

SIDREA International Workshop,
11th April 2017, Rome



*Integrated Reporting and
Non-financial Information Assurance
SMEs vs Large Firms*

PROCEEDINGS

SIDREA International Workshop

Con il patrocinio



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Integrated Reporting and Non-financial Information Assurance

SMEs vs Large Firms

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Foreword

This workshop aims to debate the field of assurance on integrated reporting and corporate non-financial information, including sustainability reporting and other information disclosed to the market through new channels like social media. The innovative view of disclosure practices as a storytelling paradigm seems to have positive impacts for companies that adopt integrated reporting but, at the same time, important aspects of traditional reporting practices need to be addressed and analyzed.

As stated in stakeholder theory, independent assurance plays an important role in enhancing the reliability and trust of sustainability reports for external stakeholders. From this perspective, organizations are not only providing social, economic, and environmental accountability to their capital providers but also to a broader range of stakeholders. Yet, recent studies argue that external stakeholders do not consider assurance practice to be an “accountability enabling tool”, but rather as an internal control tool that adds little value from a broader societal perspective. This signals a need for research on corporate non-financial information assurance. And, the aim of this workshop is to debate this matter from a critical perspective.

The Dipartimento di Studi Aziendali, University of Roma TRE and the Dipartimento di Management, Università Politecnica delle Marche, with support from the Società Italiana dei Docenti di Ragioneria e di Dipartimento di Studi Aziendali Economia Aziendale (SIDREA), are pleased to announce their joint SIDREA International Workshop (SIW) on the theme Integrated Reporting and Non-financial Information Assurance.

The main objective of the SIW is to advise, provide guidance, and debate the research projects being conducted by accounting and business economics researchers working at all levels of academia. Participants of the SIW will have the opportunity to interact with foreign and Italian faculty members. Hosted by the Dipartimento di Studi Aziendali at the University of Roma TRE, the SIW will start on the morning of the 11th of April, with a lecture by John Dumay, (University of Macquarie, Australia) on the topic “Beyond Accounting: Old Wine in a New Bottle” and will continue with a presentation of papers in Round Table I. In the afternoon, Tatiana Garanina (Graduate School of Management, Saint Petersburg State University) will hold a lecture on the “Relationship between the Intellectual Capital of Board of Directors and Financial Performance Indicators” followed by Round Table II. It is expected that the SIW will provide a platform for the discussion of research proposals, working papers, methods, and methodological issues.

Prof. Serena Chiucchi, Politecnica delle Marche
Prof. Paola Demartini, Roma Tre University, Rome
Prof. John Dumay, Macquarie University, Sydney
Prof. Tatiana Garanina, Saint Petersburg State University, St Petersburg

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Integrated reporting: the links between its adoption and board characteristics

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Structured Abstract

Purpose – Nowadays, companies and markets are increasingly international, and a growing number of stakeholders are affected by the social and economic aspects of business. This has resulted in significant changes in how corporate information is both perceived and published.

Over the last few years, this emerging scenario has led the Boards of Directors of many companies to voluntarily adopt the accounting and company performance communication tool, known as integrated reporting (IR). IR is a single disclosure document that satisfies the increasing need for communication by stakeholders.

This study's objective is to contribute to the existing literature on the relationship between financial reporting and corporate governance by investigating whether or not certain characteristics of the board – including number of members, gender, nationality, and average age – influence the decision to adopt IR.

Design/methodology/approach – Several relevant hypotheses are tested on a total of 117 Italian companies, comprising 16 companies that adopted IR on an ongoing basis from 2012 to 2014 (excluding financial and insurance corporations) and a random selection of non-financial companies that did not adopt IR in the same period. Logistic regression (Logit) with a binary dependent variable (IR adoption) is used to test features of the board.

Originality/value – Unlike previous studies, which have focused on analyzing the effects of adopting IR, our research takes an upstream position to check whether certain board features influence the decision to adopt IR. To the best of our knowledge, this is the first study of its kind.

Findings – The results show a positive relationship between the decision to use IR, the size of the board, and the presence of female board members. The presence of foreign and older board members has a negative effect on IR adoption.

Practical implications – We believe that a deeper understanding of the factors influencing the decision to adopt IR is essential for academics, companies and, especially, policymakers.

Keywords – Integrated reporting, board of directors, diversity, probability of adopting IR, logit.

Paper type – Academic research paper.

1. Introduction

The requirements to respond more effectively to the stakeholders' information needs in order to identify new dynamics for value creation as well as the enhanced awareness – following recent financial scandals – to strengthen the trusting relationship with key stakeholders and the greater sensitivity to Corporate Social Responsibility (CSR) issues, have led to increasing attention on corporate disclosure topics. Disclosure is seen as the best way to communicate with investors (Ho & Wong, 2001) and transparency via disclosure and board monitoring are possible solutions to easing agency and asymmetric communication problems. (Quagli, 2004; Healy & Palepu, 2001).

Stakeholders' increasing need for more information and greater awareness that the company's long term success will undergo suitable performance monitoring has led to companies adopting various accounting methods beyond the traditional balance sheets: reports on management, governance, intellectual capital and sustainability. Providing stakeholders with large quantities of documents does not necessarily mean giving them a complete insight into the company's affairs. In fact, we have seen more than once that large amounts of information can confuse recipients especially when it arrives at the same time as other information, but is not related in any way. So, a single document giving complete, clear financial and non financial information was deemed necessary in order to inform stakeholders on company performance and results: IR framework.

IR aims to replace the earlier dominant practice of separating financial and sustainability information through publishing a single integrated report

(IIRC, 2013; Jensen & Berg, 2012; Lozano & Huisingh, 2011; Incollingo & Bianchi, 2016).

The *International Integrated Reporting Council (IIRC)* believes that integrating financial and sustainability information will better satisfy investors' need for information by providing a more complete picture of a company and its performance. The IIRC describes an integrated report as "bringing together material information about an organisation's strategy, governance, performance and prospects in a way that reflects the commercial, social and environmental context within which it operates".

This study focuses on the relationship between financial reporting and corporate governance and contributes to earlier studies of factors that could affect a company's choice of integrated reporting or disclosure document. It analyses the relationship between board diversity and the decision to adopt IR. Board diversity represents a significant corporate governance mechanism and, in particular, Ingley and Van der Walt (2003) describe diversity in corporate governance as board composition and combination of individual members' qualities, characteristics and expertise concerning board decision-making and other processes.

In this study, "board composition" includes board size, gender, nationality and member's age, and our research investigates the effects of these characteristics when considering adopting IR.

Unlike previous studies focused on analysing the effects of adopting IR, our research takes an upstream position checking whether certain board features influence the decision to adopt IR and - to the best of our knowledge - it is the first study of its kind. We believe that a deeper understanding of the factors influencing this decision is essential for academics, companies and - especially - policy-makers.

This paper starts with the theoretical background, then goes on to explain the data, methodology and results, and finishes up with a discussion and conclusions.

2. Main Theoretical Framework

IR can be considered an evolution of the sustainability report. It could represent an opportunity for increased transparency, governance and decision making for every type of profit or no-profit organisation (Adams et al., 2011; Eccles & Krzus, 2010). Sourcing and later publishing more information has decidedly positive effects on decision-making processes within a company, but also with investors and all stakeholders in general. It should provide a briefer and more coherent, balanced picture of the company's performance (Eccles & Krzus, 2010).

The relationship between corporate governance and the disclosure practice of companies have been widely analysed in literature with particular focus on the corporate governance structure and the BoD's characteristics (Allegrini & Greco, 2013; Samaha et al. 2015; Adams, 2002; Eng & Mak 2003; Ricart et al., 2005; Healy & Palepu, 2001). The BoD, as the firm's governing body, is responsible for safeguarding the interests of the different stakeholders, for example through the dissemination of information, in order to reduce information-related problems and prevent opportunistic behaviour (Lev, 1992; Richardson & Welker, 2001).

Based on the theoretical framework, we assume that there is a strong relationship between board features and the adoption of IR. In fact, we assume the existence of a complementary relationship between board characteristics (measured by its size, women, foreigners and average age) and the incentive for a firm to provide voluntary disclosure through IR.

2.1 Size

Monitoring and controlling management actions are the most important functions of the board of directors (Fama & Jensen, 1983). According to Gandia (2008) increasing the number of board members improves the capability of the board in monitoring and controlling management actions. This enhances the transparency and the disclosure of more information by management. Adams, Almeida and Ferreira (2005) argue that larger boards have varied experiences and dispersed opinions. This, in turn, increases their monitoring capacities, and enhances the firm's disclosure policies. Empirical evidence reported by Cheng and Courtenay (2006) suggests that larger boards tend to be associated to greater levels of information disclosure.

Empirical evidence is contradictory regarding the relationship between the size of the board and information disclosure. Prado-Lorenzo and García-Sánchez (2010) observed a negative relationship. Pearce and Zahra (1992), Dalton et al. (1999), Larmou and Vafeas (2010) and Izzo and Fiori (2016) observed a positive relationship.

A greater number of directors has a positive effect on the breadth and integration of corporate information provided, because an IR requires the input of directors with different types of expertise. The occurrence of such a variety of viewpoints is likely to be more common in larger boards.

Board size can add to a diversity of perspectives, offering greater choices of solutions and more decision criteria, in order to achieve the board's goals and objectives on behalf of investors (Schweiger, Sandberg, & Ragan, 1986; Eisenhardt & Bourgeois, 1988).

H1: Is there a positive relationship between BoD size and IR?

2.2 Women

Several authors have argued that the presence of women at senior management level positively influences company behaviour (Betz, O'Connell, & Shepard, 2013). These new behaviour patterns are often associated with greater information transparency, especially regarding sustainability issues (Barako & Brown, 2008; Prado-Lorenzo & García-Sánchez, 2010).

Literature that focuses on corporate governance aspects suggests that women on boards and committees are more diligent when controlling, transparency and disclosure thus providing a better quality of earnings (Adams & Ferreira, 2009; Srinidhi, Gul, & Tsui, 2011).

Gibbins, Richardson and Waterhouse (1990) argue that board gender diversity may explain firms' disclosure practices in their annual reports.

H2: Is there a positive relationship between the presence of women on BoDs and IR?

2.3 Foreigners

Association between the proportion of foreign nationals and disclosures in earlier literature raises the issue of cause and effect, which was also considered by Fields and Keys (2003). They found that similarity of experiences, ideas and innovations that individuals bring to a company impacts company performance.

H3: Is there a positive relationship between the presence of foreigners on BoDs and IR?

2.4 Age

Dahya, Lonie and Power (1996) postulate that board experience will assist in making information more transparent as comparisons can be made based on knowledge of other organisations. Experienced directors are also more likely to have greater incentives to be effective monitors of management to safe-guard their reputation or improve their attractiveness on the labour market (Kaplan & Reishus, 1990). Directors with diverse bases of experience may improve board monitoring and decision making (Useem, 1993; Westphal & Milton, 2000).

H4: Is there a positive relationship between the increase in average age on BoDs and IR?

2.5 Control variables

This paper uses established variables in governance studies that can influence disclosure. They include the industry sector and whether a company is listed on the stock market.

3. Research Methodology and Sample

To test these hypotheses, we have selected a total of 117 Italian companies, identifying those companies (excluding financial and insurance corporations) that adopted IR (n = 16) on an ongoing basis from 2012 to 2014 and a random sample of non-financial companies that did not adopt IR in the same period.

Because the dependent variable is binary (equal to 1 if the company has developed IR, 0 if the company is not presenting it), this study uses logistic regression (Logit) (Bajari, Fox & Ryan, 2009; Vani Kant, 2001) to test its hypotheses. Listed below are the dependent variables and the four independent variables (board size, women, foreigners and average age) and several control variables (listed and industry sectors) (Gujarati & Porter, 2003).

Dependent variable:

IR: 1 = the company has developed IR; 0 = the company is not presenting it

Independent variables:

SIZE: Number of directors on the board

WOMEN: Percentage of women on the board

FOREIGNERS: Percentage of foreigners on the board

AVERAGE AGE: Average age of board's members

Control variables:

LISTED: 1 = listed company; 0 = no listed company

INDUSTRY SECTORS: 1 = Manufacturing; 2 = Wholesale and retail trade; 3 = Transport; 4 = Energy; 5 = Sport, Arts, Leisure and recreation; 6 = Wastewater services; 7 = Construction; 8 = Hospitality; 9 = Real estate; 10 = ICT

The logit regression equation was as follows:

$$IR = \beta_0 + \beta_1 \text{ Board Size} + \beta_2 \% \text{ Women} + \beta_3 \% \text{ Foreigners} + \beta_4 \text{ Average Age} + \beta_5 \text{ Listed} + \beta_6 \text{ Activity Sector} + \mu$$

We then transformed the IR dependent variable in terms of probability of the event:

$$\text{Probability} = \text{Log} (P/(1-P)) = \beta_0 + \beta_1 \text{ Board Size} + \beta_2 \% \text{ Women} + \beta_3 \% \text{ Foreigners} + \beta_4 \text{ Average Age} + \beta_5 \text{ Listed} + \beta_6 \text{ Activity Sector} + \mu$$

74.35% of the sample is made up of unlisted companies and around 12% of them adopt IR as their disclosure document. Most are in manufacturing (39%), wholesale and retail trade (17%) or transport (11%).

4. Results and Discussion

4.1 Descriptive statistics

According to Table 1, the average size of sample is approximately 7,36 directors. Overall, female directors make up 20,90% of the total directors while foreign members account for about 15,67%. The average age of directors is approximately 55 years old.

Tab. 1 - Summary statistics for the whole sample.

<i>RESUMING TABLE (average values)</i>	<i>COMPANIES PRESENTING IR</i>	<i>COMPANIES NOT PRESENTING IR</i>	<i>WHOLE SAMPLE</i>
<i>Size</i>	7,88	7,27	7,36
<i>% Women</i>	22,22	20,68	20,90
<i>% Foreigners</i>	12,47	16,18	15,67
<i>Age</i>	54,47	55,15	55,06

Source: own elaboration.

4.2 Board Composition and Integrated Reporting

According to Table 2, the model is statistically significant (Chi2=5,707). This means that the model explains almost 10% of the variation in the voluntary disclosure amongst sampled firms. This low significant is due to the small sample size. Furthermore, the high probability of the F statistic (,000) means that the independent variables are jointly significant in explaining voluntary disclosure in the annual reports of the sampled firms. The VIF test suggests that the model does not suffer from any multicollinearity problem where the VIF of all variables ranges between 1,11 and 1,58.

The most significant variables are: board size and dummy listed.

Tab. 2 - Results for the model Logistic regression (Logit).

	<i>B</i>	<i>S.E.</i>	<i>Wald</i>	<i>Gl</i>	<i>Sign.</i>	<i>Exp(B)</i>
<i>Size</i>	,151	,087	3,051	1	,081	1,163
<i>% Women</i>	,006	,016	,167	1	,683	1,006
<i>% Foreigners</i>	-,008	,013	,372	1	,542	,992
<i>Average Age</i>	-,036	,059	,385	1	,535	,964

<i>Activity Sector</i>	-,025	,098	,067	1	,796	,975
<i>Constant</i>	-,569	3,280	,030	1	,862	,566

Source: own elaboration.

Table 2 shows the results (mean and standard deviation) for the dependent binary variable and the other independent variables:

- A positive relationship between the SIZE of the board of directors and the adopting of IR ($\beta_1=,151$, $\rho=,081$). This means that as more directors are added to the board, its monitoring capacity increases and thus more information is disclosed. However, the relationship is found to be significant, this means that the model explains almost 90% of the sample. Therefore, *Hypothesis 1 is supported*.
- The coefficient of % WOMEN is positive as expected ($\beta_2=,006$). However, statistically, it is insignificant ($\rho=,683$), this means that the model explains almost 10% of the sample. Thus, *Hypothesis 2 is supported*.
- FOREIGN Directors' % is found to be negatively related to IR ($\beta_3=-,008$). This means that the more foreigner directors on the board, the less IR is disclosed by the firm. However, this relationship is statistically insignificant ($\rho=,542$), this means that the model explains almost 10% of the sample. Therefore, *Hypothesis 3 is not supported*.
- The relationship between directors' AGE and IR is found to be negative and insignificant ($\beta_4=-,036$, $\rho=,535$), this means that the model explains almost 10% of the sample and that firms with corporate boards made up of younger directors disclose more information and they are more likely to adopt IR. Thus, *Hypothesis 4 is not supported*.

Data analysis went ahead transforming the Logit results to probability terms. That is, the probability to adopt an IR compared to the average value was calculated for each independent variable and then the variations were determined in terms of probability following an increase or decrease in the average value of these variables.

Tab. 3 - Probability of adopting IR compared to board size.

<i>SIZE</i>	<i>7 unit</i>	<i>8 unit</i>	<i>6 unit</i>
<i>Probability IR</i>	62%	65%	58%
<i>Difference</i>	3%		
		7%	

Source: own elaboration.

Tab. 4 - Probability of adopting IR compared to % women.

<i>% WOMEN</i>	20%	30%	10%
<i>Probability IR</i>	39%	40,4%	37,5%
<i>Difference</i>	1,4%		
		2,9%	

Source: own elaboration.

Tab. 5 - Probability of adopting IR compared to % foreigners.

<i>% FOREIGNERS</i>	15%	25%	5%
<i>Probability IR</i>	33,42%	31,67%	35,22%
<i>Difference</i>	1,75%		
		3,55%	

Source: own elaboration.

Tab. 6 - Probability of adopting IR compared to average age.

<i>AVERAGE AGE</i>	55	56	54
<i>Probability IR</i>	7,2%	7%	7,5%
<i>Difference</i>	0,2%		
		0,5%	

Source: own elaboration.

Those boards with seven members have a likelihood of 62% to adopt IR as disclosure tool and with one extra board member the likelihood increases by 3%. Companies where women represent 20% of board members record a 39% probability of adopting IR and this increases by 1,4% following a 10% rise of female boardmembers. With greater numbers of foreign and older boardmembers, though, the probability decreases. In fact, where on average 15% of the boardmembers are foreign, the probability is 33,42%. This probability decreases by 1,75 if a foreign presence increases by 10%. An average age of 55 corresponds to a

probability of 7,2% which goes down to 7% when the average age is one year older, ie 56 years old.

5. Conclusions

The results highlighted a positive relationship between adopting IR and the size of the board of directors and female boardmembers. Companies with larger boards are more inclined to adopt this new document because they can count on greater resources for sourcing and publishing this data. (Lev, 2004). Promoting diversity on the board is likely to impact positively on the voluntary provision of holistic information and thus improve stakeholder engagement.

Our study shows that when foreigners join the board, the inclination to adopt IR is reduced. This negative result can be explained by the fact that the number of foreign boardmembers in Italy (at least in the sample analysed) is still insignificant.

The proportion of older board directors is closely associated with a lower probability of adopting IR.

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Non-financial information assurance. Do Italian listed companies assure sustainability reports and/or web communications?

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Structured Abstract

Purpose – This research aims to understand the scope of assurance practices surrounding the environmental, social, and governance (ESG) information disclosed by Italian companies. The key questions addressed are: Do Italian listed companies resort to third party assurance services to demonstrate the credibility of their sustainability/CSR/social reports? Does the assurance process encompass the sustainability information disclosed on institutional websites?

Design/methodology/approach – This is explorative research, which aims to describe current company behavior. Data refers to a sample of listed Italian companies participating in an online survey.

Originality/value – There are several studies on the assurance of sustainability reports; however, the novelty of this research lies in its attempt to launch a discussion about the extension of third-party assurance to web reporting as the Internet is becoming a relevant new channel of communication.

Findings – The findings highlight a diffused company orientation toward third party assurance of sustainability/CSR/social reports. However, commissioning external assurance to enhance the credibility of web information does not seem to be a relevant issue so far.

Practical implications – The study suggests the opportunity for standard setters to expand the assurance process to the web domain in the event that digital channels find richer use in the future.

Keywords – Assurance, verification, web reporting, sustainability, Internet, Italy.

Paper type – Academic research paper

This study is based on a common research project. However, Aureli wrote sections 1 and 3, Bosetti wrote sections 2, 4 and 7; Medei wrote sections 5 and 6.

1. Introduction

Explained by various theories such as the institutional, stakeholder, signalling, agency and legitimacy theory (Cormier, Magnan, & Van Velthoven, 2005; Kuzey & Uyar, 2017), the voluntary disclosure of non-financial information is increasingly becoming a worldwide practice, usually taking the form of social, CSR, citizenship or sustainability reports (GRI, 2013; KPMG, 2013)¹. With the diffusion of ICT technologies, written reports are being replaced by digital reports (Cormier & Magnan, 2004) and integrated with more detailed information on environmental, social and governance (ESG) aspects published on company websites and other Internet channels (Bhasin, 2012; SustainAbility&UNEP, 1999; Wheeler & Elkington, 2001).

This advent of the Internet as media for ESG communication has brought attention to a well-known issue: how companies convince stakeholders about the credibility of the sustainability information disclosed through old and new communication platforms?

One possible answer is obtaining external verification. In 2012, over 46% of the reports listed on GRI's Sustainability Disclosure Database indicated some form of external assurance (GRI, 2013). Moreover, sustainability assurance is gaining momentum (CorporateRegister, 2008; Simnett, Nugent, & Huggins, 2009) in response to recent regulatory changes (the European Directive 2014/95EU) that made the disclosure of non-financial information compulsory for listed companies in several countries. In Italy, starting in 2017, large public interest entities (i.e., most listed companies) will have to disclose a specific set of non-financial information and submit it to an independent audit.

However, neither laws nor academia have addressed the assurance of web sustainability communication so far. Existing guidelines on how to structure web reporting (CorporateRegister, 2001) do not deal with assurance. Thus, the present study aims to fill this gap through an empirical investigation of Italian companies disclosing ESG information.

The focus is on larger, publicly traded companies, as they are more exposed to stakeholders' demands for sustainability information. Thus, the

¹ The term 'sustainability report' is used to indicate all types of corporate documents disclosing information on social, environmental and governance aspects like CSR, sustainability, citizenship, integrated and other reports. The term 'sustainability assurance' refers to the third party assurance process performed on all types of corporate documents cited.

authors expect them to prepare sustainability reports and disclose CSR information on the web. Moreover, it is more probable that such large companies resort to external advisors for sustainability assurance (O'Dwyer, 2011).

Empirical results indicate that, on their sustainability report, the analysed companies are prone to commission assurance from external auditors, but don't think it's important to extend the assurance process to the online information published on websites.

2. Evolution of the Italian legislative framework

Non-financial reporting has long been a voluntary practice with no mandatory assurance. Since 2017, Directive 95/2014/EU has required approximately 6,000 EU large public-interest entities (including listed companies) and groups to disclose ESG information.

The Italian Parliament transposed this Directive by issuing Legislative Decree 254/2016. This law requires companies to insert an individual (or consolidated) non-financial statement into their management report, or provide a separate report, to divulge all the necessary information to understand their development, position, performance and impact of activity. For further details, companies can refer to other documents available on their website.

The non-financial statement covers environmental and social matters (such as renewable energy, GHG emissions, workplace health and safety, diversity, trade union rights, human rights and anti-corruption) and should be prepared according to recognised non-financial reporting standards.

Italian legislation has also introduced two levels of independent control on the non-financial statement; the first one concerns its existence and dissemination and the second one regards the reporting procedures and information disclosed. Both controls are performed by the statutory auditor or auditing firm responsible for verifying the company's financial statements; alternatively, the second level of control can be assigned to a different statutory auditor or auditing firm.

A stand-alone assurance statement should prove the compliance with the Legislative Decree and the reporting standards the company adopts.

3. Literature review

3.1 *The recourse to sustainability assurance*

Assurance of sustainability reports and other non-financial information is an external audit¹, done by a third party organisation, which evaluates the credibility, accuracy and relevance of the non-financial information with reference to both the data reported and the management process behind reporting and aims to demonstrate the reliability of the report/information disclosed (DQS, 2016; Fazzini & Dal Maso, 2016; Park & Brorson, 2005; Simnett et al., 2009).

Most third party assurance benefits are actually related to the company's capability to be trusted by and have a discourse with stakeholders. Assurance:

- Makes a persuasive case for the reporter's seriousness and reliability (De Beelde & Tuybens, 2015; GRI, 2013). It enhances company reputation, stakeholders' confidence (Birkey, Michelon, Patten, & Sankara, 2016) and the credibility of positive disclosures, which do not have the same weight and consideration by stakeholders as negative disclosures (Coram, Monroe, & Woodliff, 2009).
- Attracts socially responsible investment (SRI) funds and analysts that have a growing interest in non-financial information (Eccles & Viviers, 2011) and consider CSR assurance a sign of credibility (Brown-Liburd & Zamora, 2015; Cheng, Green, & Ko, 2014). Assured reports contribute to reducing CSR reporting firms' cost of capital (Casey & Grenier, 2014; Dhaliwal, Li, Tsang, & Yang, 2011).
- Internal benefits are equally important. The assurance process can provide:
 - Guidance for data gathering. The external auditor advises how to develop efficient internal reporting systems (Park & Brorson, 2005), highlights potential for improvements in sustainability management systems and increases the consistency of the data, reducing the risk of faulty or incomplete data (DQS, 2016).
 - Reliable data for internal decision-making. The final report can become a solid foundation for management decisions (Casey & Grenier, 2014) and CFOs will have greater confidence in sustainability data for strategic planning, enterprise risk management and management control decisions (Deloitte, 2016).

¹ We use audit and verification as synonyms for assurance.

- Increased awareness of sustainability and organizational cohesion. The assurance process may involve different company levels and departments and make employees feel responsible for the achievement of sustainability goals. Thus, great awareness of sustainability issues and their management arise (CNDC, 2006).

Nevertheless, there are costs and obstacles to consider: high service fees and costly information system improvements that only larger companies can afford (De Beelde & Tuybens, 2015); managers' uncertainty of the merits of sustainability assurance; fear of increasing company exposure to public scrutiny (Darus, Sawani, Mohamed Zain, & Janggu, 2014); scepticism about the feasibility of auditing narrative CSR information; lack of common CSR-related reporting criteria resulting in possible risks of material misstatements (Cohen & Simnett, 2014) and the presence of varying types of service providers offering different levels of accuracy (De Beelde & Tuybens, 2015; Tînjălă, Pantea, & Buglea, 2015), which make it difficult for companies to choose the right approach. Cited issues may impel companies to decline external assurance and opt for an internal audit, especially when there is no legal enforcement to perform an independent verification (Trotman & Trotman, 2013). The reliability of information can also be enhanced by internal procedures such as robust internal control and reporting systems (IIRC Framework, 2013, par. 3.40).

According to De Beelde & Tuybens (2015), in Italy, it doesn't seem that incremental informativeness and benefits are associated to assurance, leading to a scarce adoption of external verification. However, the Directive 95/2014/EU has introduced new obligations that may have already started affecting the reporting practices of listed companies. Coherently, the following question should be addressed:

- Do Italian listed companies resort to third party assurance to demonstrate the credibility of their sustainability reports?

3.2. Extending the assurance to sustainability web communication

Another new circumstance challenging companies reporting practices is the large diffusion of the Internet and social media. It is common for investors and other stakeholders to retrieve corporate financial information from new media (Alexander & Weiner, 1998; Blankespoor, Miller, & White, 2013; Ramassa & Di Fabio, 2016) and it seems likely that sustainability information will also flow through them (Bonsón & Bednárová, 2014; Morhardt, 2010).

Supporters of this scenario (Lodhia, 2014) state that the Internet represents an opportunity for sustainability reporting. While web reporting mostly overlapped the content of printed reports in early 2000 (Adams &

Frost, 2004; Cormier & Magnan, 2004), today companies may provide richer and more interactive data, offer timely information and frequent updates on CSR issues and have a global reach and better engage stakeholders using new media (e.g., videos, blogs, apps) (Bosetti, 2015).

However, stakeholders may raise questions about the comprehensiveness and credibility of online data. The use of richer media could also serve to obfuscate the content of disclosure and mislead users (Cho, 2009).

According to one position, sustainability web communication will maximise company value if information integrity is assured by relying on principles of good governance and risk management (Wheeler & Elkington, 2001). Internal mechanisms are more appropriate than third-party verifications, because existing audit rules and procedures cannot be extended to online, real-time and interactive information.

Another position argues that a separate verification is and would be needed for information on websites (SustainAbility & UNEP, 1999) and that it is expected to increase in the future at least with reference to some social and environmental KPIs deemed essential to maintain stakeholder relationships.

When located in a developed country with high Internet penetration like Italy, it is important to answer the following question:

- Does the assurance engagement of Italian companies encompass the sustainability information disclosed on their institutional websites?

4. The assurance process

Standards and guidelines on assurance of sustainability information have been issued all over the world.

The ISAE 3000 and the AA1000AS, issued by the IAASB and AccountAbility respectively, are the most known and implemented standards worldwide (GRI, 2013). They have also inspired national assurance standards and guidelines (i.e., GBS, CNDC and Assirevi), which all refer to the ISAE 3000 (Assirevi, 2015; CNDC, 2006; GBS, 2005). Furthermore, both the GRI and the IIRC, two leading organisations in the field of sustainability and integrated reporting, mentioned the ISAE 3000 and the AA1000AS, recognising the importance of external assurance (GRI, 2013; IIRC, 2013).

This section briefly describes the key elements of sustainability assurance standards and guidelines.

a) Services providers

Sustainability assurance services can be provided by (GRI, 2013):

- accounting firms specialised in business and financial and non-financial reporting;
- engineering firms that normally offer technical certifications;
- sustainability services firms often locally based and known for their experience with stakeholder issues.

In 2012, accounting firms conducted 64% of external assurance services on GRI reports (GRI, 2013). In all probability, such large market share depends on the requirements of international and national standards and guidelines.

Indeed, only professional accountants adhering to the IESBA's *Code of Ethics* can perform assurance engagements in accordance to ISAE 3000 (IAASB, 2013; IESBA, 2015). Similarly, in the Italian context:

- GBS guidelines state that only professional auditors (statutory auditors and auditing firms) provide assurance on social reporting (GBS, 2005);
- Assirevi issued a format for auditing firms in charge of assuring GRI sustainability reports (Assirevi, 2015);
- The CNDC emphasised the possibility for chartered accountants to assure sustainability reporting, according to Legislative Decree 139/2005 (CNDC, 2006).

Conversely, the AA1000AS describes an assurance practitioner as an individual who is qualified to provide assurance services (AccountAbility, 2008): this wider definition allows professionals other than accountants and auditors to carry out assurance engagements, provided that they respect specific personal requirements.

b) Ethical and professional requirements

Practitioners have to comply with requirements that combine ethics and professionalism as necessary qualities to provide a competent, objective and trustworthy opinion on a company's sustainability reporting (AccountAbility, 2008; CNDC, 2006; GBS, 2005; IESBA, 2015; IIRC, 2013). Respecting the following requirements supports this goal:

- integrity, objectivity, independence and impartiality;
- professional competence and due care;
- confidential treatment of information;
- professional behaviour, scepticism and judgement.

All external experts (in environmental management, sociology, etc.) hired by practitioners to support the verification must respect the same requirements (AccountAbility, 2008; GBS, 2005)

c) Scope of the assurance engagement

The scope of the assurance engagement identifies the extent of its subject matter, based on the agreement between the practitioner and the company. An assurance engagement usually covers both the procedures for the preparation of the sustainability report and the information contained in it. The verification is typically made through a comparison with one or more reporting principles and standards.

The AA1000AS allows two types of assurance engagements. According to “type 1 engagement”, the practitioner only evaluates the adherence to the AA1000 AccountAbility Principles (inclusivity, materiality and responsiveness). Conversely, a “type 2 engagement” also requires the assurer to verify the reliability of all or selected information published in the report, according to the company’s will and considering the intended users of the process (e.g., all the stakeholders or just a specific category).

d) Level of assurance

The level of assurance indicates the extent of the practitioner’s work and the consequent reduction of engagement risk (i.e., risk of inappropriate opinion).

According to the AA1000AS, assurance can be high or moderate. High assurance provides the intended users with a high level of confidence in the company’s disclosure, while moderate assurance only increases such confidence. This depends on the depth of verification, based on different sources of evidence (only internal or also external).

Similarly, the ISAE 3000 offers two levels of assurance, namely a reasonable level and a limited one. Reasonable assurance is more rigorous and aims to reduce the engagement risk to an acceptably low level, whereas limited assurance reduces the risk to a meaningful level, which however enhances the confidence of intended users.

e) Results of the assurance process

After concluding the verification, the practitioner writes an assurance statement (also called assurance report), which contains findings, conclusions, recommendations and limitations encountered in performing

the task. The statement should accompany the verified ESG report, in order to increase information reliability and stakeholders' trust.

The practitioner should also prepare a report for management if included in the engagement agreement (AccountAbility, 2008). Specific reports about any important matter emerging from the assurance process should be addressed to governance bodies or other engaging parties (IAASB, 2013).

5. Methods & Data

The authors developed and distributed an electronic survey using Qualtrics software to 223 Italian companies listed in the FTSE-ITALIA. This e-survey was active for 30 days (January and February 2017). Calls for participation were sent to the social responsibility directors or the investor relators.

The survey was designed to highlight which companies commission the assurance of sustainability reports, to whom and for what purpose. Questions also concerned EGS information web disclosure and assurance of non-financial information.

A total of 55 people logged into the survey form and 49 completed the questionnaire. Respondents completed the form anonymously. Data shows that 38 respondents prepared a sustainability report and 29 resorted to external assurance. Tab. 1 describes the sub-sample of respondents divided into super sectors according to FTSE-ITALIA's categorisation.

Tab. 1 - Sample composition divided by super sector

Super Sector	Assurance		Total
	YES	NO	
Utilities	6	0	6
Industrial Goods and Services	6	4	10
Health Care	1	0	1
Construction and Materials	2	0	2
Travel and Leisure	2	0	2
Personal and Household Goods	1	1	2
Banks	4	0	4
Oil and Gas	2	0	2
Insurance	1	1	2
Chemical	0	1	1
Media	1	1	2
Automobiles and Parts	2	0	2
Telecommunications	1	0	1
Estate	0	1	1
Total	29	9	38

Most of the respondents (58%) began the assurance process when they published their first sustainability report, 38% of them started after the first issue, while companies that resorted to verification from time to time were 3%.

Tab. 2 - Introduction of sustainability reporting and assurance

First sustainability report	First assurance statement		Total
	<i>With the first report</i>	<i>After the first issue</i>	
Before 2000	4	2	6
2001 - 2005	1	3	4
2006 - 2010	7	4	11
2011 - 2015	4	1	5
After 2015	1	2	3
Total	17	12	29

Sustainability assurance was usually performed by the same independent auditors that were entrusted to verify the financial data (83% of answers); 14% of companies assigned the assurance to a different provider and 3% of respondents verified ESG information internally. The ISAE 3000 principles were applied the most (Tab.3).

Tab. 3 - Assurance guidelines adopted

Assurance guidelines	Freq.	Percent
AA1000AS	4	13.79
ISAE 3000	17	58.62
IAASB	2	6.90
GBS	1	3.45
AA1000AS & ISAE 3000	1	3.45
AA1000AS & GBS	1	3.45
ISAE 3000 & GBS	3	10.34
Total	29	100.00

In 14% of cases, the level of assurance was high/reasonable, while in the remaining 86% it was rated as moderate/limited. This low level of confidence in companies' disclosure aligns with previous results collected in 2014 by the "Fondazione Nazionale Commercialisti" (FNC, 2015).

Tab. 4 - Level of assurance

	Our survey		FNC survey	
	Freq.	Percent	Freq.	Percent
High/Reasonable assurance	4	14.00	0	0.00
Moderated/Limited assurance	25	86.00	19	47.5
No assurance	0	0.00	21	52.5
Total	29	100.00	40	100.00

The main purpose of non-financial information assurance is to obtain a statement that will be published. The second most important goal is to check the quality of ESG data to improve managers' decision-making.

Tab. 5- Purposes pursued through the assurance

Assurance purpose	Freq.	Percent
Receive a statement to be published	12	41.38
Check on data reliability for decision-making	1	3.45
Obtain a management letter suggesting improvements in data gathering and the reporting system	1	3.45
Check on data reliability for decision-making and get a statement to be published	6	20.69
Receive a statement to be published and obtain a management letter suggesting improvements in data gathering and the reporting system	3	10.34
Check on data reliability for decision-making and obtain a management letter suggesting improvements in data gathering and the reporting system	1	3.45
All	5	17.24
Total	29	100.00

Data indicates that ESG information is largely disseminated through digital channels: reports are sent by e-mail or uploaded on the institutional website. 76% of respondents publishing and receiving assurance for their sustainability report also use social media to disseminate data concerning social and environmental performance.

Tab. 6 - Types of medium used to divulge ESG information

Type of medium used	Freq.	Percent
Only printed report	1	2.63
Only Pdf file report	6	15.79
Only Web Report	1	2.63
Printed and Pdf file report	10	26.32
Printed, Pdf and Web report	15	39.47
Pdf and Web report	5	13.16
Total	38	100.00

Although many companies dedicate part of the corporate website or a special Internet portal to ESG information, this data was not examined by the external auditor in 70% of cases. In fact, 63% of the companies interviewed declared that the printed report, the pdf report and the web report contain the same ESG information. However, the remaining 7% said that the web report is richer than the pdf or the printed one.

The few companies that assure web information focused more on the evaluation of corporate governance and financial information than on social and environmental aspects.

ESG information disclosed on social media is very rarely assured.

6. Findings

Assurance of sustainability reports in Italian listed companies has been increasing every year (Tab. 2) and it is likely to continue growing in 2017 because of the enforcement of Legislative Decree 254/2016.

Moreover, empirical results suggest a large presence of accounting firms and the adoption of ISAE 3000 standards as expressed by FNC (2015). As anticipated by CorporateRegister (2008), with a survey in five different countries, ISAE 3000 seems to be the principal standard and its adoption is destined to increase in Italy because the assurance of ESG information strengthens existing fiduciary relationships: companies trust external auditors who have already work for them and auditors use the standards that they have implemented (ISAE 3000).

Our survey shows that companies focus more on external benefits from the assurance, as listed in section 3.1, than internal ones. Only a few respondents declared that the assurance of non-financial reports contributes to the improvement of the data they contain and the internal reporting system (DQS, 2016). None of the respondents noted that assurance can be a tool to facilitate dialogue and interaction between stakeholders, investors and analysts (Brown-Liburd & Zamora, 2015).

The web offers an opportunity for sustainability reporting (Lodhia, 2014), although most of the respondents did not take advantage of this communication channel. The web report of ESG information should be an extension of the published report, but the investigated companies did not consider how the web can help them share more data or detailed information; indeed hyperlinks, videos and social media channels could increase readability and active stakeholder engagement. Our results are similar to those of Cormier and Magnan (2004) and Adams and Frost (2004) confirming that companies are not fully exploiting the web's features as ESG disclosure.

Since web information on ESG issues tends to replicate the content of printed reports, companies probably do not perceive the value of a specific assurance process.

7. Conclusions

According to the findings, it seems that the recourse to sustainability assurance is due to the search of external benefits related to the reduction of the credibility gap that causes sustainability reports to be scarcely used by its target users (Bebbington & Gray, 2001)

Such behaviour could be interpreted through the legitimacy theory (Suchman, 1995): companies attempt to enhance corporate legitimacy by divulging a statement to prove the credibility of their sustainability reports, possibly exercising a sort of “greenwashing” (Aureli, Medei, Supino, & Travaglini, 2016; Cho & Patten, 2007; Holder-Webb, Cohen, Nath, & Wood, 2009). However, institutional theory (Scott, 1995) could also be applied. Companies imitating each other may determine the diffusion of sustainability reporting assurance. Therefore, a further research is necessary to better understand the reasons behind companies’ choices and behaviour.

Future research should also aim to clarify the reasons why companies often do not perceive other benefits from sustainability assurance. Internal benefits like checking on data reliability for decision-making, gathering suggestions on how to improve the internal reporting system and connected internal control procedures and enhancing awareness and organisational cohesion of sustainability do not seem so relevant.

It is also worth investigating the reasons why ISAE 3000 is the most adopted standard and limited/moderate assurance is the dominant level. In our opinion, the awareness that even reasonable/high assurance cannot provide absolute certainty of data correctness could discourage the commission for a high level of independent verification. Contrastingly, companies probably perceive that the only certainty is the substantial impossibility of guaranteeing an absolute level of assurance. Therefore, future studies should emphasise the practitioners’ perspective too.

Regarding the usage of digital communication channels, future studies should explain why some companies are not currently exploiting the full potential of the web, including the possibility to communicate in more dynamic and interactive ways through social media. Furthermore, it is also important to understand why these companies did not question themselves on whether to assure the additional data and more frequent updates disclosed on the web and social media.

The authors are aware that this paper is based on a limited sample of companies; therefore, they intend to expand it in future research to support more valuable considerations.

Despite this limitation, the paper has practical implications.

The study suggests the opportunity for standard setters to expand the sustainability assurance process to the web when companies will extensively resort to digital channels. Consequently, assurance practitioners are expected to develop further skills and knowledge to effectively evaluate a company's web communication; alternatively, they should hire external experts to conduct a proper verification of ICT aspects.

An enrichment of the statutory auditor's profile is also necessary to meet the requirements of Legislative Decree 254/2016. Since the new legislation identifies statutory auditors and auditing firms as ESG information intended assurers, they should improve their expertise in this field or compose a mixed team of professionals to verify the non-financial statement.

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Are integrated reports able to replace sustainability reports?

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Structured Abstract

Purpose – Integrated reporting is the result of an era where information is spread through the Internet, and investors are interested in obtaining transparent information related to the financial and non-financial performance of companies.

Today, shareholders and stakeholders are equally interested in company performance. Shareholders, in particular, are no longer focusing solely on the traditional investor concern of financial returns. They are also interested in the sustainable, responsible performance of the companies they invest in. To this end, integrated reporting aims to integrate voluntary and mandatory disclosures into a single report, issued at the end of each administrative period.

The purpose of this article is to understand whether integrated reports and sustainability reports are fulfilling the same needs in their target audience, the stakeholders – whether they are merely substitutes of each other or can be considered complementary. Additionally, this paper aims to fulfill an existing gap in the definition of the differences between sustainability reports and integrated reports by illustrating the different roles that each can, or might, play for companies and stakeholders.

Design/methodology/approach – First, a literature review is provided. Mandatory disclosure is introduced as the communication of economic and financial data aimed at helping investors make their own investment decisions. Voluntary disclosure is presented as the dissemination of non-mandatory information and has gained importance because it helps ensure a focused communication. It may help to reduce information asymmetry between management and stakeholders; hence, reducing the risk and cost of capital and increasing liquidity. It can also increase coverage, respond to the needs of investors quickly, serve as a personal promotion tool for managers, and/or improve the credibility of operators.

The second component of the research is focused on a qualitative analysis of the differences between integrated and sustainability reports. Relevant reports by two Italian energy companies are compared: Saipem's *2015 Sustainability Report* and Sorgenia's *2015 Integrated Report* (both containing 2014 data). The energy industry has a high impact on the environment, and both reports are included in GRI's database, making them suitable subjects for study. An analysis of the structure is conducted to identify the main topics discussed in each report, followed by an assessment of the quality of their contents according to the GRI's guidelines.

Findings – The results show differences between the reports relating to stakeholders, the accuracy of the data provided, and the comprehensibility of the information included. In general, the analysis underlines that the connections between the financial and non-financial data provided in both reports, and the decision to adopt one report over the other, relates to its intended audience.

Value - Practical Implications – The practical implications of the paper reside in the different ways companies can use these reports. When a company wishes to attract new capital, it would be better to issue an integrated report, while sustainability reports are more appropriate for enhancing a company's reputation. Taking the subtle differences in the objectives of the two reports into consideration, it is easy to understand that the types of disclosures in each report can also have different objectives: sustainability reports are published to make the actions of a company comprehensible to all stakeholders, while integrated reports are intended for people who are already informed about a company and may be interested in investing.

Keywords – Voluntary disclosure, integrated reporting, sustainability report, financial reporting

1. Introduction

Accounting Literature defines disclosure as “the communication of economic information, whether financial or non-financial, quantitative or otherwise concerning a company's position and performance” (Owusu-Ansah, 1998:608). While financial disclosure gained importance many years ago, the relevance of non-financial disclosure is the result of an era in which information is spread through Internet and investors are interested in obtaining transparent information related to the performance of the companies, in both financial and non-financial terms. The new era of pressure on non-financial reporting has been widely introduced by John Elkington in 1997 with the book *Cannibals with Forks: The Triple Bottom Line of 21st Century Business* (Gray, 2006). He emphasized the idea of managing, measuring and reporting the social, environmental and economic consequences of a company's activity by presenting them from a social and environmental perspective (Dumay J., 2016). As a response to this pressure, many reports, different from the annual report, which has to be issued dutifully at the end of each administrative period, can be disclosed. Companies can choose to issue separated reports for the different aspects they want to communicate, or to integrate them in a single integrated report. This second solution can fulfill the gap between environmental, social and corporate governance issues and financial performance. As a matter of fact, companies that were used to report only financial information, face now a change in the need for reporting also non-financial information.

Companies are considered as citizens of the society and they are interested in operating as social responsible actors. The Corporate Social Responsibility, defined as “the integration by companies, on a voluntary basis, of social and environmental concerns, which reflects perceptibly on their internal operations and relations with stakeholders” by The Evolution of Corporate Reporting for Integrated Performance, in 2014, is changing the way companies face economic, social and governmental issues. According to McWilliams and Siegel (2001), the CSR encompasses all those situations in which the firm refers to actions related to some social good, beyond the requirements of law. CSR, in addition to be considered an instrument to achieve sustainable competitive advantage and a “quality improvement” tool (McWilliams & Siegel, 2001), it can be the basis of a management strategy that allows the generation of big returns, if detailed enough to not be imitated by competitors (Reinhardt, 1998). In particular, Baron stated, in 2001, “it is the motivation for the action that identifies socially, as opposed to privately, responsible action”. This implies that an action is socially responsible if the motivation is in line with the society objectives and needs, while, if there is a private motivation, the action is only privately responsible. Corporate sustainability reporting has become a tool that governments and market institutions can use to enhance the disclosure of information to the different stakeholders, and to motivate companies in setting targets on global problems in order to differentiate themselves from other companies, less responsive (Kramer and Kania, 2006).

2. Mandatory And Voluntary Disclosure

Companies can spread information in order to respect normative duties, or to accomplish stakeholders’ wants, in the case the information spread is not compulsory. Mandatory disclosure regards mainly information of economic and financial data - except some cases in which the integrated reporting is mandatory (Eccles R.G., Saltzman D., 2011) - while voluntary disclosure has not financial nature, but it concerns information of environmental, social and governance performance.

The communication of economic and financial data is required to reduce the existing information asymmetries in the relationship with investors and with all the stakeholders. For this reason, every listed company must respect obligations emended by a set of accounting standards, generally International Financial Reporting Standards or US Generally Accepted Accounting Principles, and they must issue, at the

end of each year, a financial performance report. Mandatory disclosure could be highly influenced by the possibility to reduce agency costs, but it is not the only justification for the entire mandatory system (Mahoney P.G., 1995). In particular, it has institutional legitimacy, because of a variety of factors (Eccles R.G., Saltzman D., 2011). A part from being able to change the corporate culture, and exceeding the incompleteness of voluntary reporting, it is also based on general accepted key performance indicators, which can be compared among different companies, sectors and countries.

On the other side, Voluntary disclosure refers to the free choice of the management of the company to provide information in excess of requirements that could be considered relevant to the stakeholders of the company (Meek G. K., Roberts C. B., Gray, S. J., 1995). The topic of voluntary disclosure has been introduced in a context in which companies face competition, technology innovations and increased regulation in response to financial and governance crises (Dumay J., 2016). Because of the challenges of today's world economy, traditional financial reporting model are not adequate for the disclosure of information related to past and future performance of the company (Flower, 2015). In accounting Literature, controversial approaches to voluntary disclosure can be still faced. At this purpose, Boesso and Kumar (2007) argued that voluntary disclosure is useful in order to meet specific stakeholders' requirements and to reduce information asymmetries and agency conflicts between managers and investors. On the contrary, according to Core (2001) and Einhorn and Ziv (2012), voluntary disclosure will be biased towards information chosen by managers. Despite these different points of view, voluntary disclosure aims at communicating the creation of value for people, society and the environment (Gray, 2006), by increasing the corporate transparency and accountability (Dumay J., 2016).

Theories explaining voluntary disclosure

Four different theories have been defined as the explicators of voluntary disclosure (Shehata N. F., 2014).

Agency theory. This theory starts from the assumption that managers and investors are pursuing different objectives and they have to sustain costs to limit the activities of the each others (Jensen and Meckling, 1976). These agency costs can be avoided thanks to the optimal contracts, where the interests of the managers are aligned with the interests of stakeholders

(Healy and Palepu, 2001). In fact, according to the agency theory, the relationship between managers and stakeholders is considered as “a contract under which one or more persons (the principals) engage another person (the agent) to perform some service on their behalf which involves delegating some decision-making authority to the agent” (Jensen M.C., Meckling W.H., 1976). Since the agents are represented by the managers and the principals by the stakeholder, the agency relationship is clearly affected by information asymmetries problems since the managers can access to information at which stakeholders cannot access to.

Signaling theory. Signaling theory, as developed by Spence (1973) for explaining the behavior in the labour market, is considered a reaction to information asymmetries between different actors (Watson A., Shrivs P., Marston C., 2002). By adapting the theory to the disclosure practices, voluntary communication of information is made by the informed party (the company in this case), to distinguish itself from other companies (Verrecchia, 1983). The company results more credible for the stakeholders, but only if the information reported can be verified.

Capital need theory. As for the signaling theory, also in the capital need theory companies try to attract new investments to raise their capital, in terms of either debt or equity. According to Choi (1973), voluntary disclosure could be used as a mean for increasing the capital of a company at a low cost. The Financial Accounting Standards Board, in 2001, stated that “a company’s cost of capital is believed to include a premium for investors’ uncertainty about the adequacy and accuracy of the information available about the company”. As a company on a voluntary basis discloses a higher quantity of information, the cost of capital is expected to reduce, since stakeholders and, more in particular, investors, have the adequate means to interpret the financial statements of the company.

Legitimacy theory. According to this theory, companies use voluntary disclosure in order to communicate their legitimacy (Watson A., Shrivs P., Marston C., 2002). In fact, the underlying assumption is that a company has the right to exist only once it matches the values of the society in which it operates (Dowling and Pfeffer, 1975; Lindblom, 1994; Magness, 2006). At this purpose, the company has to act accordingly with the society and it has to disclose relevant information that can change the opinion of the society about the company (Cormier and Gordon, 2001). This theory is particularly useful in explaining disclosure in environmental and social reporting (Guthrie J.E., Parker L.D., 1989; Patten D.M., 1992; Deegan C., Gordon B., 1996).

The relationship between Mandatory and Voluntary Disclosure

While early studies in the relationship between mandatory and voluntary disclosure defined them as substitutes (Verrecchia, 1982; Diamond, 1985), Ball, Jayaraman and Shivakumar (2012) stated that voluntary and compulsory disclosure are complementary ways to communicate with stakeholders. It happens because disclose independent financial information increase the credibility of the voluntary disclosure, which is difficult to prove. In fact, as Crawford and Sobel affirmed in 1982, voluntary disclosure faces the possibility to be considered untruthful. Financial disclosure is, therefore, able to enhance the credibility of managers' disclosures and to encourage them to disclose truthful information. According to Gigler and Hemmer (1998), mandatory disclosure plays a confirmatory role of voluntary disclosure. However, Stocken (2000) stated that if there is not a mechanism to test voluntary disclosure, it would be considered as non-credible, so that it is ignored by the market. A response to this argument has been proposed by Lundholm (2003), who supported the idea that the mandatory disclosure is helpful in enhancing the credibility of voluntary disclosure.

The reporting of mandatory and voluntary information occurs through different reports and it could be jointly or not. The focus of the paper is on the comparison between the separate reporting of sustainability information and the integrated reporting. For this reason, the following paragraphs are dedicated to a deeper analysis of the sustainability and the integrated report.

3. Sustainability and Integrated Report

The relevance of sustainability report has been increased because of the increasing trend of companies to communicate societal and environmental issues in their report (Kolk A., 2003). Sustainability reports are mainly focused on health and safety, employee relationships, philanthropy and charitable contributions (Kolk A., 2003). It is possible to include also economic issues in the sustainability report, but, usually, they are limited to the main figures of the annual report. The potential benefits that can be obtained by issuing sustainability reports refers to the possibility for companies to be more aware of the social topics with growing experience (Kolk A., 2003). In addition, the information

communicated can be externally verified, enhancing the reliability of the report. Lastly, the quality of the report has been increased by introducing the standardization of sustainability reporting (Kolk A., 2003).

On the other side, the integrated reporting aims at underline the linkages between the strategy, the governance and the financial and non-financial performance of a company in order to take more sustainable decisions (Thomson I., 2015). The topic of integrated reporting has been discussed for the first time nearly three decades ago and its first application occurred in 1994 in South Africa. In fact, in that year the King released the first King Code of Corporate Governance Principles, in which he emphasized the importance of the inclusion of all the stakeholders in the corporation's ambit (Gleeson-White, 2014). It has been introduced when the country was developing corporate governance frameworks (Makiwane T.S., Padia N., 2013) and it has been re-written in 2002, when there was the introduction of the Integrated Sustainability Reporting, for the deep analysis of non-financial communication. A further important step made forward the integrated reporting was the introduction of mandatory preparation of integrated reporting for all the organizations listed on the Johannesburg Stock Exchange, starting from March 1, 2010.

4. Analysis

The analysis performed aims at understanding whether the integrated report can supplement some aspects that are not analyzed by the separate disclosure of the annual and the sustainability report. The analysis has been conducted by comparing the Sustainability report of Saipem, published in 2015 (related to data of 2014) to the Integrated report of Sorgenia, published in 2015 (related to data of 2014). The sample selection has been done considering firms in the energy industry, in the Italian market, and that published their reports in the database of GRI.

Saipem - Società Azionaria Italiana Perforazioni E Montaggi - is a listed company with the headquarter in Italy, and worldwide operations. It is part of the ENI Group. It has issued Sustainability reports since 2012. Sorgenia was created in 1999, after the liberalization of the energy market. Now it is an Italian energy provider for companies. As Saipem, also Sorgenia is a limited liability company. It has issued integrated report since 2011.

Hypothesis

Different aspects have been investigated in this analysis. The first research question aims at defining which is the instrument (between sustainability and integrated report) that better represents the connection between the economic/financial data and social/environmental and identify the value creation process.

RQ 1: Which report can better connect economic data with social and environmental data and to identify the value creating elements of the company?

Second, the relationship between sustainability and integrated report has been analyzed in order to understand if they are complementary or substitutes and if the integrated report is able to provide for additional elements with respect to the sustainability one or not.

RQ 2: Can the sustainability plus the financial performance report be the substitute of the integrated report? Is the integrated report able to provide for additional elements with respect to them?

Last, an investigation of the reason why a company decide to issue the integrated report instead of the sustainability one is provided. This question aims at understanding whether there are different motivations for issuing integrated or sustainability report.

RQ 3: Why does a company decide to issue integrated report instead of the sustainability one?

Methodology

In order to perform the analysis, two reports have been analyzed: the Sustainability report of Saipem and the Integrated report of Sorigenia. Saipem sustainability report has been issued following the G3 Guidelines of GRI, and it has an external limited/moderate assurance (its assurance provider is Ernst&Young), which corresponds to ISAE3000 Standard. Sorigenia also followed the G3 Guidelines of GRI, but no external assurance has been provided for.

The analysis is related to the structure and the content of the disclosure, issued on voluntary basis by the two companies, in order to integrate financial information. It is only focused on the voluntary disclosure, even if it is clear that, while the integrated reporting can substitute the Economic and Financial reporting (as the mandatory disclosures are embedded in the integrated reporting), the Sustainability

report cannot substitute the financial disclosure, but it is only complementary.

First, an analysis of the structure has been conducted in order to identify which are the topics mainly discussed in the two reports. Later, the quality of the content of the reports will be discussed, by basing on the assessment of the quality provided by GRI.

Table I (see annex 1) shows how the assessment of the quality have been conducted. Three different macro areas have been identified:

- Profile disclosure, provides information on the company profile, organization, its strategy and report parameters;
- Disclosure on management approach, related to the explication of how the company has been managed and which is its impact on the market according to a wide range of aspects;
- Performance indicators, which aim at representing the economic, environmental and social conditions of the company.

The criteria used for the assessment of the point is the same used in the GRI's database. Thus, as reported there, the assessment varies from 0 to 2. 0 means that the information is not provided, 1 that the information is only partially provided and 2 that there is a full description of the topic under examination.

The results

First of all, both reports have the ability to increase the transparency and the communication with stakeholders, since they amplify the range of information available to stakeholders, related to the companies that don't issue integrated or sustainability reports. However, while the sustainability report aims at improving the communication with stakeholders, the integrated reporting is focused on the representation of the elements useful to create value for the company.

a. Analysis of the structure

In order to analyse the structure of the reports, four different areas have been identified: general information related to the company's profile, missions, values and its governance system; information on the sustainability related to ESG issues; economic and financial data; and additional information.

Table II: Index of Saipem Sustainability Report

SAIPEM
Saipem at a glance
Main Results 2014
Stakeholder engagement
Assessing Saipem's material issues: a proactive form of stakeholder engagement
Main Objectives for 2015
CREATING SHARED VALUE
Generating value through a Local Content strategy
Strengthening relations with local communities
Competence: the most powerful engine
RUNNING A SUSTAINABLE BUSINESS
Safe operations for people and the environment
Managing operations for long-lasting success
Methodology and Reporting Criteria (Reporting Principles and Criteria can be found at the end of the document)
Assurance Statement
More on Saipem

Source: Own elaboration

The total number of pages of the report is 68: 12% for general information, 29% for information related to the sustainability related to ESG issues, 37% for economic and financial data, and 22% for additional information, and additional pages before the index for presenting the overview of the company.

Table III: Index of Sorgenia Integrated Report

SORGENIA
SUMMARY
Letter of the President
Sorgenia Group and shareholders
Social organs
Main macroeconomic indicators
Performance indicators
Key indicators of Sorgenia Group
Business Model
RELATION OF THE BOARD OF DIRECTORS ON THE EVOLUTION OF THE MANAGEMENT
Economic and financial results of the Group
Economic and financial results of Sorgenia Spa
Governance
Business continuity
Context of reference
Additional relevant information
CONSOLIDATED BALANCE SHEET
Consolidated prospectus of Sorgenia Group
Explicative notes of the Consolidated Balance Sheet
ANNUAL FINANCIAL STATEMENT
Annual financial statement prospectus of Sorgenia Spa
Notes of the Annual financial statement
PROSPECTUS OF CONTROLLED COMPANIES
Essential data on controlled companies
RELATIONS ON THE BALANCE SHEETS
Relation of the auditing firm on the consolidated balance sheet
Relation of the auditing firm on Sorgenia Spa balance sheet
Relation of the board of auditors of Sorgenia Spa
ANNEXES

Source: Own elaboration

The structure of Sorgenia presents a strong presence of financial data and only few data related to ESG issues, except at the end of the report. The total number of pages of the report is 364: 20% for general information, 5% for information related to the sustainability related to ESG issues, 73% for economic and financial data, and 1% for additional information.

b. Analysis of the content

Following the scoring system described above, the results show that Saipem total score is 239, while the total score of Sorgenia is 171. These results are not confirming the initial thought (according to which the integrated report would be more comprehensive than the sustainability one), since they present that, overall, Saipem is reporting more precise information compared to Sorgenia. It means that Saipem is more precise in the explanation of the topic presented and it covers a wider range of arguments than Sorgenia.

Table IV: Scores of different areas of the reports of Saipem and Sorgenia

AREA	SAIPEM	SORGENIA
Profile disclosure	84	82
Disclosure on management approach	59	41
Performance indicators	96	48

Source: Own elaboration

Apart from the profile disclosure, which shows similar scores, both the disclosure on management approach and on the performance indicators, are better presented by Saipem than Sorgenia.

Another important difference is the language used in the report: Sorgenia used a more technical language, more difficult to be understood by every stakeholder, while the language used in the report of Saipem is more colloquial and easier to be understood.

Discussion of the results

According to the analysis, Saipem provides a more comprehensive presentation of the voluntary information with also a better quality for the presentation of the data. On the contrary, Sorgenia provided a more structured and comprehensive view of financial data, but few elements related to the sustainability. This can be justified by the addressee of the report: while the sustainability report is mainly addressed to all stakeholders, the Integrated report usually aims at attracting new investors. Taking into consideration the subtle difference in the objectives of the two kinds of reports, it is easy to understand that the sustainability report is published to make comprehensible the actions of the company to all stakeholders, while the integrated report is addressed to people already informed on the company and who might be interested in investing in the company.

Referring to the first research question, both the reports provide financial data in the section dedicated to the ESG issues. For this reason, there are not differences related to the ability to connect financial data to social and environmental data between integrated and sustainability reports. However, when considering the value creation process, Saipem dedicated an entire paragraph to the topic “Creating shared value”, while Sorgenia presented only the processes through which the financial value has been created during the year. This implies that while connections between financial data and non-financial are provided in both reports, references to the creation of the value differ according to the typology of report: sustainability report is focused on the creation of value for the society (not in financial terms), while integrated report mainly explains the creation of financial value.

The second question was related to the relationship between the reports. First, according to the integrated report analyzed, detailed analysis of financial data are provided. However, the quantity of financial information provided appeared misleading for the stakeholders. In fact, while in the sustainability report the key achievements of the company have been summarized at the beginning of the report (assuming that the reader have no information about the company), the integrated report appears complete on the financial aspect, but very poor and incomplete for non-financial data.

As a conclusion, they appear as substitutes. Moreover, by using financial performance in the sustainability report seems to be easier to identify their addresses, while the integrated report unifies information relevant to investors and information addressed to stakeholders interested in the general trend of the company.

Last, the decision to adopt one report instead of the other is related to the addressee of the report: when a company needs to attract new capital, it would be better issue integrated report, while to enhance the reputation of the company, the sustainability report is the most appropriate.

5. Conclusions

The process of measuring, disclosing and being accountable for the organizational actions is now much more focused on promoting the sustainability of the company. For this reason, both financial and non-financial information can be disclosed in order to justify the actions of the company and to exploit how sustainability is considered and integrated into business strategy and execution. For doing so, different reporting practices can be followed. However, the analysis proposed in the paper is related to the two reports in which the importance of sustainability is most clear: the sustainability and the integrated report.

Differences between the two can be easily stated. First, while the sustainability reporting targets a wider stakeholder audience, the integrated report is mainly addressed to providers of financial capital and long term investors. Second, in the sustainability reporting the focus is on the environment, society and the economy, not on the value creation over time, as in the integrated reporting. This is the reason why in the sustainability report it is difficult to find connections between different capitals. At this purpose, the results of the analysis confirm that, even if connections between financial data and non-financial are provided in both reports, references to the creation of the value differ according to the typology of report: the sustainability report is focused on the creation of value for the society, while the integrated report mainly explains the creations of financial value for the company. Considering the relationship between the two reports, a much more detailed analysis is provided in the sustainability report. This could be explained by the difference in the addressee of the report: in fact, while the integrated report is addressed to financial investors, the sustainability report attempt a wider audience, and, therefore, more precise information related to disclosure on management approach and performance indicators are required.

Finally, in order to understand which are the drivers that guide the managers in reporting information in one kind of report instead of another, a recall to the theory is needed. In fact, in order to attract new capital, the integrated report is most suitable since it provides also financial information relevant to potential shareholders, while the sustainability

report is not only addressed to shareholders, since different kinds of information are reported. For this reason, it can be used to enhance the reputation of the company or to meet the objectives of targeted stakeholders.

Future studies on the comparison between the different reporting practices can take into consideration a larger sample size, which is not limited to only the energy sector, but which is extend to different sectors.

Annex 1

Table I: Assessment of scores to reports of Saipem and Sorgenia (own elaboration)

		SAIPEM	SORGENIA
Profile Disclosures	Strategy and Analysis	1.01	2
		1.02	2
	Organizational Profile	2.01	2
		2.02	2
		2.03	2
		2.04	2
		2.05	2
		2.06	2
		2.07	2
		2.08	2
		2.09	2
		2.10	2
	Report Parameters	3.01	2
		3.02	2
		3.03	2
		3.04	2
		3.05	2
		3.06	2
		3.07	2
		3.08	2
		3.09	2
		3.10	2
		3.11	2
		3.12	2
		3.13	2
	Governance, Commitments and Engage	4.01	2
		4.02	2
		4.03	2
		4.04	2
		4.05	2
		4.06	2
		4.07	2
		4.08	2
4.09		2	
4.10		2	
4.11		2	
4.12		2	
4.13		2	
4.14		2	
4.15	2		
4.16	2		
4.17	2		

Disclosures on Management Approach	DMA EC	Economic Performance	2	2
		Market presence	2	0
		Indirect Economic impacts	2	0
	DMA EN	Materials	1	2
		Energy	2	2
		Water	2	2
		Biodiversity	2	2
		Emissions, effluents and waste	2	2
		Products and services	0	2
		Compliance	2	2
		Transport	2	2
		Overall	2	2
		DMA LA	Employment	2
	Labor/management relations		2	2
	Occupational health and safety		2	2
	Training and education		2	2
	Diversity and equal opportunity		2	2
	DMA HR	Investment and procurement practices	2	0
		Non discrimination	2	2
		Freedom of association and collective bargaining	2	0
		Child labor	2	0
		Forced and compulsory labor	2	0
		Security practices	2	0
		Indigenous rights	2	0
	DMA SO	Community	2	1
		Corruption	2	
		Public policy	2	1
		Anti-competitive behavior	2	0
		Compliance	2	0
	DMA PR	Customer health and safety	2	2
Products and services labelling		0	2	
Marketing communications		0	1	
Customer privacy		0	0	
Compliance		2	2	

Performance indicators	Economic	Economic performance	EC1	2	2
			EC2	2	0
			EC3	2	0
			EC4	0	2
		Market presence	EC5	0	0
			EC6	2	0
			EC7	2	0
			EC8	1	2
	Environmental	Materials	EN1	1	0
			EN2	0	0
		Energy	EN3	2	1
			EN4	2	0
			EN5	1	0
			EN6	1	0
			EN7	0	0
		Water	EN8	2	2
			EN9	1	0
			EN10	2	0
		Biodiversity	EN11	1	0
			EN12	1	0
			EN13	0	0
			EN14	2	0
			EN15	0	0
		Emissions, effluents and waste	EN16	2	2
			EN17	0	0
			EN18	1	0
			EN19	0	0
			EN20	2	2
	EN21		1	0	
	EN22		2	2	
EN23	2		2		
EN24	1		0		
EN25	0		0		
Products and services	EN26	0	2		
	EN27	0	0		
Compliance	EN28	2	0		
Transport	EN29	1	0		
Overall	EN30	1	0		
Social: labor practices and decent work	Employment	LA1	2	1	
		LA2	1	1	
		LA3	2	0	
	Labor/management relations	LA4	2	2	
		LA5	2	2	
	Occupational health and safety	LA6	2	0	
		LA7	1	2	
		LA8	2	2	
	Training and education	LA9	2	0	
		LA10	1	0	
		LA11	2	2	
	Diversity and equal opportunity	LA12	2	0	
		LA13	1	0	
	Social: Human rights	Investment and procurement practices	LA14	2	0
HR1			2	0	
HR2			1	0	
Non discrimination		HR3	0	0	
		HR4	2	2	
Freedom of association and		HR5	2	0	
Child labor		HR6	2	0	
Forced and compulsory labor	HR7	2	0		
Security practices	HR8	1	0		
Indigenous rights	HR9	2	0		
Social: society	Community	SO1	2	2	
		SO2	0	2	
	Corruption	SO3	1	1	
		SO4	2	2	
	Public policy	SO5	0	2	
		SO6	2	0	
	Anti corruption behaviour	SO7	2	0	
	Compliance	SO8	2	0	
Social: product responsibility	Customer health and safety	PR1	2	0	
		PR2	2	0	
	Products and services labelling	PR3	0	2	
		PR4	0	0	
		PR5	1	2	
	Marketing communications	PR6	0	0	
		PR7	0	0	
	Customer privacy	PR8	0	0	
	Compliance	PR9	0	2	
			239	171	

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Bio notes

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Integrated reporting: benefits and implications for Italian companies

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Structured Abstract

Purpose – Corporate reporting has undergone many changes. Recent studies support the position that the traditional annual report does not provide stakeholders with an adequate picture of the assets and the value created by the company. In response to this, integrated reporting (IR) has been adopted as a solution capable of providing both a holistic view of a company's ability to create value in a sustainable way and an integrated vision of the company from a financial and a non-financial point of view. However, this type of document is not mandatory. Thus, this paper aims to examine the real reasons that have pushed major Italian companies to opt for integrated reporting and, especially, to explore the benefits that can now be identified a few years beyond the first publication of an integrated report.

Design/methodology/approach – To investigate this topic, an exploratory field study involving ten Italian companies was conducted. The methodology relied on a qualitative approach, as it allows researchers to deal with complex “how” questions and, at the same time, offers a wide and complete picture of the phenomenon.

Originality/value – The paper gives senior managers an overview of Italian companies that have already developed this new form of information reporting while providing valuable insights and an understanding of the perceived organizational benefits of implementing IR requirements. The study also contributes to the

debate on managerial motives for producing an integrated report and how that may affect future decisions.

Findings – The findings reveal a common thread among all the study participants, summarized by the completeness and transparency of the results. They also highlight an exhaustive list of benefits reported by these companies, which may serve as an incentive for those that have not yet adopted IR.

Practical implications – The intent is to identify the reasons that led top corporate managers to begin the practice of integrated reporting. This research may be useful for both academics and managers in effectively managing IR projects.

Keywords – Integrated reporting, motivations, benefits, critical issues, non-financial information

Paper type – Academic research paper

1. Introduction

The world of corporate reporting is undergoing many changes. Noteworthy are the qualitative and quantitative data that companies are required to control and report. Integrated Reporting is the new corporate reporting tool that focuses on the ability to create business value by combining and integrating the information contained in single reports (Eccles R.G., Krzus M.P., 2010). Increasingly real and tangible is the need on the part of stakeholders and companies not to have disjointed tools for measuring and reporting performance, albeit containing both financial and non-financial indicators, but a report that shows the influence of the various dimensions of enterprise performance and the manner in which the interaction between the financial and non-financial resources can create value (Neely, 1999; Yongvanich K., Guthrie J., 2006; Abeysekera I., 2013; De Villiers C. et al, 2014). In 2014 the International Integrated Reporting Council (IIRC) published the IR framework, to give a general guideline to companies wishing to adopt this new instrument of integrated reporting. This work aims to identify the prevailing motivations that might drive companies to adopt this reporting tool. Top management needs real motivations for and certainties concerning the benefits of adopting a new tool for reporting the company's performance. This work was carried out using a qualitative methodology, field study, which, through the use of semi-structured interviews, allowed the authors to collect data from major Italian companies that have already used the IR approach. The main objective of the work is to examine the main reasons that prompted the top managers of these companies to draw up the IR as well as the related benefits, in order to generalize the results and contribute to the literature concerning this aspect.

2. Literature Review

The 1990s ushered in the era of financial globalization and with it, the first difficulties of "financial reporting". Nowadays, companies that want to survive or emerge in this increasingly competitive market must differentiate themselves and they must do so in particular by focusing their business performance on the intrinsic value of the offer (Neely A., 1999), on which intangible resources, such as knowledge or the capacity to innovate, definitely weigh. The three keywords that led to the new age of reporting are: *profit*, *sustainability*, and *intangibles*. The objective was to create an instrument able to assess the overall performance of the company. Specific reports, like the Intellectual Capital (IC) Report (Guthrie L. et al, 2006; Abhayawansa S.A., 2014) or the Sustainability Report (Adams C.A., Whelan G., 2009), are unable to explain how the company's tangible and intangible resources influence each other to create value (Adams C.A., 2014; Busco C. et al, 2013b); therefore, they fail to provide truly effective and comprehensive information for stakeholders (Higgins C. et al, 2014). Instead, it is more appropriate to combine the various reports and create a "One Report" (Eccles R.G., 2010) able to report the overall performance of the company - information obtained from the integration and mutual influence of its financial, socio-environmental, and intangible dimensions. Many companies prepare a Sustainability Report as if it were a mere description of their social responsibility initiatives, without any economic-income reflections (Yongvanich K., Guthrie J., 2006; Schaltegger S., Wagner M. 2006; Hubbard G., 2009). Therefore, the need of stakeholders and companies to have a report that shows the influence of the various dimensions of performance and the manner in which the interaction between financial and non-financial resources is able to create value, becomes more real and concrete (Neely A., 1999; Yongvanich K., Guthrie J., 2006; Abeysekera I., 2013; De Villiers C. et al, 2014; Enamul Hoque M., 2017). The latest tool that tries to satisfy this need is offered by the International Integrated Reporting Council (IIRC): the Integrated Report.

An Integrated Report is a summary communication that shows how the strategy, governance, performance, and prospects of an organization, in the external context in which it operates, allow the creation of value in the short, medium, and long term (Cheng M. et al, 2014). The IR aims to promote a more coherent and efficient approach to designing both the reporting of performance and the management of the enterprise (Stubbs W., Higgins C., 2014; Adams C.A., 2014). The IR proposes a model which has the ultimate purpose of explaining how the dimensions of performance interact with each other (Abeysekera I., 2013; Van Bommel K., 2014;

Thomson I., 2015). The IR is intended to communicate how the company works and how activities affect the resources invested, both financial and non-financial. To do this, however, appropriate metrics for sustainability and intangibles are needed, so as to link them to value creation (viewed as a whole, and not only from a financial point of view) using the principle of connectivity and Integrated Thinking (IIRC, 2013b; Hampton R., 2012).

The use of IR by the company implies a new approach to business management and creation of value, oriented to "Integrated Thinking & Action". Companies should be able to obtain and manage the information they need in relation to intangible components; this involves a restructuring of the company's internal measurement and reporting systems to produce a single integrated report (Stubbs W., Higgins C., 2014; SAICA, 2015). The company that manages to produce an integrated report requires a new framework which provides constant inter-functional cooperation, based on a growing culture of cross-reporting and attention towards all stakeholders. A company should be considered a single entity that works to achieve strategic objectives (King M., Roberts L., 2013); only with the integrated thinking does the company have the ability to see resource connections and relationships between different functions, between departments, and between business operations (King M., Roberts L., 2013). With integrated reporting, the whole organizational culture of the company changes, something that has not happened with any of the other reporting tools.

This tool enables all types of reporting features to co-exist within integrated reporting (Morros, 2016). For this reason, IR is not merely a business reporting tool, but it extends beyond reporting (Steyn, 2014). There is no doubt that integrated reporting is a prominent tool for business organization (Churet and Eccles, 2014; Havlová, 2015).

3. Benefits

An enterprise that voluntarily decides to draw up an integrated report, creating "One Report" will, according to Robert Eccles, experience four main benefits (Eccles R.G., Krzus M.P., 2010):

- Often a sustainable strategy leads to a choice between alternatives. Therefore, the integrated report provides greater clarity on the relationship between financial and non-financial measures and commitments;
- In general, all information that must be disclosed by the company is reliable if the information circulated internally is also reliable, thus ensuring that decisions arising from this information will be of

higher quality. This is true as long as there is good internal coordination between different functions and units;

- With the integrated report the company demonstrates a holistic view of its stakeholders' interests that derives from a better involvement of all stakeholders, with no distinction between stakeholders and shareholders.
- The One Report decreases the reputational risk. Such a tool, helping to identify a possible mismatch between reputation and reality and risk areas, helps to determine the impact of changes in beliefs and expectations and to support internal coordination.

The benefits gained from Integrated Reporting will not only be for the companies producing the report, but also for their stakeholders. Investors are the main beneficiaries of the potentialities of the integrated report, thanks to the quality and amount of information they can glean. Their role in investing on behalf of others will involve fewer risks and responsibilities if their choices are more aware and supported by a fuller knowledge of the company's performance. Thanks to the integrated report, investors are now able to finally have both financial and non-financial information contained within a single document and in an integrated manner, to show how the company creates value over time.

The study "The value of extra-financial disclosure" delves into this aspect and analyzes how 34 investors and 35 analysts use and are affected by non-financial information. The study shows there is broad consensus in saying that IR makes it possible to increase the usefulness of extra-financial information through improved reliability, accessibility, relevance, and comparability of information. According to the study, about one-third or more of investors and analysts have said that integrated reporting will be very helpful, not only in terms of the many benefits to be gained therefrom, but also to demonstrate the relevance of non-financial performance on overall performance. The regulators and the definers of standards and policies believe that integrated reporting will allow the harmonization of approaches, a reduction of bureaucracy, and greater economic and market stability. Integrated reporting will bring benefits not only to the highest levels of a company but also to all its employees. The latter will have a perspective on the future of the company and will feel connected to the organization by having an understanding of how their performance is linked to the objectives of the enterprise, and then, of how they can contribute to the creation of business value.

Lastly, recent studies (Black Sun, 2012; Blesener S., 2014; Ernst and Young; 2015) have summarized in a few points the major benefits brought

by IR to companies that adopt it. According to these studies Integrated Reporting:

- Increases the company's ability to identify and assess risks;
- Improves decision making because it integrates ESG (Environment, Social, Governance) variables;
- Allows business strategies to be evaluated and compared with those of other companies in the sector;
- Provides data on expected results in the future and facilitates the evaluation of business strategies;
- Offers a comprehensive, concise, and material overview;
- Facilitates access to credit and capital markets;
- Improves the quality of governance, since the IR approach is adopted and guided by those who have decision-making power;
- Improves the organization's image by referring to future objectives;
- Improves the relationships with stakeholders;
- Improves inter-departmental connections.

Now, we asked ourselves: “What is actually going on in Italy?”, “What are the benefits that major Italian companies are experiencing with the adoption of the integrated report?”, and above all, “What are the reasons underlying their choice to undertake integrated reporting?”

4. Research Methodology

With the aim of answering the research questions, the authors of this paper conducted an exploratory study (Kaplan, 1986; Granlund and Malmi, 2003; Roslender and Hart, 2003; Lillis and Mundy, 2005), involving Italian companies that are members of the IIRC Business Network and other companies that have distinguished themselves for having adopted integrated reporting. The research method used is the field study. It is a qualitative research method involving “limited-depth studies conducted at a non-random selection of field sites, thus lying somewhere between in-depth cases and broad-based surveys” (Lillis and Mundy, 2005, p. 120). The field study method is one that gives a broad and complete view of the phenomenon and allows researchers to collect ideas on the relevance of it (Roslender and Hart, 2003). Moreover, when collecting data from surveys it is a much less structured method and, indeed, less intensive and thorough than a case study (Lillis and Mundy, 2005).

The aim of the research was to provide as complete an overview as possible of Italian companies involved in the integrated reporting. Through the field study method, it was possible to apply a not-too-thorough analysis to more units of study than those imposed by the multiple case study method (Lillis and Mundy, 2005). For this reason, the idea of conducting a multiple case study was discarded. Before deciding to adopt the field study method, the authors also assessed the possibility of adopting the survey method, so as to provide a general understanding of the phenomenon. However, this too was discarded, given the fact that the few surveys that have been conducted were mostly on the motivations that drive companies to choose integrated reporting, it was deemed problematic and inappropriate to submit a questionnaire with specific and closed questions focusing on motivations.

This work is based on evidence gathered from ten Italian companies (five of which are part of the IIRC business network) operating in different sectors (Table1).

Table 1 – Sample companies

Aspiag Service S.r.l.-DESPAR Nordest
*Atlantia S.p.A.
Banca Fideuram S.p.A.
*Consiglio Nazionale dei Dottori Commercialisti ed Esperti Contabili (CNDCEC)
Dellas S.p.A.
*Enel S.p.A.
Eni S.p.A.
Generali S.p.A.
PricewaterhouseCoopers Advisory
Sabaf S.p.A.
SNAM S.p.A.
Terna S.p.A.
UniCredit S.p.A

* *Did not participate in the project*

To build a list of possible candidates, we first identified the Italian companies that are part of the IIRC business network in 2016. They are: Atlantia S.p.A, CNDCEC, Enel S.p.A., Eni S.p.A., Generali S.p.A., PricewaterhouseCoopers Advisory, SNAM S.p.A., and Terna S.p.A. The other companies included in the list are leading Italian companies which,

although not part of the IIRC business network, have adopted IR and have followed the guidelines of IIRC's International IR Framework. Starting from the initial list that was compiled, we proceeded to contact each company by e-mail, to explain the objective of the research project and to determine whether they were interested in the project. Of the eight in the IIRC business network, these five companies agreed to participate in the research: Eni S.p.A, Generali Group, PricewaterhouseCoopers Advisory, SNAM S.p.A., and Terna S.p.A. The remaining three, Atlantia S.p.A., CNDCEC, and Enel S.p.A., declined to participate. The final sample of ten companies that agreed to participate in the research was composed of: Eni S.p.A., Generali S.p.A., PricewaterhouseCoopers Advisory, SNAM S.p.A., Terna S.p.A, Banca Fideuram S.p.A, Dellas S.p.A, Sabaf S.p.A., Aspiag Service S.r.l.-DESPAR Nordest, and UniCredit S.p.A.

To collect the data, semi-structured interviews (Kreiner and Mouritsen, 2005; Qu and Dumay, 2011) were used. This technique allows the interviewer to probe for more information and solicit clarification of answers. Furthermore, although a list of questions to be submitted to the respondent is prepared in advance, "the interview takes place in a colloquial way that offers participants the opportunity to explore the issues they believe are important" (Wengraf, 2001, p. 103). The respondents are managers working in the areas of sustainability, administration, or finance and, in any case, they are very closely involved in the drafting of the company's IR. Those managers were interviewed via Skype and phone. The interviews were conducted from April to June 2016 and lasted an average of 45 minutes each. They were recorded and later transcribed for analysis. The interviews were divided into five segments of varying length (Roslender and Hart, 2003). The respondents were interviewed on why their companies had decided to draw up an integrated report, the organizational changes needed for the drafting of this new reporting document, on the necessary steps to be taken to implement the IR project, on the difficulties encountered along the way, and finally, on the perceived benefits of integrated reporting. Once the interview was transcribed, it was checked by the respondent in order to ensure the accuracy of the data collected. Finally, when all of the interviews had been completed, the next step was the processing and analysis of the data gathered.

Research Question

The objective is to identify the motivations for, the critical issues connected to, and the benefits - in terms of value creation - resulting from the preparation of an Integrated Report (IR) by major Italian companies.

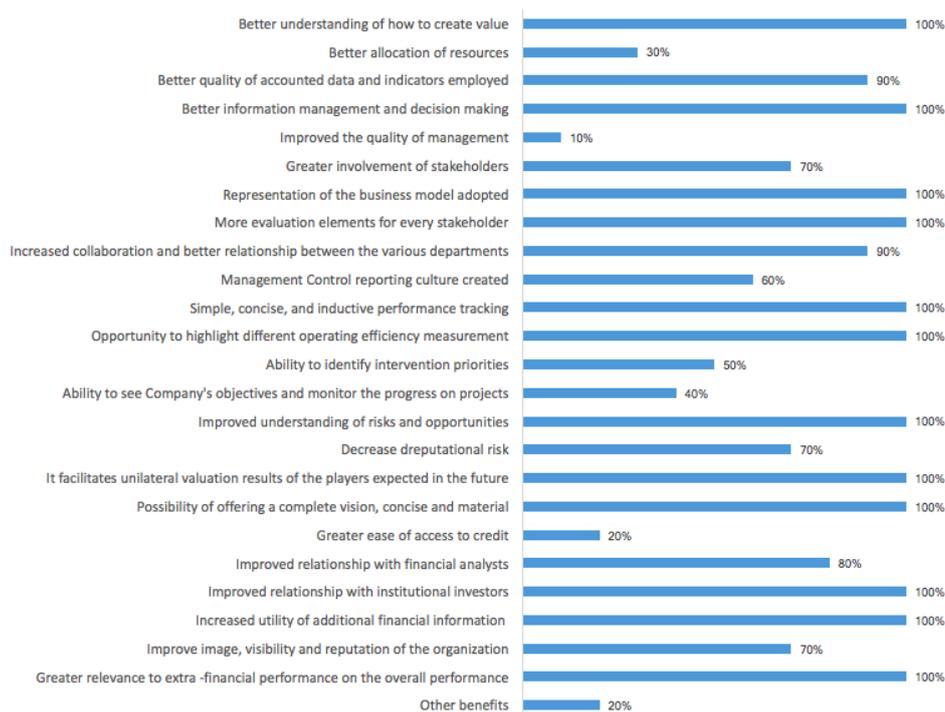
5. Research findings

Three categories of findings emerged from the interviews: motivations, benefits, and difficulties. Each will be discussed in turn.

Concerning the motivations underlying the choice to adopt an IR approach to reporting company performance, several key points emerged from the answers given by those who must deal with this new reporting tool on a daily basis. It was reported (by the majority of the interviewees) that the company decided to adopt the integrated report because it wanted to simplify and integrate the information regarding its business, trying to highlight its strengths, but mainly trying to represent – to the outside world – its value creation procedure in a comprehensive and transparent way. Through the IR the company presents itself comprehensively and gives value to all of its most strategic tangible and intangible assets. This is the general motivation that can be deduced from the sample analyzed. Indeed, the main motivation that emerges from the sample companies corresponds to market requirements regarding the need for an increasing amount of information that is not only financial and, more importantly, is able to communicate how the company can create value in the present and in the future. Here is where the objective of the IIRC to integrate information and to represent the value created by the company enters the business logic and manifests itself both internally and externally through the publication of the IR document.

The second category concerns the benefits that the surveyed companies claim to have achieved thanks to the drafting and implementation of the IR. The results are summarized in Figure 1, below.

Figure 1 – Benefits

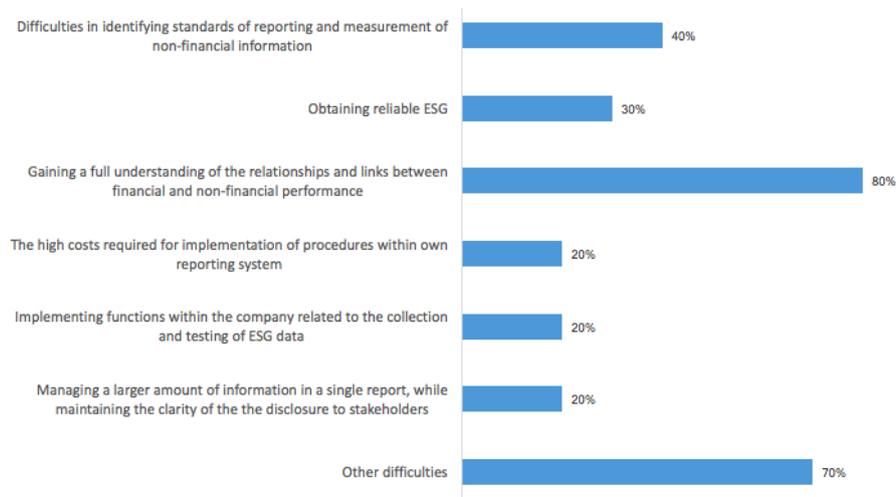


Of the companies surveyed, 30% stated that they had improved their ability to allocate the available resources, thanks to the IR. The benefits of improved quality of data reported and indicators used, along with the increased collaboration of the various company departments, were cited by 90% of the interviewees. A smaller percentage, 70%, of the companies declared that the IR increases stakeholder involvement in the company, decreases the reputational risk and improves the company's image. Half of the companies surveyed argue that with the editing of the IR, the company is able to identify priority actions. Only 60% of the companies believe the IR contributes positively to the work of management control. In connection with the relationships with financial analysts, 80% of the companies argue that these relationships improve thanks to the spread of IR as an additional document for company valuation. Finally, with regard to the facilitation of access to credit through the IR, only 20% say they

have perceived such benefits. This reflects the fact that for now, the IR is not a reporting tool that is seen as highly useful by the banking sector, given that the financial information contained in traditional financial statements remain, for this sector, of utmost importance. Compared to the existing literature, two new benefits emerge from the sample examined: greater appreciation of the company by direct customers and more information available to management in order to make decisions on operations.

The third category encompasses the difficulties encountered in the process. If the reasons for adopting integrated reporting, as given by companies that prepare an IR seem imminently clear, what is less so is the amount of the difficulties that these companies have had to deal with before they could publish this new integrated reporting tool. Figure 2, below, summarizes the findings in this category.

Figure 2 – Difficulties



The analysis confirms what has emerged from the literature concerning the difficulties faced by Italian companies in trying to fully understand the relationships and links between financial and non-financial performance, as this difficulty was cited by 80% of the companies in the sample. This difficulty will be overcome only when integrated thinking will become fully rooted in the company. The other difficulties that emerge from the literature all appear with the same percentage (20%) and these are also the ones that are not felt particularly strongly by the interviewees. Differently from what is found in literature, from this study there also emerged the following types of difficulty: understanding the relationships between the

six types of capital highlighted in the framework (financial, manufactured, intellectual, human, social and relationship, and natural), spreading the culture of the integrated report in all functional areas of the company, comparing the data, and getting the message across that the IR is not just a marketing document but much more than that.

6. Conclusion

The objective of this paper was to identify the motivations that have driven major Italian companies to adopt integrated reporting. Our study also investigated the difficulties these companies faced in the long process of producing an IR, as well as the benefits gained therefrom.

For the Italian companies studied, the primary motivation for adopting IR that can be extrapolated from the analysis of the results is to simplify and integrate the information regarding the company's business, in an effort to communicate in a complete and transparent way its capacity to create value in the present and in the future. Therefore, the analysis confirms that this new era of reporting will be characterized by the adoption of IR, supported and accompanied by integrated thinking. This shift in reporting style has now become essential for any organization that wants to prove to its stakeholders that it is, indeed, transparent, innovative, reliable, and able to represent its ability to create value with all of the material and non-material resources available.

As regards the difficulties companies have faced or are facing, 80% of the sample cite the struggle to fully understand the relationships and links between financial and non-financial performance as representing the biggest hurdle, by far; they recognize that it will be overcome only after the implementation, thanks to integrated thinking, of integrated reporting across all sectors of the company.

One limitation of this research study is the inability to measure results. For example, the benefits listed are based on the perceptions of top managers but these perceptions are not measurable. The most evident limitation of this study concerns the sample described above, in paragraph four. The research could be expanded by providing the same survey to other European companies that prepare an IR, the objective being to refer the study to a much broader number of cases. Nonetheless, at this time the findings of this research may help top management decision-makers to understand the process that led major Italian companies to take the approach of integrated reporting, so as to decide whether to start this practice themselves. Also, already knowing what the benefits that might result from the adoption of the IR are, company managers could be more

willing to adopt this new reporting tool. We contribute to the extant IR literature by responding to several calls for research on internal IR implementation (see Steyn, 2014; De Villiers et al., 2014; Perego et al., 2016). By showing the reasons cited by Italian companies that have started the process of IR, and expanding the benefits framework, the enriched literature will more fully show the increasingly widespread use of this new tool for reporting business performance and what it really means for companies.

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Bio notes

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Assurance on integrated reporting: a critical perspective

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Structured Abstract

Purpose – This research investigates how non-financial information is assured in the context of the integrated reporting <IR> Framework. From the perspective of the agency and legitimacy theory, this study aims to understand how assurance can guarantee integrated reports contain complete and correct information to enhance user confidence. Moreover, issues related to materiality and reliability are analyzed in comparison to the assurance methodologies used in CSR reports.

Design/methodology/approach – A qualitative case-study approach is adopted based on semi-structured interviews conducted in Australia. The research participants are practitioners, academics, and report users involved directly in discussions about <IR> assurance. The analysis provides a comprehensive discussion on the value of assurance and the ways that principle challenges are being met in an <IR> context. How these factors impact on <IR> are investigated by identifying the principal factors and impediments to assurance practices from the CSR literature, along with the possible consequences for developing assurance practice in this emerging context.

Originality/value –The study investigates the unsolved issues arising from the CSR assurance literature in the context of the <IR> Framework. A comprehensive theoretical triangulation of the topic, encompassing agency, and legitimacy theory are provided, which focuses on three different key perspectives – professional, academic, and investors.

Findings – The findings suggest that while assurance theoretically represents added value for enhancing external confidence and helping directors to adopt this new form of reporting, companies are far from applying assurance processes to their integrated reports in practice. From a practitioner perspective, the narrative and strategic approach that companies use in telling their value-creation story make it difficult to apply a reasonable and complete level of assurance. Furthermore, the voluntary and non-standardized nature of assurance practice in non-financial disclosure leaves wide discretion for managers to decide which material information to disclose and which needs assurance. However, companies are not inclined to assure their integrated reports since the process results in more complexity and higher costs than producing separate sustainability and financial reports. Additionally, the interviews outline skeptical behavior by academics and investors. Even if the <IR> Framework were to meet their investors' needs in providing strategic and forward-looking information, investors believe that companies do not

provide a complete and fair image of their businesses and do not place much faith in qualitative disclosures.

Practical implications – Despite the evolution of assurance practice in CSR over the last decade, many difficulties in understanding and developing suitable approaches for assuring non-financial information remain. Moreover, <IR> assurance is at an early stage of development and few resources are available for <IR> assurance practice. Thus, this study intends to contribute to the literature by offering practical and comprehensive perspectives of the assurance process for non-financial disclosures, and, particularly, to provide an understanding of the role of assurance practice in the emerging context of <IR> and a direction for further research.

Keywords – Integrated reports, <IR> Framework, CSR assurance, non-financial information, corporate reporting

Paper type – Academic research paper

1. Introduction

In December 2013, the International Integrated Reporting Council (IIRC) released the Integrated Reporting <IR> Framework, which provides through a principle-based approach the guidelines and the main concepts for issuing an integrated report. The <IR> Framework aims to combine a holistic view of financial and non-financial information for a better capital allocation and to improve the quality of corporate disclosure through the concept of Integrated Thinking in order to understand how the different capitals interact in creating value (IIRC, 2013).

According to Simnett and Huggins (2015, p. 30), this innovative form of communication differs from current financial and sustainability frameworks that are both unable to provide an integrated view of organization. While the annual reports become more complex and longer during the years, the release of stand-alone sustainability reports leads to the result that stakeholders need to examine more than one corporate documents to have access more information, causing a decrease of user trust (Simnett & Huggins, 2015, p. 31). The Framework emerges in a context in which stakeholders require a transparent and reliable disclosure on the whole business activity and not only in terms of profits. According to Adams et al. (2016, p. 284), through organisation's value creation story the <IR> Framework “provides a mechanism to address the non-financial information needs of providers of financial capital”. The same IIRC wishes that <IR> become the only “norm” of corporate reporting and an effective instrument in providing both financial and non-financial

information¹. If so, <IR> needs to provide reliable information for investor decision-making and avoids becoming another additional form of corporate report, as some authors argued. In particular, two main aspects question whether <IR> represent an effective instrument to enhance corporate social accountability and to provide sufficient and reliable information for investors' decision-making.

First, some authors criticise the IIRC's vision to "align capital allocation and corporate behaviour to wider goals of financial stability and sustainable development"². Milne and Grey (2013) argue that the practice of reporting economic, social and environmental matters does not necessarily mean an increase of sustainability development, it may indeed lead to achieving "un-sustainability" levels inside business activities. Furthermore, the authors state the weak relation between profitability and sustainability in the long-term period by questioning whether managers are effectively interested in preserving resources for future generations at the expenses of corporate profits. Tweedie and Martinov-Bennie (2015), instead, argue that even if the privilege for organisational accountability and for capital providers move away from the <IR> from sustainability purposes, <IR> has the potential to shift capital markets towards a longer term view necessary for "more sustainable corporate practise". It is clear how the above sustainability concerns in <IR> potentially affect the confidence that users can put on this form of report questioning whereas organisations actually adopt an ethical behaviour.

Second, unlike the financial reports, sustainability and integrated report are adopted on a voluntary basis. Managers have wide discretionary power in these reports and in particular in <IR> where they should adopt a more strategic and forward-looking approach. Thus, many researchers believe that without an independent third-party or other credibility-enhancing mechanisms able to ensure the information provided are reliable, <IR> become another "marketing" document or Greenwashing tool (Park & Brorson, 2005; Simnett & Huggins, 2015; Mori Junior, Best, & Cotter, 2014).

Considering this two main critic points, the research tries to understand how the assurance mechanism in <IR> can play a role in corporate social accountability and whereas assurance process can represent a sufficient

¹ As IIRC express in its Mission: "*The IIRC's mission is to establish integrated reporting and thinking within mainstream business practice as the norm in the public and private sectors.*" <http://integratedreporting.org/the-iirc-2/>

² <http://integratedreporting.org/the-iirc-2/>

tool to enhance users' trust in making investment decisions. By identifying the principal factors and impediments present in assurance practices in CSR literature, the research investigates what are the possible consequences for developing assurance in <IR> and whether these factors impact in the same or different way as in Sustainability Reporting (SR).

2. Theoretical Background

Several studies examine the value and the demand of assurance adopting many theoretical perspectives. In particular, with reference to assurance practises in SR, the procedure for ensuring non-financial information has been well developed during the last decade and its analysis may result in a guidance for <IR>, which is a relatively a new process.

Assurance on SR has usually assumed an important function in increasing the reliability and comparability of reports and the trust of users, aware that an objective third party overhauls the information and the reporting processes conforming to the relevant accounting standards (Eccles, Krzus, & Watson, 2012, p. 2). According to agency theory the audit process should play an important role in reducing information asymmetry and moral hazard to capital providers (Zhou, Simnett, & Hoang, 2016, p. 13). The information asymmetry and the moral hazard refer to the fact that the separation of ownership and control, typical of managerial companies, creates an "agency relationship"¹ in which shareholders do not have the same information on business activities as managers. Under this perspective, voluntary assurance became a fundamental mechanism and the "main requirement" for monitoring management activities, decreasing conflict of interests and enhancing trust in CSR reports (Velte & Stawinoga, 2017). In CSR literature, some empirical studies have already demonstrated that organizations are more likely to require a professional assurance on SR to enhance "confidence in the accuracy and validity of the information provided", particularly for those who operate in industrial sectors and in stakeholder-oriented countries (Simnett, Vanstraelen, & Chua, 2009, pp. 942, 965), as well as to improve the perception of lower corporate risks in the capital markets

¹ "We define an agency relationship as a contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf, which involves delegating some decision-making authority to the agent" (Jensen & Meckling, 1976, p. 5).

(O'Dwyer, Owen, & Unerman, 2011, p. 41). In the same way, <IR> assurance can represent a positive process to reduce information asymmetry and to rely on the actual creation of value (Adams, 2015, p. 26).

Legitimacy theory represent the second perspective on which this research is based. The organizations seek to survive in the social context by implementing procedures expected and desired by communities (Guthrie, Cuganesan, & Ward, 2007). According to Dowling & Pfeffer (1975, p. 127), organizational communication represent a tool through which a company can "become legitimate" and being identified through its values. Although, using the instrument of corporate disclosure, companies very often adopt strategic decisions to alter external expectations and perception (Tregidga, Milne, & Kearins, 2006, p. 4; Guthrie, Cuganesan, & Ward, 2007, p. 6). The practice of assurance in SR represents an example of managerial strategic tools to influence users' perceptions and creating a positive image of corporate. In particular, it is possible to distinguish the assurance practices as a mechanism to enhance corporate legitimacy, in order to operate and "survive" in the social context (Cohen & Simnett, 2015, p. 65), from the assurors' strategies adopted to legitimize the assurance practices themselves by creating create "a need and demand for assurance" (O'Dwyer, Owen, & Unerman, 2011, p. 40). This aspects leads the practitioners to adopt a consulting and a "co-producing" approach undermining the independence of assurance process and favouring the managerial control on it (Bepari & Mollik, 2016; O'Dwyer, Owen, & Unerman, 2011).

3. Literature Review

3.1 Gaps and unsolved concerns in CSR assurance

Besides the emergence of the role of assurance in CSR literature in the last decade, many unsolved questions remain. Some studies questioning whereas assurance represents an effective tool able to enhance transparency and completeness of sustainability disclosure, as well as to work independently from management control and interests (O'Dwyer, Owen, & Unerman, 2011; Michelon, Pilonato, & Ricceri, 2015). Michelon et al. (2015, p. 60) analyse whether CSR practices are used under a "substantive approach" to increase disclosure quality or under "symbolic approach" to influence stakeholders' perception and to improve the reputation of the company. The findings demonstrate that "CSR practices

are not associated with higher disclosure quality, suggesting that [the practices of CSR assurance is symbolic rather than substantive” (Michelon, Pilonato, & Ricceri, 2015, p. 73). Furthermore, the choice to obtain assurance in SR results not correlated to an increasing firms market value but rather to the benefit of being included in sustainability indexes and being perceived as “more green” (Cho, Michelon, & Roberts, 2014; Michelon, Pilonato, & Ricceri, 2015, p. 64). Even though organizations are more influenced by external stakeholders’ pressure in adopting voluntary assurance than by management under an agency perspective (Wong & Millington, 2014, p. 880), the poor quality of reporting underlines the unsustainable behaviour and not substantive changing of firms in adopting this form of reporting (Jones, Comfort, & Hillier, 2016, p. 228; Milne & Grey, 2013, p. 25).

Under a managerial perspective, some factors limit the use of assurance practices since they may undermine the business efficiency mainly due to the reputational risks of being exposed to public scrutiny, the high costs and the uncertain benefits of assurance engagement for business value (Darus, Sawani, Zain, & Janggu, 2014). Cohen and Simnett (2015) give particular emphasis on materiality concerns to determine which kind of information the management should select and include in SR. However, the recent literature on G4 practice points out an absence of a common methodology in determining materiality threshold (Jones, Comfort, & Hillier, 2015; 2016), demonstrating that there is a need for materiality sector-specific standards to enhance the transparency of non-financial disclosure and to encourage competition between companies in improving long-term value creation thanks to comparable sustainability data (Eccles, Krzus, Rogers, & Serafeim, 2012).

In addition, it is relevant to mention a study conduct by Deegan (2006) concerning the assurance practices applied on Triple Bottom Lines (TBL) Reporting, which is an accounting framework that evaluates the social, environmental and financial impacts on the business offering a more holistic perspective, such as the newest <IR> Framework. The research conducted by Deegan mainly points out the absence of an independent assurance, due to the consultancy engagement of assurors in helping the management to develop the report and the lack of a specific regulation. The results are in line with the idea that, even though assurance practices is perceived as important in enhancing transparency and reliability of reports, the identified issue in TBL and in other CSR reports undermine the potential value that assurance process bring to SR (Deegan, Cooper, & Shelly, 2006; Bepari & Mollik, 2016), as well as the credibility of the main

frameworks and guidelines (Jones, Comfort, & Hillier, 2016; Milne & Grey, 2013). Table 1 shows a brief summary of the relevant concerns that arise in contemporary literature about assurance practice on SR. It is necessary to be aware that most of the academics provide a comprehensive overview of more assurance issues, thus the table lists only the papers that address each issues more in deep than others.

Tab. 1

Unsolved issues	Papers	Main concerns
Assurance independency and management control	Bepari & Mollik (2016) Gürtürk & Hahn (2015)	<ul style="list-style-type: none"> ▪ Assurance process as an internal control tool rather than social accountability enabler ▪ Evidence of corporate management as the dominant addresses in assurance statements ▪ Consultancy approach and assurers involvement in reporting process undermine the independency of assurance engagement
Greenwashing mechanism	Michelon et al. (2015)	<ul style="list-style-type: none"> ▪ Voluntary assurance as symbolic practice to improve corporate reputation and the perception of a more sustainable business
Stakeholder inclusivity	Bepari & Mollik (2016)	<ul style="list-style-type: none"> ▪ Lack of stakeholder engagement and responsiveness ▪ Low priority to stakeholders concern ▪ Lack of broader social accountability ▪ Impacts of assurance on stakeholders behaviour in decision-making process
Materiality and completeness in non-financial information	Jones et al. (2016) Cohen & Simnett (2015)	<ul style="list-style-type: none"> ▪ Subjective nature of materiality process ▪ High variability in organisational processes for identifying and measuring material issue ▪ Difficulties in establish material thresholds for qualitative and long-term nature of information
Assurance challenge in methods and approach	Cohen & Simnett (2015)	<ul style="list-style-type: none"> ▪ Limited vs. reasonable assurance ▪ Risk of material misstatement ▪ Ensuring multidisciplinary matters requires several skills ▪ Lack of suitable criteria for narrative and forward looking nature of non-financial information ▪ Competitive market for assurance providers
Lack of global regulation and sector-specific standards	Gürtürk & Hahn (2015) Perego & Kolk (2012)	<ul style="list-style-type: none"> ▪ High variability in assurance statements due to different assurance guidance and providers ▪ Lack of comparability across firms and sectors ▪ Voluntary adoption of assurance process for SR

3.2 State of art of assurance on Integrated Reporting

The release of <IR> Framework in 2013 has obtained the attention of several academic researchers, who argue the structure of Integrated Reporting under two principal point of view. First, some of them adopt a critical approach against the effective ability of the new report to increase corporate social accountability and to represent reliable information for broader stakeholders needs. Flower (2015), for example, questions the voluntary and principle-based nature of the Framework and sustains that <IR> fails as sustainability accounting enabler for its value-creation notion addressed to investors instead of broader society. The second point of view suggests that <IR> has the potential to change the thinking of corporate management and the way organizations reporting (Adams, Potter, Singh, & York, 2016; Adams, 2015), as well as to turn the short-term investment view to the long-term necessary for moving towards sustainable objectives (Tweedie & Martinov-Bennie, 2015, p. 58).

Despite the emergence in few years of several studies within <IR> field, there are few articles focused only on assurance on this recent reporting form, thus giving also sign of a lack of research into <IR> practices (Dumay, Bernardi, Guthrie, & Demartini, 2016, p. 9). Academics, usually, refer to the assurance concerns within their broader study on <IR> Framework. However, there seems to be a common position that the reliability provided by assurance can add value for the emergence of this new form of corporate communication. Some authors claim that the role of assurance is necessary in order to ensure “complete, correct and comparable information” and to contrast the discretion entrusted to manager in hiding negative information that can damage the reputation of the company (Flower, 2015, p. 10). Others underline the inability of assurance providers in applying their methodologies and procedures to narrative and looking-forward information, arguing that the lack of non-financial standards makes impossible develop a comparative analysis across organisations (Adams, 2015; Eccles, Krzus, & Watson, 2012). Furthermore, while some academics encourage a better understanding of most challenging assurance aspects necessary to ensure information reliability and users trust (Simnett & Huggins, 2015; de Villiers, Rinaldi, & Unerman, 2014), others authors question whether there is enough interest in integrated reporting from users as to require assurance engagement (Cheng, Green, Conradie, Konishi, & Romi, 2014, p. 101), since it seems that few stakeholders use integrated reports as the main document for investment decision (Rensburh & Botha, 2014, p. 151).

In perceiving the growing importance of the role of assurance in <IR>, the IIRC (2015) collects the significant concerns from the previous consultation paper and highlights three main considerations: the awareness that assurance practice on <IR> can increase the reliability of information disclosed and the trust in most important stakeholders; the need for innovation in the development of assurance, since traditional criteria may not be suitable in <IR>; the Framework is still evolving and it's too early requiring assurance. Although The IIRC is not interested in giving particular directions or providing standards setter on the role of assurance in <IR>¹, but encourage research and innovative approaches to resolving the identified concerns.

From a different professional perspective, integrated assurance represents a competitive market for several assurance providers, which have important economic interests at stake (Cohen & Simnett, 2015, p. 65; O'Dwyer, Owen, & Unerman, 2011). Since in South Africa listed companies adopt Integrated Reporting on an “apply or explain” basis, the most important auditing firm have already faced with some of the most critical issue. It seems that a combination between internal and external assurance could represent an efficient strategy to find innovative solution to ensure the reliability of <IR> metrics through the review of the underlying process (Chartered Institute of Internal Auditors, 2015, p. 9; KPMG, 2012, p. 12). However, the IAASB (2014) considers assurance on <IR> “at an early stage of development and will further develop based on user needs”. In addition, the existing standards and guidelines cannot be suitable to cover the broader information the <IR> Framework requires and there is a need for innovative forms of assurance methodologies (Simnett, Zhou, & Hoang, 2016, p. 10).

The principal issues that arise from IIRC consulting process and other focused studies can be considered almost the same as those identified in CSR literature, as evidenced in Table 2. It is important to understand which level of assurance can be provided for this form of reporting in order to avoid the perception of integrated reports as a simply additional corporate reporting tool.

¹ “The IIRC does not aspire to be a leader in assurance” (IIRC, 2015, p. 6)

Tab. 2

IR assurance issues	Main concerns
Assurance downsides and stakeholder perception	<ul style="list-style-type: none"> ▪ Assurance as managerial instrument to influence investors perception (Greenwashing mechanism) ▪ Uncertain added value of assurance process ▪ Impacts of assurance on users behaviour and potential benefits on financial market ▪ Lack of broader social accountability and stakeholder-inclusivity
Materiality and completeness in non-financial information	<ul style="list-style-type: none"> ▪ Completeness vs. conciseness <IR> principle ▪ High degree of managerial discretion in defining material aspects ▪ Subjectivity of materiality process, which relies more on strategic views than on factual aspects ▪ Establish material thresholds for narrative and future-oriented information
Assurance methodologies	<ul style="list-style-type: none"> ▪ Define a suitable level of assurance in relation to the high engagement costs and time ▪ Assurance on <IR> process vs. <IR> contents ▪ Identifying measures for non-financial capitals ▪ Multidisciplinary skills required and additional liability for assurers ▪ Lack of objectivities in “integrated thinking” approach adopt by companies
Lack suitable criteria and specific standards	<ul style="list-style-type: none"> ▪ How to ensure more narrative and future-oriented information ▪ Need for innovative assurance standards that combine financial and non-financial assurance ▪ Presence of different type of assurance standards and guidelines (ISA 720, ISAE 3410, ISAE 3000, ISAE 3400, AA 1000, GRI)

4. Method

The research adopts a qualitative case-study approach based on semi-structured interviews conducted in Australia and it aims to analyse the research question under three central perspectives that deal with <IR> assurance being: practitioners, academics and report users. Interviews represent one of the most important data sources in the case study and they

are designed as a kind of “guided conversation” (Yin, 2014, p. 110). According to Qu and Dumay (Qu & Dumay, 2011, p. 246), “the semi-structured interview involves prepared questioning guided by identified themes in a consistent and systematic manner interposed with probes designed to elicit more elaborate response”. Semi-structured interviews have the benefit to be a flexible and insightful tool, which allow obtaining a deep understanding of different individual perceptions (Qu & Dumay, 2011, p. 246; Ritchie & Lewis, 2003, p. 141). As opposed to the survey, an interview represents an open-ended instrument in which participants can add further information during and at the end of the conversation, not necessarily linked to the question that the interviewer asks. In this way, the researcher can consider additional topics and issues related to the research question that have not come up in mind earlier. The design of the research consists of two phases. First, collecting the data through in-depth interviews and other sources of evidence, like meetings and documents provided by research participants. Second, through a data triangulation process of multiple sources, the stage of data analysis allows to examine evidence and to validate the findings.

The evidences collected in the literature review have been divided into thematic groups to identifying for each macro themes a set of questions to address during the interview. In particular, the interviews are based on four principal themes:

- The role of assurance in <IR> context
- Technical and practical assurance challenges
- Materiality and reliability of information disclosed
- Role for regulation in non-financial disclosure

To provide a comprehensive analysis of assurance in <IR>, the eight participants involved in this research are identifying in three main group: practitioners, investors and academics/institutional members (Table 3). They represent the key roles in assurance practice on corporate reports and each selected participant is directly involved in the discussion of assurance practice in <IR> through participating in institutional meetings, providing feedback in IIRC’s consultation processes or taking part in the IIRC’s Networks.

Practitioners offer a more practical view on the methodologies adopted and on the technical assurance challenges that need to be faced. They can provide a comparison with current methodologies in non-financial disclosure and in the context of SRs, as well as underlying new and tough concerns that require additional guidance and considerations. Academics or institutional members offer a more theoretical and supposedly non-

biased opinion on the role of assurance in non-financial disclosure. Concerning to the investors, they represent the primary users of <IR> and they can offer a better understanding of how the assurance practice is perceived and whereas it represents an effective mechanism for ensuring reliable information for investment decision-making process.

Table 3 - Categorization of interviews

Perspective	Data sources	Data categories
Practitioner	P1 – P2 – P3 D1 – D2 – D3	<ul style="list-style-type: none"> • Role of assurance in <IR> • Technical assurance challenges • Materiality and reliability • Role of non-financial disclosure and Regulation
Academic	A1 – A2 – A3	
Investors	I1 – I2 D4	

5. Findings

The findings suggest that while assurance theoretically represents an added value for enhancing external confidence and helping directors to adopt this new form of reporting, companies are far from an applying in practice assurance processes in their integrated reports. As other studies demonstrate (Darus, Sawani, Zain, & Janggu, 2014; Zhou, Simnett, & Hoang, 2016; Abdifatah & Mutalib, 2016), assurance process is cost demanding and companies are uncertain on the benefit that may result from implementing assurance. In particular, the interviews outline the need for improving internal reporting systems before being able to audit and assuring consistent and reliable information. At this stage, <IR> is not mature enough and the systems are not well developed in implementing the “integrated thinking”. As discussed by Stubbs and Higgins (2014), the early adopters of <IR> Framework do not present radical change in their internal system, but their integrated reports seems an update of their SR. This aspect has an impact also on assurance methodologies. For most of the interviewees, assuring integrated reports require a combination of the financial and non-financial audit. However, <IR> is usually presented as something more than a combination of financial and non-financial reporting (Jensen & Berg, 2012, p. 299) and a simple combination of both audits does not represent what IIRC requires through the integrated thinking approach.

It is widely accepted that for future developing it is necessary to train auditors and educate students to develop multidisciplinary competence to assess different <IR> capitals. The <IR> Framework requires more strategic and long-term approach in comparison with SR, which is more “backward-oriented” in reporting business activities (Mio, 2013; Stubbs & Higgins, 2014). For this particular feature, the <IR> Framework is perceived to be very similar to management commentary (Cohen & Simnett, 2015, p. 69), where practitioners verify the coherence of information with traditional financial reports and the evaluating limit for them consists in ensuring strategic information rather than non-financial and forward-looking disclosure, which are respectively already present in SR and financial statements.

Additionally, it is difficult to evaluate an integrated report due to lack of comparability and the subjectivities in defining materiality process (Dumay, Frost, & Beck, 2015). In CSR literature, some studies outline an increasing focus of SR on businesses rather than on environmental issues and a failure of assurance in ensuring corporate accountability (Jones, Comfort, & Hillier, 2016). According to Mio (2013), <IR> materiality process has a high degree of judgment and managerial discretion. Companies tend not to provide a complete image of the business or negative disclosure that can affect their reputation and they also decide which relevant information they want to disclose to both investors and stakeholders and which not (Mio, 2013, p. 87). Thus, as research evidence demonstrates, even if practitioners are able to determine quantitative thresholds to determine materiality in <IR>, the relevance of information released in the reports change in relations to the different expectations of readers. Therefore, it is still questionable to whom (shareholders, employees, clients, creditors etc.) companies address the value of each financial and non-financial capitals and who are principal user of <IR>, since investors seems to not rely and use this form of reporting for their decision-making process (Rensburh & Botha, 2014).

The *Table 4* shows up the main concerns addressed to <IR> assurance providing an overview of the issues present also in CSR literature outlined in the literature review.

Tab. 4 - Summary of main concerns in IR compared to CSR literature and research evidence by interviewing Practitioners (P), Academics (A) and Investors (I)

<IR>assurance issues	Main concerns	CSR	P	A	I
Value of assurance	▪ Assurance as managerial and internal instrument	✓	✓	✓	✓
	▪ Lack of impacts of assurance on users behaviour and potential benefits on financial market	✓			✓
	▪ Assurance process as added value in corporate reports		✓		
	▪ Lack of broader social accountability	✓		✓	✓
Assurance methodologies and challenges	▪ Define suitable level of assurance in relation to the high engagement costs and time	✓	✓	✓	
	▪ Assurance on process vs. contents		✓	✓	
	▪ Identifying measures for non-financial capitals	✓			✓
	▪ Need for multidisciplinary skills	✓	✓	✓	
	▪ Lack of objective and independent assurance	✓		✓	✓
▪ Difficulties in auditing strategic information		✓	✓		
Materiality and completeness	▪ Completeness vs. conciseness <IR> principle	✓		✓	✓
	▪ High degree of managerial discretion and subjectivity in defining material aspects	✓		✓	✓
	▪ Business centric view of materiality process	✓	✓		✓
	▪ Establish material thresholds for narrative information	✓		✓	
	▪ Lack of stakeholder engagement	✓			
Lack suitable criteria and specific standards	▪ Lack of compulsion and comparability	✓	✓	✓	✓
	▪ Need for innovative assurance standards or guidelines			✓	
	▪ Effectiveness of current assurance standard	✓	✓	✓	

6. Conclusion

Considering different participants, directly involved in the discussion of assurance on <IR>, with different background and perspectives, this study aims to provide a comprehensive discussion of the role of assurance in non-financial disclosure and of most challenges that are present in <IR> and still unsolved in CSR literature. In the existing literature on <IR> Framework, few studies focus on the topic of assurance and provide an

analysis into <IR> practice (Dumay, Bernardi, Guthrie, & Demartini, 2016).

The <IR> Framework has the potential of playing a relevant role in internal and external decision-making process and in bringing capital markets towards longer and more sustainable view (Tweedie & Martinov-Bennie, 2015, p. 56). In this context, assurance is considered a fundamental mechanism for enhancing user trust and the credibility of the reports (Cohen & Simnett, 2015, p. 68). Under the agency theory lens, the audit process should play an important role in reducing information asymmetry and moral hazard to capital providers (Zhou, Simnett, & Hoang, 2016, p. 13). However, the first results of our research demonstrates how assurance is perceived more as a tool for improving managerial confidence in their non-financial reports rather than a credibility-enhancing instrument for investors.

First studies in CSR assurance practice demonstrate how the external pressure, also coming from legislation in social and environmental context, act as a driver for the adoption of assurance in the early stage of reports diffusion (Perego & Kolk, 2012, p. 184). Conversely, other authors argue that companies adopt assurance for internal purposes and it became a symbolic practice to enhance reputation and legitimacy (Michelon, Pilonato, & Ricceri, 2015, p. 75; Gürtürk & Hahn, 2015). The findings in this study underline how the voluntary and non-standardized nature of reporting and assurance in non-financial disclosure leaves a wide discretion to managers in deciding what information to report and what to assure. Nevertheless, other studies have already noticed an increase of managerial control on assurance process that brings to the lack of quality and independency in assurance statement and a decrease of trust (O'Dwyer & Owen, 2007). Thus, as opposed to what it is expected in agency theory¹, assurance seems not be able to reduce the information asymmetry between investors and management, which does not always act in the best interest of the company and they are not able to guarantee reliable and complete information in non-financial and voluntary disclosure.

Under the legitimacy theory, the decline in the confidence of assurance practice that comes out from CSR studies (O'Dwyer, Owen, & Unerman,

¹ Some authors claim that assurance has the potential to improve “confidence in the accuracy and validity of the information provided” (Simnett, Vanstraelen, & Chua, 2009), the perception of lower corporate risks in the capital markets (O'Dwyer, Owen, & Unerman, 2011) and to reduce information asymmetry and to ensure the actual creation of value in IR (Adams, 2015)

2011; Bepari & Mollik, 2016) seems to be confirmed by the sceptical perspective of academic and investor research participants, who believe that assurance is a strategic tool for companies to enhance their reputation and being perceived as good corporate.

Investors seem to confirm a decline of trust in assurance services. They are aware that companies do not provide a complete and fair image of the business and they used to gather information from different sources and reports to make informed decisions. Furthermore, the interviews reveal that investors do not put much faith in narrative and “story-telling”, but they rely more upon financial reports, which already present a high level of assurance since there is a more mature and standardised practice.

As suggested also by Adams et al. (2016, p. 294), the <IR> Framework does not ensure complete dimensions of businesses or at least no more effectively than existing traditional forms of reporting. The IIRC’s view in considering the <IR> as the only corporate norm is diminished by the fact that mandatory requirements in traditional financial reports provide more accurate and comprehensive information for investors than a concise integrated report (de Villiers, Rinaldi, & Unerman, 2014, p. 1046). In fact, investors in the interview outsource the need for additional details and links to other documents, comparing the integrated report to a “conceptualization map” rather than a stand-alone resource of information.

The study intends to contribute to the literature offering practical perspectives of assurance process in non-financial disclosures. Particularly, it aims to provide an understanding of the role of assurance practice in the emerging context of <IR>. However, there is a need for developing further research involving a wider sample of participants in a global context. First, it is necessary to understand how much interest and demand there is from an investor in <IR> Framework (IAASB, 2015; Cheng, Green, Conradie, Konishi, & Romi, 2014) by analysing the impact on capitals markets and the benefits that companies receive in adopting assurance. Although, <IR> Framework needs to find its way toward legitimacy: investors have different expectation and it is still questioned whether <IR> Framework meets their needs. It is necessary to see how the <IR> is going to look like, how much it will be widespread and accepted into the market before thinking about develop new assurance methodologies.

Second, there is a need for additional and special guidance for assuring qualitative information. Practitioners require a principle-based guidance in common for all forms of non-financial and voluntary reporting. The IAASB is moving in this direction by releasing in August 2015 the discussion paper “*Supporting Credibility and Trust in emerging forms of*

External Reporting: ten key challenges for Assurance Engagements” in response to the demand for supporting credibility and trust and the need for a more flexibility in assurance services (IAASB, 2015, p. 6).

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The “why” and the “how” of the IR journey in medium-sized firms. Insights and implications from empirical cases

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Structured Abstract

Purpose – Integrated reporting (IR) represents a new reporting model that has been attracting growing academic attention. However, very few current studies address small to medium-sized enterprises (SMEs), and only a few pioneering works have focused on how early SME adopters are managing and implementing the IR framework. Accordingly, this work aims to deepen a still underdeveloped field of research and operation and devote some attention to IR adoption in the context of SMEs. The research design includes two main areas of inquiry: 1) why the IR journey has been experienced, to understand which types of companies and which entrepreneurial/managerial attributes favor, or hinder, the IR process in a medium-sized company; and 2) how the IR journey has transpired (in terms of time, the resources involved, its difficulties, and the resulting benefits or outcomes).

Design/methodology/approach – This topic is explored through a qualitative empirical case-study of two Italian companies that pursued different steps along their IR journey. Both cases were among the pilot companies in the Italian Network Business Reporting (NIBR) and were involved in releasing the *Integrated Reporting Implementation Guidelines for SMEs*. Following the action research approach, in-depth semi-structured interviews with both companies’ interlocutors was supplemented with data derived from informal discussions with NIBR members (scholars, entrepreneurs, managers, IIRC representatives, chartered accountants, consultants agencies, and banks) gathered during focus groups, workshops, and round tables, as well as from the analysis of company reports and technical documents issued by the NIBR working group.

Originality/value – The empirical analysis outlines the need for, and the efficacy of, simplified and friendly guidelines for SMEs’ aimed at operationalizing IR’s basic concepts and principles, such as materiality, integrated thinking, and connectivity. Further analysis finds support for: the need to clearly define the relationship between sustainability and integrated reporting; “fine-tune the main concepts of IR”

the main concepts of IR; and understanding the benefits derived from integrated reporting.

Findings – The results emphasize both the main criticalities and benefits derived from the IR process in medium-sized companies. They suggest the most effective path to IR requires preparation and management and should be explained in different steps with a

roadmap that spans several years. Process-driven and incremental logic are necessary to drive the evolution of entrepreneurship and organizational cultures towards IR. Moreover, the results highlight the importance of creating an internal IR working group and the benefits to be gained from such a group's direct involvement in the NIBR.

Practical implications – It is hoped this research will motivate scholars and practitioners to focus attention on the diffusion of IR among SMEs – a research field which has not been yet adequately investigated. Drawing on the analysis of pioneering Italian experiences helps to support managers, entrepreneurs, and practitioners to critically evaluate the implications of IR and subsequently adapt the IR framework with specific features to meet the needs of SMEs.

Keywords – medium-sized enterprises, integrated reporting, integrated report, case-studies

Paper type – Academic research paper

1. Introduction

Integrated reporting (IR) represents a new reporting model intended as “a more cohesive and efficient approach to corporate reporting that draws on different reporting strands” (IIRC, 2013: 2). Both public policy and organisational practices have grown rapidly in this area and have attracted a great deal of academic attention (Gray et al., 2014; De Villier et al., 2016; Abeysekera, 2013; Beattie & Smith, 2013; Flower, 2015; Frías-Aceituno, Rodríguez-Ariza, & García-Sánchez, 2013 and 2015; Jensen & Berg, 2012; Stubbs & Higgins, 2014; Brown & Dillard, 2014; Cheng et al., 2014; De Villiers et al., 2014; Dumay et al., 2016).

However, very few studies have been currently addressing SMEs (small and medium-sized enterprises), despite their generally recognised relevance in the socio-economic context (Smallbone & Wyr, 2000; Dobbs & Hamilton, 2007; Amorós et al., 2013). Up to a few years ago, SMEs were not considered as potential users of IR (Burrill, 2012), which is mainly targeted at large, publicly listed companies since the aim of the IIRC framework (IIRC, 2013) is primarily to improve the quality of information available to the providers of financial capital (Dumay et al., 2016). Only recently has IR been internationally acknowledged by the Chartered Institute of Management Accountants (CIMA - *Integrated Reporting for SMEs – Helping Business Grow - Case studies*, August, 2015) within the SME & Entrepreneurship Taskforce of B20/G20. Policy makers have also expressed an interest in supporting IR diffusion within SMEs through the World SMEs Forum (WSF), which has been set up to concretise recommendations and assist SMEs to overcome hurdles in the process of IR. Accordingly, a new specific section will be included in the

Example Database of the IIRC entitled “<IR> Reporters”, incorporating the best integrated reports practices released by SMEs. Furthermore, within the IIRC/NIBR-Italian Network Business Reporting-a specific working group was created in 2013 (<IR> and SMEs Working Group of NIBR), with the aim to develop and consequently diffuse specific guidelines for the implementation of IR in SMEs at the national and international level (NIBR, 2016 forthcoming).

To date, only a few pioneering studies have focused on how the early SMEs’ adopters are implementing IR (James, 2013a and b; Del Baldo, 2015). Despite the call for more research to further understand the IR initiatives (Kolk, 2010; Havlováa, 2015) and engage with actors responsible for reporting (Adams &Whelan, 2009; Parker, 2005), the suggested areas of additional research (De Villiers et al., 2014) do not explicitly mention the “topic” of IR in SMEs.

Starting from these premises, this works aims to deepen a new field of inquiry that is still underdeveloped, addressing the attention to the IR implementation in the context of SMEs. The focus is on medium-sized companies, a category that is potentially affected by the chance to evolve the corporate reporting, due to a strategic and managerial profile, which is more evolved than the small ones. The research design includes two main areas of inquiry: 1)Why the IR journey has been tested, in order to understand which companies’ and entrepreneurial/managerial attributes favor (or hinder) the IR process in a medium-sized company; 2) How the IR journey has been carried out (in terms of time, resources involved, steps, criticalities and experimented benefits and results). The analysis is empirically based in order to provide insights on the most critical aspects faced by the companies in implementing and adapting the IR to their components.

2. Theoretical background

The final draft of the International Integrated Reporting Council (December 2013; IIRC 2013) states that IR principles are applicable regardless of size. However, there is scarce literature on this topic and empirical research is only beginning.

Recently, through a meta-analysis aimed to critically evaluate what the focus and critique of the IR literature are and the future of IR research - Dumay et al. (2016) found that most published IR research presents normative arguments for IR, while there is minimal research examining IR practice. They point out the need to move beyond the first stages of research (focused on creating a discourse and triggering engagement and

demonstrate the benefit of IR) and bridge the gap between practice and academic <IR> research (Dumay et al., 2016: 13).

A clear call for more research that critiques IR's rhetoric and practice has been made. In addition, it has become clear that research on IR in SMEs is lacking. In fact, the analysis of IR articles with regard to the criterion "Organisational focus" (consisting of six attributes: publicly listed, private-SMEs, private-others, public sector, not-for-profit and general) revealed that out of 56 published papers, none addressed private-SMEs.

Coherently, we can claim that this is due to the fact that IR is currently in an experimental phase and approaches to it lack homogeneity (Vaz et al., 2016). Moreover, we can assume that this shortage could be attributable to the fact that SMEs have only started to approach IR in the last few years; therefore, there aren't any studies that explain how or why they are managing the IR process.

On the other hand, the gap could be due to the absence of guidelines "able to speak to" SMEs, which are easily adoptable by their consultants (particularly by chartered accountants). SMEs' specificities are mainly related to the different governance and organisational structures, the strategic approach (the logic of the strategic management process is usually incremental-based and process-driven and does not follow an object-driven logic, nor is it formalised) and the limited provision of managerial and financial resources. These features - which mirror the different culture of management control and reporting (Marchini, 2005; Gnan et al., 2015) - drive the hypothesis that, in the context of SMEs, the IR approach needs to be consistent with the entrepreneur's attitudes and purposes, the managerial culture, as well as the regulatory framework and the company's local operating environment. This hypothesis is partially confirmed by the fact that IIRC and other international organisations (such as IFAC and GRI) are interested in releasing specific guidelines addressed to SMEs, which still encounter difficulties in operationalising the sustainability reporting and IR principles (IFAC, 2008, 2015 a and b; GRI, 2013, 2014).

Only recently have a few pioneering contributions provided first insights on the opportunities that arise for small and midsize entities considering an IR approach (James, 2013a-b; Eccles & Krzus, 2015), but a weak attention has been devoted to the factors that hinder the implementation of IR or render it difficult (Del Baldo, 2015).

Stressing that IR principles are applicable regardless of size (being the framework principles-based), IR is not only considered an opportunity for giant entities but can also be relevant for SMEs because it improves

SMEs' strategic decision-making and risk management, enhances brand value and reputation, as well as employee loyalty, trust from funders, and favors a lower cost of capital (James, 2013b).

Some distinctive SMEs attributes (i.e., dynamicity and flexibility, creativity and low organisational complexity) render the application of the principle of connectivity easier than in large companies. Likewise, the integrated thinking principle, rather than being considered "too far" from SMEs, is intrinsically linked to SMEs' strategic management process, which merges the strategic and operational perspectives and involves a strict connection among input, outputs and outcomes (James, 2013a). The problem, however, concerns its formalisation (Del Baldo, 2015).

With regard to the key motivations for implementing the IR, a survey of pioneers who decided to embark on the IR "journey", initially drafting a social balance or/and a sustainability report, demonstrates that a main motive was needed to overcome the limits of financial reporting in fully explaining and communicating SME's values and the links between the strategy, performance and business objectives (Eccles & Krzus, 2015: 87-112). However, in starting the journey an SME should preventively assess the coherence of its managerial, financial and technological/informative resources and should adopt a process-based perspective to clearly and consistently determine roles, responsibilities and capabilities, fundamental to the IR process (Del Baldo, 2015).

Drawing from these studies and taking into consideration that SMEs typically adopt a strategic approach that is incremental-based driven, one can hypothesis that SMEs can implement the IR through a gradual process to move away from the outside-in approach, such as the GRI (Schaltegger, 2012b) to an inside-out (strategy led) or the twin approach (Higgins et al., 2014).

These considerations are partly confirmed by the empirical analysis relative to the experiences of two Italian SMEs presented and discussed in the following sections (4 and 5) after the description of the methodological approach. Following both the invitation (De Villier et al., 2014) to develop a further robust academic research to guide developments in policy and practice on several directions, such as the "reconciliation" between sustainability reporting standard-GRI and IR, and the call by Dumay et al. (2016) for more research that critiques the practice of <IR>, the empirical study intends to contribute to a deeper understanding on how IR operates within SMEs, trying to provide a reply to the following research questions: 1) Why the IR journey has been tested, in order to understand which companies' and entrepreneurial/managerial attributes favour (or hinder) the IR process in a medium sized company; 2) How the IR journey has

been performed (in terms of time, resources involved, steps, criticalities and difficulties experimented, benefits and results).

3. Methodology

In order to investigate the aforementioned topics, an empirical study has been performed using a qualitative approach and a case-study method (Eisenhardt & Graebner, 2007; Naumes & Naumes, 2006) that is considered particularly suitable for the in-depth investigation of a contemporary phenomenon (Yin, 2014) and understand management accounting in practice (Scapens, 1990; Dumay et al., 2016).

The selected cases are relative to two Italian companies (Dellas spa and Novamont spa) that are both included among the pilot companies belonging to the Italian Network Business Reporting (NIBR) which started up in December 2010 and represents the World Intellectual Capital Initiative (WICI) in Italy (Del Baldo, 2016). Namely, the first best practice relative to the Italian company (Dellas Spa) that implemented the IR process and adopted the integrated report, has been included in a specific chapter in Eccles & Kruz's (2015) book (see Chapter 3). The selected companies have been pursuing different steps in their IR journey; while Dellas has already issued its first integrated report in 2014, Novamont is still releasing a sustainability report conceived as a tool for reporting and strategy and implementing the roadmap toward the IR adoption.

The analysis was developed across a multi-year period, beginning in 2013 and continuing today.

Secondly, the study of these explorative cases follows the action research approach, which is useful for improving knowledge in the field of social and environmental research (Spence & Gray, 2008; Bebbington et al., 2009; Brown & Dillard, 2014). The action researcher does not stand as an independent observer (since he/she is part of the NIBR working group) but becomes a participant, while the process of change becomes the object of research (Benbasat et al., 1987; Sankaran & Tai, 2003).

We agree with Dumay et al. (2016) on the need for interventionist research that should drive academics to directly intervene in helping organisations understand whether and how <IR> concepts could be applied and contribute to both a theoretical and practice perspective (Dumay, 2010).

In addition to in-depth, semi-structured interviews with the company's interlocutors (the members of the working group set up for the IR process, including the CEO, the CSR Officer and external relations manager, the external consultant and the CFO), data has been supplemented by information derived from informal discussions with the NIBR members

(academics, entrepreneurs, managers, IIRC representatives, chartered accountants, consultants and banks) performed during focus groups, meetings and technical workshops, as well as through the analysis of internal documents, such as company sustainability and integrated reports, reports issued by the NIBR working groups and data drawn from the company websites.

Namely, semi-structured interviews were used as the primary method of collecting data. We based our inquiries on specific themes (the reason for deciding to implement/postpone the adoption of the IR process; the steps of the process; the difficulties and changes; benefits and future perspectives) which guided the direction of the interviews, in order to favor the surfacing of new insights on the topic (Qu & Dumay, 2011).

The research process involved interviewing 4 key informant interlocutors (two for each company, represented by the CEOs, and the CSR and Sustainability Officers) in October 2016. On January 27 and February 1, 2017, one follow up interview for each company was conducted with a senior manager and a member of the Board of Directors via telephone. Each interview lasted between 30 and 45 minutes. Interviews were recorded, transcribed and then coded using a manual coding approach. Two of the key respondents were part of the NIBR working group involved in releasing the IR guidance for SMEs. Finally, we used internal and external documents as secondary sources of data to supplement the data obtained from the interviews.

The remainder of the work presents the cases, while the final section discusses the main results drawn from the study and further research steps.

4. Case-studies: beyond releasing an Integrated Report

This section describes the main features of the implementation of IR experienced by two Italian companies, Dellas Spa and Novamont Spa. Dellas Spa belongs to the middle-class category, according to the parameters set out in the EU/EC Recommendation 2003/361, while Novamont Spa is a medium to large-sized company. For each company, a short profile is presented, followed by an explanation of steps, difficulties, achieved results and additional goals in adopting the companies' reporting model, currently based on the integrated (Dellas Spa) and sustainability (Novamont Spa) reports.

4.1 Novamont Spa

Novamont Group is world leader in the development and production of bioplastics and biochemicals through the integration of chemistry, the environment and agriculture. Novamont's vision is "Living chemistry for

a better quality of life”. Accordingly, it proposes a new model of sustainable development that includes the design of materials for market applications, with the result that their end-of-life becomes a resource for the promotion of local areas and the reduction of externality costs on the environment and society. The Group’s headquarter is in Novara; the production facilities and research laboratories are located in different Italian cities, while commercial offices and manages a network of distributors are active in different countries. With 271 employees, it posted sales of more than 159 million euro in 2015 and a portfolio of around 1,000 patents. The mission is focused on a calling for innovation and the creation of an integrated and sustainable model founded on intangibles (Research and development, intellectual property and a training centre for young graduates; see Novamont Sustainability Report, 2015, vol. I: 3).

Novamont has regularly published a sustainability report since 2008 in accordance with the international guidelines issued by the Global Reporting Initiative (GRI), today in the GRI – G4 version. The sustainability report represents a key tool for communicating the company’s value and its concrete actions in achieving environmental, social and economic sustainability.

The responsible management system is based on a manager responsible for defining sustainability-driven objectives applied to the company’s products and processes for the “ecology of products and environmental communication” who leads a team of collaborators with specific skills in the field of sustainability (Sustainability Report, 2016, vol. I: 46), charged with: 1) the application of the Life Cycle Assessment (LCA) to improve the life cycle of the products; 2) obtaining certifications for the environmental quality of the products and processes; 3) the implementation of CSR (Corporate Social Responsibility) practices; 4) the verification of the products’ safety for the environment and consumers and 5) communicating sustainability.

The sustainability report (which is externally assured) represents one of the pivotal elements of Novamont’s strategy of environmental, social and economic responsibility. Throughout the years, Novamont has progressively developed the GRI application level: from the core GRI 3.0 (reporting years 2008 and 2009), the B+ and A+ level (reporting years 2010-2014, in line with GRI 3.1) and the GRI version G4 starting from 2014, thus performing an evolving path from GSD (General Standard Disclosures) to DMA (Disclosures on Management Approach) up to the current SSD (Specific Standard Disclosures) core level.

Why not the integrated report (now)?

Currently, a specific group named “Ecology of Products and Environmental Communication” (ECOPEC) composed of 8 persons and lead by the Corporate Reporting manager, is in charge of the sustainability reporting with the support of an external consultant for the GRI application and a graphic designer for the preparation of the document. In 2016, after the departure of the past CSR officer, the CSR department (established in 2006) merged with the Life Cycle Assessment department, and the ECOPEC group took on the responsibility of social and environmental issues.

“There aren’t any special reasons behind the fact that Novamont has not yet chosen to produce an integrated report. The only objective reason is that they need someone internally to take responsibility of the process and who coordinates a group. Currently, Novamont is strongly committed to R&D activities and is carrying out many innovative projects through investments that attract major resources. If there had not been a clear willingness to pursue strategies for sustainability, we would not have even begun the “journey”. It is clear that at the moment there is a perfect coincidence of internal and external factors, further steps towards the integrated report will begin” (Novamont past CSR and Sustainability Manager, January 2017).

The main perceived difficulties in implementing the IR and applying the IIRC Framework principles are tied to the existing organizational structure which lacks of human resources to devote to the IR process.

“Our auditors have suggested the possible adoption of the integrated report although, for the moment, there is no choice in this respect, because the current resources do not allow us to start the process, however, the idea to pursue this is not completely ruled out for the future. A positive element lies in the fact that there is a unique manager responsible for both social and environmental aspects, thus favouring integration and synergies” (Novamont past CSR and Sustainability Manager, January 2017).

Among the critical issues to be resolved in order to implement the IR, two additional hindering factors emerge: the limitations of the information system and the informality of the strategic process.

“One of Novamont’s problems is that the company is medium to large-sized, but like small companies, the strategic process is not yet completely formalised, while a planned strategic design, which is necessary for releasing an integrated report, is absent. In the medium term, with the maturation of some innovative projects in progress and the consequent availability of resources, the IR will be possible and in full compliance with corporate intentions. The feasibility of this object is being discussed and is desired since Novamont is rich of intangibles, which are fundamental in the value creation process” (Novamont Responsible for Corporate Reporting February, 1st 2017).

“First, a critical aspect is the automation of data collection which is currently still problematic within the different offices. Both integrated thinking and connectivity exist but are not identified, described or “operationalised”. The corporate culture closely linked to sustainability should be improved. However, the process is ongoing. Novamont is trying to start its journey toward a more suitable reporting model that could include the IR” (Novamont Responsible for Corporate Reporting February, 1st 2017).

The main limitations of the current sustainability reporting affects the balance between resources and costs and economic tangible performance, while IR is not excluded in a long term perspective.

“In this regard, the benefits obtainable from the integrated report would be greater than those achieved with the current sustainability report, because Novamont is distinguished by the high value of its intangibles and capitals (such as human capital and relational capital). I think that the IR is an achievable and desirable goal for Novamont. Having had the opportunity to see the integrated reports of other companies, Novamont could definitely do better than others taking into account its distinctive level of intellectual capital” (Novamont Responsible for Corporate Reporting February, 1st 2017).

4.2 Dellas Spa

Dellas is an Italian industrial group founded in 1973, headquartered in Lugo Grezzana (Verona), which with over 40 years of activity has gained a top position as an international market leader in the manufacturing and sales of a wide range of diamond tools for marble, granite and agglomerate. Its excellence comes from human resources, R&D and

distinctive entrepreneurial and managerial capabilities. In 2015 Dellas achieved a consolidated turnover of approximately 20 million euro and an invested capital of 33 million euro, counting 140 employees.

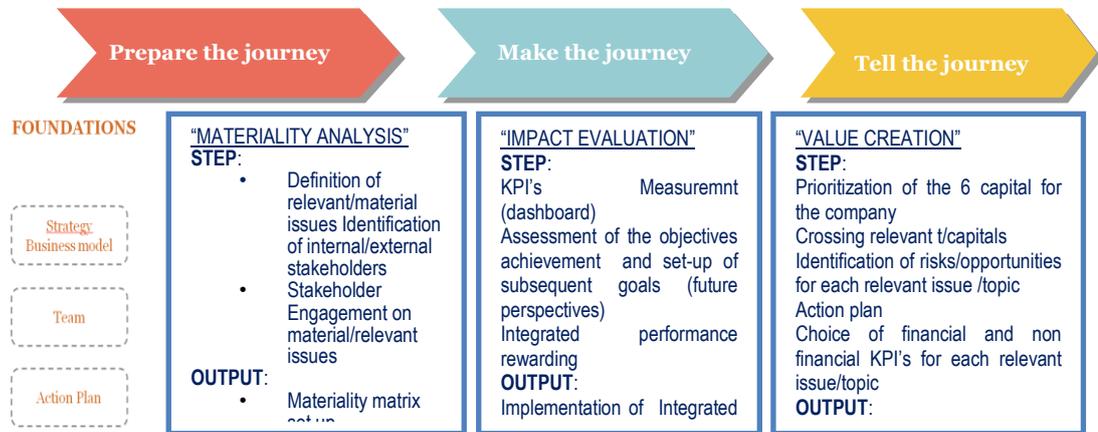
A step by step process: the how of IR

Dellas realised its first integrated report in 2013, which represents the result of an evolutionary process, matured since 2011, passing through different reporting models (See Dellas Annual Report, 2015: 24). Drawing from the international tendencies in business reporting in 2014, Dellas applied the principles of the International <IR> Framework (December 2013) in order to disclose its value creation model, being aware that efficient financial-economic communication improve relationship with its stakeholders and reinforces the company's strategic and operational credibility.

“Initially, in 2011 and 2012, the <IR> Framework was still its current version and its principles were unknown to us. Starting with the 2013 Annual Report, we have provided the integration of the economic and financial, social and environmental profiles and specific sections of the report, according to the IIRC Framework, defining the key performance indicators of the areas of governance and social and environmental impact and opening channels of dialogue with stakeholders. In the 2014 report, we expanded the reporting model, adopting the GRI Sustainability Reporting Guidelines - G4 version, which enabled us to better define the material issue and KPIs to measure and communicate. We have also implemented additional standards, and divided the KPIs in relation to capital described in the IIRC Framework” (Dellas CEO, January 2017).

Approaching the journey towards IR, Dellas followed on a programmed route. In order to ensure a complete narration of the company history of value creation, Dellas identified a team formed by the Chief Executive Officer (CEO) and 5 managers: Chief Sales Officer (CSO), Chief Financial Officer (CFO), Chief Operations Officer (COO), Chief Human Resources Officer (CHRO) and R&D Manager. Being aware that more than a year was necessary to introduce an integrated decision-making, a roadmap of 3/4 years, named “Corporate Reporting Evolution”, was planned and scheduled (Fig. 1).

Fig. 1 – The Roadmap



Source: NIBR working group “Guidelines for IR in SMEs” (2016), draft.

“The main motive to implementing the IR was (and is) the will to understand, assess and communicate how Dellas creates value. Integrated thinking has raised awareness on the fact that the company can build its future on solid foundations only if it produces positive economic results and, in the mean time, social, environmental and ethics value.

According to the CEO: *“Through the improvement of the integration of social and environmental aspects in the development of strategic objectives and the overall value of a company, the foundations were laid for learning about and better understanding the link between environmental and social performance and the success of the business. The approach of IR has allowed the company to understand the connections between financial and non-financial dimensions and to understand how sustainability can influence profitability and vice versa. In other words, it allowed to improved the global strategy to generate and communicate the company’s value”* (Dellas CEO, January 2017).

Dellas’ integrated report has become the main communication tool for all stakeholders. It has been inserted in the IIRC database of emerging IR best practices. Despite the process of continuous improvement the principle of connectivity is one of the most difficult to apply.

“We are currently engaged in improving connectivity, as the IIRC Framework suggest, to more effectively measure the factors that affect the organisation ability to create value over time. We are also improving the

performance of the Business Model, which is based on different forms of capital” (Dellas CEO, March 2017).

Among Dellas’ long-term goals is the incorporation of the IR KPIs in Dellas’ corporate performance management and the integrated report assurance.

“The assurance is currently a sore point; every year we wait to tackle this issue while deciding, which would increase the value of the report. At this moment, we are not able to identify who get it done” (Dellas CEO, March 2017).

5. Discussion and Conclusive remarks

Drawing from the the cases, we can observe differences and similarities in the experiences performed by Dellas and Novamont with regard to the why and how of IR.

First, both the companies are aware of the fact that the IR implementation requires an organisation to formalise and manage three fundamental aspects: 1) the critical revision of the business model and strategies; 2) the need to create a team that involves the main business functions and 3) the need to set the resources, targets, time and costs for the IR implementation. The roadmap to get to the IR requires at least a period of 2/3 years and is structured around basic steps (Fig. 1). The analysis points out that even an SME can succeed in organising a (albeit small) working group. However, while in Dellas the IR team (still existent) has driven the evolution of the reporting model through the years, in Novamont the lack of a key internal leader currently hinders a further step toward IR. Moreover, the availability of a suitable informative and technological system emerges as a key factor in supporting the journey.

Secondly, both the companies are aware that the internal benefits deriving them from IR can be obtained only with the involvement of the whole organization and the authentic commitment of the board (Adams, 2002; Maharaj & Herremans, 2008).

Thirdly, the importance of having participated in the NIBR working group emerges. This experience has allowed the awareness of the IR model to mature, to familiarize with its advantages and limitations and has encouraged organisational changes in both companies, albeit at different degrees. Indeed, Novamont is still in a pre-start up step, while Dellas is going through a stage of IR development and is committed to enhance the reporting process and the quality of the report.

Moreover, the benefits of the IR journey are significant for each of the companies, both from the internal and external perspectives. From the internal one, the IR process has nurtured a holistic vision of the value process creation, positively affected the decision making process, and enhanced cohesion and transparency (Frías-Aceituno et al., 2013), thus contributing to transforming the corporate processes (Phillips et al., 2011). The internal benefits also included an assessment of intangibles (Lev, 2004; Goodridge, Haskel & Wallis, 2014; WICI, 2014; Zambon & Guenther, 2011) that would otherwise remain hidden (i.e., specific technical and organisational skills, product quality, excellent relations with clients, employees and the local community) and strengthening a clear knowledge of the company's strategies and results, previously communicated in a fragmented way or not totally communicated, breaking down operational and reporting silos (Roberts, 2011). From the external point of view, the IR represents a tool for the improvement of financial and non-financial disclosure, increasing reputation and strengthening relationships with relevant stakeholders (Eccles & Armbrester, 2011, Eccles & Krzus, 2010; Watson, 2013).

These considerations allow us to provide an answer to the first research question (RQ1), related to the why of the IR. However the implementation does not appear to be a simply choice. Many barriers emerge, due to the difficulties in operationalising some IR principles (such as connectivity and integrated thinking) and the "high level of technicalities" of the IR framework that should be necessarily simplified with regard to SMEs. This feature appears evident for Novamont, and notably for Dellas, which struggles to find its "own way" in adapting the content of the framework to its business context.

Therefore, the answer to the second research question (RQ2), related to the how to implement the IR is more complex. On the one hand, the IR is the completion of an evolutionary process affecting the reporting model (Dellas). On the other hand, it is a possible goal, for which the company is not yet ready, because uncertainties persist due to internal and external factors (Novamont). We can therefore assume that IR represents a possible goal for SMEs, to be conceived as a process to perform in a medium-to long time perspective, in accordance with the company specificities (competences, culture and resources). In this regard, the sustainability report can be adopted as final or an intermediate step until the right contingencies have matured for releasing the integrated report.

In conclusion, findings highlight that IR allows to capture interconnections between the financial and non-financial drivers of performance (such as experimented by Dellas and as foreseen by

Novamont) (Higgins, Stubbs & Love, 2014). However, practitioners and scholars should contribute to ameliorate the IR framework and render it more suitable to SMEs. In this regards the present work provides empirical evidence that the IR framework can (and should) be “tailored” to SMEs in order to develop its “usability” through an incremental logic.

Finally, we are aware that the work is not free of limitations, mainly due to the fact that the case-analysis is related to a limited number of cases, and thus results are not generalisable. Therefore, further research steps should be performed - when a considerable number of integrated reports issued by SMEs will be available - in order to extend and deepen the comparative analysis.

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