et al., 2017; Conradie and De Jongh, 2018), with repercussions on the benefits that IR should generate for both companies and stakeholders (Adams and Simnett, 2011; Burke and Clark, 2016; Barth *et al.*, 2017; De Villiers and Sharma, 2017; Bernardi and Stark, 2018). Considering the characteristics of the FLI, the study has shown that it is mainly expressed in qualitative terms (as in Kılıç and Kuzey, 2018b; Menicucci, 2018), with an almost totally positive tone (as in Menicucci, 2018), and in most cases lacking in the indication of the time period to which it refers. These results raise doubts about the actual value and usefulness of this information for the recipients of the report (Slack and Tsalavoutas, 2018) and this is particularly critical in light of the growing demand for this type of information from stakeholders (PwC, 2016; ACCA, 2018; WBCSD and PwC, 2018).

Although there are still open and controversial issues regarding the effective implementation of IR and the heterogeneity of business practices, an increasing spread of IR has been demonstrated (KPMG, 2017; Maroun, 2018b), making it necessary to adopt mechanisms in order to improve its reliability, among which external assurance (Cheng *et al.*, 2014; De Villiers *et al.*, 2014; Adams, 2015; Cohen and Simnett, 2015; Simnett and Huggins, 2015), considered an issue of growing concern (Adams, 2015; Ruiz-Lozano and Tirado-Valencia, 2016). The findings of this second research paper, confirm the potential value and usefulness of IR assurance (as in Maroun and Atkins, 2015), but also the difficulties related to its implementation, with critical issues to be addressed, which probably strengthen the need for the development of new assurance models and approaches (PwC, 2014; Maroun and Atkins, 2015;

Maroun, 2017, 2018a and 2018b). This seems of great interest, because it poses challenges for the future of a broader nature, of rethinking the way of providing trust to stakeholders.
Finally, the third paper has explored the issue of SE in the mandatory NFR field. The topic of SE has been widely investigated in literature, from different viewpoints. With regard to corporate disclosure, SE has been examined mainly in voluntary NFR, given that it is considered a tool to positively manage or engage relations with stakeholders. In particular, the research has assessed the level of SE communicated by FTRs in Italy, following the transposition of the European Directive 2014/95/EU, testing determinants related to strategic aspects (operationalized in terms of presence of environmental and social certifications) and board characteristics (board independence, board size and board gender diversity). The findings show that board independence (Ibrahim et al., 2003; Anazonwu et al., 2018; Alotaibi et al., 2019) and the number of social and environmental certifications (Prado-Lorenzo et al., 2009) have a positive effect on the level of SE disclosed by the FTRs, while board size impacts negatively (Fasan and Mio, 2017). These results highlight the relevance of strategic and governance aspects even in a mandatory context, for companies which before the legislative obligation did not disclose non-financial information to stakeholders.
Overall, the results of this thesis show that there are still many challenges to be addressed, on various viewpoints, on the one hand to achieve more mature IR practices, on the other hand in order to try to consider the recent mandatory NFR as an opportunity and not just a mere further obligation.
In this regard, the answers probably need to be sought in new directions and so the perspectives to be framed into new approaches and models, which require a joint effort and synergistic action by all actors.

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