Acknowledgments

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Introduction

1. Overview of the book

This book provides an overview of non-financial information disclosure in the accounting literature stream. It aims to frame the evolutionary path of non-financial information disclosure and investigate the current scenario regarding mandatory compliance with non-financial information in the Italian context.

The development of non-financial information disclosure has been a great stride beside sustainability accounting and reporting in consequence of the understanding of business's crucial role in tackling urgent challenges and pressures in our current, complex, and ever-changing environment. We encounter environmental disasters, climate change and the loss of biodiversity, societal demands, sweatshop child labour, social inequality, and declining life-support systems. Furthermore, managerial fraud and corporate scandals along with the stock market collapse of the global financial crisis have increased asymmetry information and jeopardised trust among parties, which in consequence have led to a re-examination of responsibilities and governance mechanisms. A notable shift has transformed a rational and technical consideration of shareholder value maximisation and capital market-driven information into urgent calls for sustainability imperatives and multi-faceted responsibilities juxtaposed with a harmonisation of different stakeholders' interests. Therefore, sustainability and accountability have become overriding factors as acknowledgements of businesses' roles in society as responsible citizens. In this vein, management studies have started to conceptualise business responsibility into decision-making processes, thus shaping the strand of sustainability accounting and reporting.

Inspired by the above considerations, this book tracks the evolutionary background, traits, and characterisations of non-financial information disclosure as well as its theoretical perspectives from which we may learn to apply it in practice. The book builds on the accounting literature stream to draw non-financial information disclosure's evolution and characterisations, whilst it

anchors to the theoretical conceptualisations of agency theory, institutional theory, legitimacy theory, and stakeholder theory to feature the underlying reasonings of such disclosure. The essence of each theories can explain the intertwined rationales behind the pursuit of such disclosure practices regarding non-financial information.

Under these conceptual underpinnings, the book draws historical and progressive changes of non-financial information disclosure to the newly mandatory environment from a voluntary-based approach. In further detail, the development of non-financial information disclosure was initiated within the last 40 years under a voluntary and unregulated nature of reporting. Globally, international organisations and stock exchanges have implemented a myriad of nearly 255 worldwide standards, codes of conduct, and audit protocols to address sustainability-related information, thus leading to certain levels of unambiguity for illustrating and understanding non-financial information content. The proliferation of international standards frameworks includes AccountAbility 1000 (AA1000 for social and ethical accounting, auditing, and reporting), the Global Reporting Initiative (GRI), the Climate Disclosure Standards Board Framework, the Eco-Management and Audit Scheme (EMAS), the Guiding Principles Reporting Framework on Business and Human Rights, ISO 26000 of the International Organization for Standardization (ISO), and the recent Integrated Reporting Framework, among others.

More recently, non-financial information disclosure has turned into an imperative call to guarantee data's comparability and enact a common playing field of sustainability reporting across Europe. In the following paragraphs, the kind of breakthrough towards mandatory requirements of non-financial information is discussed with the shifting of Directive 95/2014/EU into the subsequent state member transpositions of national laws. Italy transposed Directive 95/2014/EU into Legislative Decree 254/2016. This decree has forced public interest entities to prepare non-financial statements in their management reports starting from the 2017 financial year. Large publicly traded companies must disclose their business models, policies, outcomes, and related Key Performance Indicators (KPIs) along with their risks and opportunities related to, at minimum, environmental, social, and employee matters that concern human rights, anti-corruption, and bribery issues. Directive 2014/95/EU and Legislative Decree 254/2016 left a broad margin of discretion in such implementation, as stated by the Non-Financial Reporting Guidelines issued in 2017: 'the Directive has been designed in a non-prescriptive manner and leaves significant flexibility for companies to disclose relevant information in the way that they consider most useful' (European Commission, 2017). For instance, the regulator neither specifies the type of reporting document for

non-financial information disclosure nor provides a unanimous international standards framework on which to rely for the according disclosure of KPIs.

In light of the aforementioned considerations, the book addresses an empirical investigation on non-financial information mandatory disclosure's level of compliance to illustrate exploratory insights for the first year of such a regulatory implementation. Furthermore, in light of the path development of voluntary disclosure and the disclosure discretion left to the preparers, a relation may exist between management discretion and mandatory compliance. The management discretion is addressed by considering the number of prior years of voluntary disclosure and the related discretionary disclosure corresponding to the type of documents and international standards frameworks upon which to rely. Hence, the intent is to understand whether or not management discretion might be related to mandatory compliance. To this end, the following research questions have been posited:

RQ1: *Which is the level of mandatory compliance with non-financial information disclosure?*
RQ2: *To what extent does management discretion affect the level of compliance with non-financial information disclosure?*

In pursuing these objectives, the empirical research implements and adopts two methods for the investigation of the 150 listed Italian companies that are obliged to prepare their non-financial information disclosure in accordance with Italian Legislative Decree 254/2016. First, the research develops a non-financial disclosure score based on a dichotomous approach following a quantitative content analysis of the 2017 non-financial statements to assess their level of compliance. Then, it employs a multivariate regression analysis to test whether or not the type of reporting document and the number of prior years of sustainability reporting affect their compliance.

The novelty of this empirical investigation lies in the institutional, contextual setting of this mandatory environment; in addition, linked to this investigation is the theoretical issue that the research raises as the attitude adopted when reacting in response to such implementation. Such an empirical design offers theoretical and practical contributions, both of which are addressed in the next section.

2. Theoretical and practical contribution of the book

This book contributes to the stream of sustainability accounting literature both theoretically and practically.

Under a theoretical standpoint, the book examines the role of the international standard setters and regulators in shaping non-financial information disclosure and its development paths in favour of the harmonisation towards mandatory requirements. It draws the academic contributions reflected in the well-developed setting of international standards frameworks to portray disclosure, monitoring mechanisms, and governance structure on sustainability issues. It provides thoughtful discussions on constructive criticisms concerning sustainability reporting. Furthermore, the book describes different perspectives of the theoretical arguments that are made to focus on non-financial information that is useful for stakeholders, while it finally sheds lights on companies' reactive attitudes in adherence to regulative logics as responses to institutional legitimacy.

Under a practical standpoint, the book provides first insights of mandatory disclosure practices, which can be useful for users as a groundwork for further improving the disclosure. Companies are guided towards applying such disclosure according to their industry sector, because they can learn from one another by addressing material topics core to their businesses. Regulators and standard setters may consider that potential practices and policies enhance a coherent manner of non-financial information disclosure. They can shape guidance to improve the non-financial information disclosure and eventually alleviate the possible misalignments that arise between mandatory requirements and management discretion that, in turn, edge comprehensive disclosure and the understandability of sustainability practices.

I hope that at least a few insights will spark further conversations and enlarge perspectives of non-financial information disclosure in the accounting literature stream.

3. Structure of the book

On the basis of the above considerations, the book is structured as follows (see Figure I.1).

Chapter 1 reviews the academic literature on non-financial information disclosure following the disclosure taxonomy into the three levels of analysis proposed by Devalle and Rizzato (2013). Beginning with the analysis of the information type – namely, *financial information* versus *non-financial information* – the chapter addresses the established financial information within financial reporting and then deeply discusses the development of non-financial information. This analysis flows by considering the obligation to specifically disclose *non-financial voluntary information* versus *non-financial mandatory*

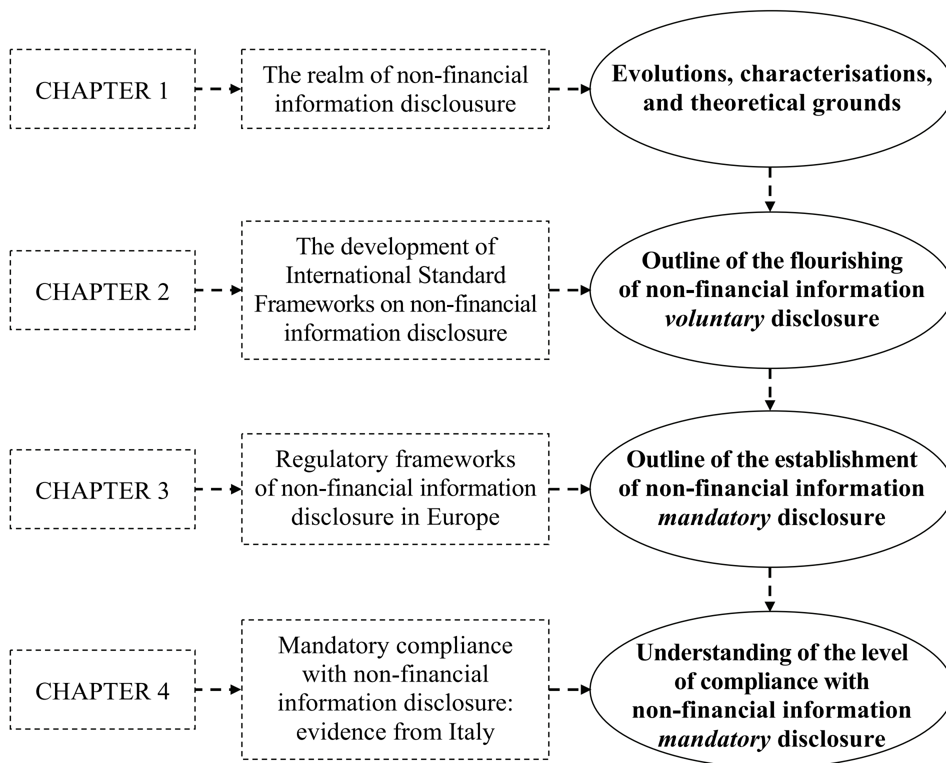
information alongside the way information (*qualitative* and *quantitative information*) is disclosed; hence, the chapter designs the collection methods for assessing non-financial information disclosure. Finally, the analysis anchors to the theoretical grounds to explain the motifs that drive – or the underling reasonings that forge – the development of non-financial information disclosure. This chapter aims to track the evolutionary paths in the realm of non-financial information disclosure.

Chapter 2 explores the colourful and vivid environment of the international standards frameworks that shapes non-financial information disclosure under a voluntary-based approach. By addressing the main international standards frameworks, the chapter describes their nature, objectives, and configurations as well as the surrounding debate on their strengths and drawbacks. This chapter aims to frame the flourishing of the international standards frameworks over non-financial information voluntary disclosure as well as describe the features of the most globally recognised international standards frameworks.

Chapter 3 illustrates the development paths towards a mandatory regime of disclosure across Europe. Thus, it reviews the national laws corresponding to non-financial information disclosure and then moves onto the breaking stride of Directive 95/2014/EU and the related national law transpositions of such compulsory requirements, which shapes a common-ground field of non-financial information disclosure.

Chapter 4 provides initial insights into the application of non-financial information disclosure's mandatory adequacy across Italy. The chapter focuses its empirical analysis on all 150 listed Italian companies that are obliged to prepare their 2017 non-financial statements for the first year of mandatory compliance according to Italian Legislative Decree 254/2016. The chapter's aim is twofold; it firstly aims to define their level of compliance in the first year of this regulatory adequacy, while it secondly aims to verify the relationship between their level of compliance and management discretion – namely, to understand whether or not management discretion affects compliance level.

Figure I.1 – *Structure of the book*



Source: Author's elaboration.

1.
The realm of non-financial information disclosure: evolutions, characterisations, and theoretical grounds

1.1. Introduction

Non-financial information disclosure has escalated its way up the accounting ladder over the last 40 years. By juxtaposing sustainability reporting and social accounting, such disclosure has become the vehicle for communicating information about how a company runs its business because this disclosure draws a portrayal of the company's objectives, strategies, activities, and performances. It includes the company's basic features (e.g., industry, nature of the business, size) and comprehends the disclosure of the corporate governance structure and the reporting process. Furthermore, it tracks targets, processes, and results in order to describe how sustainability issues (e.g., economic, social, and environmental practices, human rights, and product responsibility) are entangled with corporate strategies.

Along this line, corporate reporting has gathered a wide connotation, as it has become 'an essential means by which companies communicate with stakeholders as part of their accountability and stewardship obligations' (Federation of European Accountants, 2015, p. 7). Such reporting is the communication process between managers and stakeholders (Allegrini, 2003; Greco, 2010) that explains business decisions, financial and non-financial targets, processes, and results that hold the attention of a variety of constituents; for instance, investors and analysts may use disclosure to rank investment opportunities, suppliers and customers might aim to monitor a company's actions and practices, while public governments may require information in order to delineate policies and public goals. Along this line, the contemporary definition of corporate reporting provided by the Federation of European Accountants (2015) is adopted as an anchored starting point because it embraces the disclosure of both fi-

nancial and non-financial information for multi-faceted stakeholders' interests.

The mainstream accounting literature classifies disclosure according to the type of information disclosed, the obligation to disclose information, and the way such information is reported (Devalle and Rizzato, 2013, p. 91). Considering the type of information disclosed, we have non-financial information disclosure, which has gained prominence beside financial information disclosure. Conventional financial information disclosure is related to a company's financial statement and guides financial and economic decisions, enhances operational efficiency, improves risk management, and supports investors' confidence. Conversely, non-financial information disclosure includes a broad range of information that can be presented in both financial statements and other documents [1]. With reference to the obligation to disclose, information can be voluntarily presented against other information that may be forced by regulation and compulsory requirements. The first type (voluntary disclosure) relies on the self-disclosure of information for a credible signal to markets and stakeholders (Malsch, 2013) and is considered an inner method of self-regulated communication. The second type is termed mandatory disclosure because it is imposed by the law. Ultimately, this information can be quantitative or qualitative according to the way the information is reported. Quantitative information is presented in the form of numbers, whilst qualitative information includes narratives, texts, and pictures.

Similarly, Trucco (2015) groups accounting information into the following three levels of analysis. The mandatory versus voluntary information disclosure and financial versus non-financial information disclosure clusters follow the classification provided by Devalle and Rizzato (2013), while the third level of analysis refers to forward-looking information against historical information according to a specific time frame. The former disclosure refers to future strategies, action plans, and expected targets, while the latter includes information related to past business events, conducts, operations, and performances; as stated by Trucco (2015), 'these three levels of analysis are not independent of one other, and the relative boundaries are not easily detected and defined. As a matter of fact, mandatory disclosure could encompass financial and non-financial information as well as forward-looking and historical information. The same considerations could arise from the side of voluntary disclosure. Furthermore, financial information as well as non-financial information contained in mandatory disclosure could be forward-looking and/or historical information. Similar considerations could arise from the side of voluntary disclosure' (p. 15).

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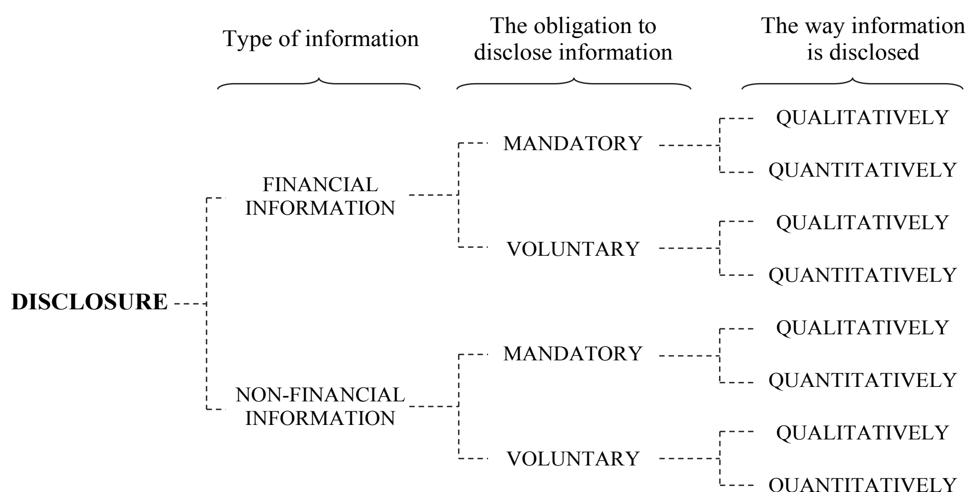
[1] A thoughtful discussion on the meanings for non-financial information disclosure will be presented in Section 1.4.

Concurring with these classifications thus far, Figure 1.1 illustrates the disclosure taxonomy under which the rest of this chapter will accordingly discuss the genesis and development paths of non-financial information disclosure. In fact, financial disclosure has lain at the heart of early mainstream accounting literature, while non-financial information disclosure has progressively conquered a position alongside financial information. Along this line, in its initial stages, non-financial information disclosure was primarily classified under a voluntary-based approach; it later developed into a common-ground field with mandatory requirements.

Figure 1.1 – *Disclosure taxonomy*



Source: Author’s elaboration.

Accordingly, this chapter outlines non-financial information disclosure by drawing on this evolutionary path and keeping with the disclosure taxonomy depicted in Figure 1.1. In so doing, the chapter seeks to provide a comprehensive representation of the flourishing of non-financial information disclosure, the current scenario, and the underlying reasons that drive such an approach.

The remainder of the chapter is organised as follows. Section 1.2 traces the historical evolutions of disclosure by tracking the main streams of financial disclosure and non-financial disclosure. Section 1.3 focuses on the meanings and controversial understandings of the term ‘non-financial information’ in further depth. Section 1.4 subsequently moves onto the analysis of non-financial information disclosure under a voluntary-based approach against a

mandatory regime of disclosure. Section 1.5 describes the ways under which non-financial information disclosure can be presented (e.g., qualitative versus quantitative), while Section 1.6 follows by presenting the consequent ways academics and practitioners collect non-financial information disclosure. Section 1.7 attempts to explain the bottom reasons and underlying motifs of non-financial information disclosure, which can be articulated through the acknowledgement of the range of theories that explain specific ways of thinking and perceiving (e.g., agency theory, institutional theory, legitimacy theory, and stakeholder theory). Section 1.8 draws the conclusions.

1.2. Historical evolutions of financial and non-financial disclosure

The genesis of disclosure is linked with accounting, which involves recording transactions in inventories and bookkeepers and translate those transactions into information flows. The circuit of information is gathered into the company's information system (Cantino, 2005), which turns all the recorded transactions into internal and external information and intertwines them with one another. On one hand, internal information uses accounting information to support the company's internal decision-making process and internal purposes, such as planning and control; on the other hand, external information includes objectives, results, and performances that serve external purposes within the outside world [2]. Therefore, the information system serves a variety of purposes that range from managing internal procedures, overseeing the internal control, and ensuring transparency of information for the company's external users (Cantino, 2007; Cantino and Devalle, 2011) [3].

External users possess different interests and accordingly call for different information. In this vein, the company must comprehend an expansive array of information in order to satisfy different stakes, with the ultimate goal to establish transparency among all stakeholders. The interplay between the company and its stakeholders can be perceived as a socially grounded relationship based on the former's commitment to satisfy all interested parties [4]. In such a

[2] Based on such a distinction, accounting is generally classified into *management accounting*, which uses accounting information to support a company's internal decision-making processes, and *financial accounting*, which informs external users.

[3] See Cantino, V. (2005), *Management Information System*, McGraw Hill. Cantino, V. (2002), *Valore d'impresa e merito creditizio – Il rating*, Giuffrè.

[4] The Italian conceptualization of a company is the following: the '*azienda*' is intended as 'an economic coordination established to satisfy human needs' (Zappa, 1950, p. 54)

relationship, accountability and responsibility interface with each other (Zadek, 1998, 2004).

The evolution of corporate reporting and disclosure must be acknowledged as a reaction to the progressive changes of stakeholders' interests and needs (Tschopp and Huefner, 2015, p. 13). While financial reports are mainly prepared to showcase a company's achieved profits and financial results for investment purposes regarding the interests of shareholders, investors, and lending institutions, sustainability reporting presents a broader representation of the company's objectives towards sustainability issues with the aim of meeting the needs of disparate stakeholders, including employees, customers, suppliers, governments, shareholders, potential investors, and society as a whole. The commonality between financial reporting and non-financial reporting relates to transparency, however, we must acknowledge different views when analysing the moral duty of reporting to achieve transparency. In the eyes of financial reporting, the basic premise of transparency lies upon the asymmetric information reduction under an agency theory perspective, whilst in sustainability reporting, transparency is perceived as an improvement of equality within society that includes an inclusive logic that satisfies stakeholders' demands and acquires organisational legitimacy (Nielsen and Madsen, 2009).

Tschoop's (2015) study compares the path developments of financial reporting and Corporate Social Responsibility (CSR) reporting following the Comparative International Accounting History (CIAH) framework proposed by Carnegie and Napier (2002). Within this framework, the characterisations of period, places, people, practices, propagation, products, and profession describe similarities and differences as well as how types of reporting have evolved over time (p. 565). Table 1.1 summarises the seven main dimensions drawn by the CIAH framework.

Drawing upon these premises thus far, the next sections will frame financial and non-financial disclosure alongside the evolution stream of financial and sustainability reporting.

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and 'an economic system of forces in continuous adaptation to the composite economic system of which it is a complementary part, in order to carry out a production process or a distribution process or, at the same time, a production and distribution process [...] for the satisfaction of human needs' (Amaduzzi, 1936, p. 19). Under this holistic view of the '*azienda*' concept, a business's purpose is to ensure its continuity throughout the year with a residual distribution of dividends to shareholders following an equal compensation of all stakeholders; see Zappa (1927); Onida (1961); Ferrero (1987); Signori and Rusconi (2009).

Table 1.1 – Comparison of financial reporting to sustainability reporting

Dimensions	*Financial reporting*	*Sustainability reporting*
Period	Evolution of capitalism, industrialisation, and increased participation in capital markets	Evolution of sustainability movements and social activism in favour of environmental challenges and sustainability concerns
Places	Worldwide diffusion following financial accounting standard-setting bodies, such as the IASB, the U.S. FASB, and governments	Primary establishment in developed countries under a voluntary-based approach and recent changes to a mandatory regime of disclosure
People	Shareholders, investors, debt and equity providers	Employees, customers, suppliers, shareholders, investors, governments, society
Practices	The EU has applied IFRS, whilst the U.S. has maintained the U.S. GAAP	There is no unanimous consensus around a common international standards framework
Propagation	Intergovernmental institutions have promoted IFRS	Intergovernmental institutions have encouraged voluntary applications
Products	U.S. GAAP are rule-based standards, whereas IFRS are more accurately principles-based standards	GRI is rule based but leaves to companies three different applications of such a disclosure
Profession	Governmental regulatory bodies, such as the SEC and FASB in the U.S. (domestically) and the IASB (globally)	GRI, AccountAbility, the UN Global Compact

Source: Tschopp and Huefner (2015).

1.2.1. *The longer-established development of financial reporting*

Financial reporting includes reporting information into the balance sheet regarding how much the company owns and owes, the costs incurred, and the revenues earned on the income statements as well as the flows of financial cash on the cash flows statements. Thus, such reporting computes net assets and the net income during a distinct accounting period. Financial reporting was designed to provide information on past and current financial positions within an accounting period.

Along this line, financial disclosure can be defined as 'the formulation of information flows of the company in favour of the users – current and potential – with the aim to provide information – both historical and forward-looking – with reference to the economic and financial position of the company' (Devalle, 2010, p. 1).

The International Accounting Standards Board (IASB) set forth that the objective of financial statements is to provide information about the financial position, performance and changes in financial position of an entity that is useful to a wide range of users in making economic decisions (International Accounting Standards Board, 2010). The 'Comprehensive Business Reporting Model: Financial Reporting for Investors' addresses the role of financial statements and establishes the objective of providing useful disclosure for sound investment decision making [5].

In Europe, two Directives provide a complete set of rules for the preparation and content of statutory financial statements. Directive 78/660/EEC for individual financial statements has been in place since 1978, and Directive 83/349/ECC for consolidated financial statements since 1983. They are often referred to as the "Accounting Directives". The international harmonisation process has been enhanced when the EU had decided to obliged listed companies to apply the International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) in 2005. The Financial Accounting Standards Board (FASB) has improved the global accounting standards by setting forth 'a reasonably complete set of unbiased accounting standards that require relevant, reliable information that is decision useful for outside investors, creditors, and others who make similar decisions would constitute a high quality set of accounting standards' (FABS, 1998 cited from Fajardo, 2016). The primary objective of such an international convergence was to promote a common language in companies' accounts, enhance cross-border comparability, and satisfy the aims of investors and the market alike (Trucco, 2015). In fact, this process was initiated in response to the increasing necessity to estab-

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[5] 'Corporate financial statements and their related disclosures are fundamental to sound investment decision making. The well-being of the world's financial markets, and of the millions of investors who entrust their financial present and future to those markets, depends directly on the information financial statements and disclosures provided. Consequently, the quality of the information drives global financial markets. The quality, in turn, depends directly on the principles and standards managers apply when recognizing and measuring economic activities and events affecting their companies' operations. Financial statements should serve the needs of those who provide capital to a company and bearers in a company. Hence, we believe that one of primary objectives of financial reporting and disclosure must be to provide all of the information that the owners of common equity require to evaluate their investments. Common shareowners use of information to make forecasts of future cash flows, evaluate the sustainability of the company's business model, and assess its cash-generating ability. This information is used to estimate the investment's value and its future value'. CFA Institute Center for Financial Market Integrity, A Comprehensive Business Reporting Model: Financial Reporting for Investors, July 2007 www.cfapubs.org (Schacht *et al.*, 2007).

lish data comparability and enhance the efficiency of global markets by improving the information available to investors.

Along this evolutionary trend, academics in the accounting and finance literature have devoted intensive efforts towards investigating the effects of adopting the IFRS in different countries. Some studies analyse the impact of the harmonisation process, and findings indicate that this process has both enhanced transparency and comparability as well as facilitated international business (Zarb, 2006). Other academic works capture the effect of IAS/IFRS disclosure on 'the relationship between accounting data and stock prices' [6] (Devalle *et al.*, 2010, p. 93). Furthermore, other scholarly research works investigate sequential changes in the internal control system and information system following the introduction of IAS/IFRS (Cantino and Devalle, 2005, 2011; Andrei, 2006; Marchi, Paolini and Castellano, 2008).

In the aftermath of the financial crisis and corporate scandals (e.g., Enron, J.P. Morgan) that have severely affected the economy within the last decade, inadequate disclosure of information, scarce procedures on risk assessment, the total absence of governance structures to ensure accountability, and transparency have been acknowledged as primary deficiencies (Waddock, 2011; Brockett and Rezaee, 2012a). Moreover, capital providers – shareholder–stockholders and, generally, equity and bond providers – have been exclusively at the centre of attention, while managers have primarily focused on short-term results to reward shareholders' expectations. The focal objective was to increase shareholder value and stock prices at the expense of other stakeholder groups (e.g., suppliers, customers) who received residual attention.

In contrast to the dominant market logic and wealth maximisation, the idea that companies possess more responsibilities than the sole meeting of shareholders' claims has gathered a consensus and has firmly acquired prominence in response to the financial crisis fallacies. In 2010, the IASB started recognising increasing interest to forward-looking information and qualitative characteristics (IASB, 2010b) [7]. The Management Commentary attempted to stimulate the disclosure of more non-financial and forward-looking information than financial and historical information (IASB, 2010b). In a similar vein, the Accounting Standards Board in the U.K. issued the Reporting Statement: Op-

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[6] Value relevance can be described as '[...] the ability of financial statement information to capture or summarize information that affects share values' (Hellström, 2006, p. 325, cited in Devalle, 2010).

[7] The Management Commentary includes forward-looking information as well as that which possesses the qualitative characteristics described in the Conceptual Framework for Financial Reporting (the IFRS Practice Statement Management Commentary) (IASB, 2010b) for the launch of dedicated standards related to sustainability.

erating and Financial Review (ASB, 2006), which is a 'narrative explanation, provided in or accompanying the annual report of the main trends and factors underlying the development, performance and position of an entity during the financial year covered by the financial statements, and those which are likely to affect the entity's future development, performance and position'. In June 2014, the Financial Reporting Council issued the Guidance on the Strategic Report, which encouraged companies to prepare a 'high quality strategic report – which provides shareholders with a holistic and meaningful picture of an entity's business model, strategy, development, performance, position and future prospects' (ASB, 2014).

Furthermore, alongside traditional financial reporting, other forms of reporting with disclosed information related to social, environmental, and sustainability issues have progressively developed. In the next section, the phenomenon in question will be analysed.

1.2.2. *The rise of sustainability reporting*

CSR reporting, or sustainability reporting [8], is defined as the 'process of communicating the social and environmental effects of organizations' economic actions to particular interest groups within society and to society at large' (Gray, Owen, and Adams, 1996, p. 3). In this vein, the premise of social disclosure originates from social theory, which implies that companies have a social contract with society [9]; specifically, companies owe stakeholders certain duties.

The increasing consideration of sustainability issues in reporting practices flourished after the occurrence of corporate scandals (e.g., Enron, Parmalat) and the global financial crisis, both of which jeopardised the worldwide economy. As a response, management scholars have started questioning the ethical responsibility of each business, and accounting and management academics emphasise a progressive awareness around the deficiencies of a short-termism view that exclusively relies on the maximisation of shareholder value and fi-

[8] Non-financial reporting, CSR reporting, and sustainability reporting are considered synonyms, hence, in this book, they are interchangeably adopted with equal meanings.

[9] In Shocker and Sethi's words (1973, p. 67), 'Any social institution – and business in no exception – operates in society via a social contract, expressed or implied, whereby its survival and growth are based on: the delivery of some socially desirable ends to society in general and, the distribution of economic, social or political benefits to groups from which it derives its power. In a dynamic society, neither the sources of institutional power nor the needs for its services are permanent. Therefore, an institution must constantly meet the twin tests of legitimacy and relevance by demonstrating that society requires its services and that the groups benefiting from its rewards have society's approval'.

nancial performances for investors. In fact, both investors and shareholder ignore that 'surplus could potentially derive from social and environmental externalities' (Gray, 2006, p. 798). For instance, quite a few research studies on intangible assets empirically demonstrate that up to 80% of a company's market value may not be reflected in its financial statements (Lev, 2000; Arvidsson, 2011) but rather derive from intangible assets.

Organisations have started acknowledging their role in society and protecting both the environment and the ecosystem's resources, as risky contingencies regarding sustainable development[10] have increasingly surfaced; these include environmental concerns (e.g., depletion of natural resources, climate change, deforestation, water scarcity, overwhelming greenhouse gas emissions), product responsibility, human rights abuses, and employee safety. Both financial risks and sustainability risks have become even more complex and effective; therefore, the identification of an exposed area of uncertainty, the thorough understanding of its effects, and, ultimately, the implementation of actions for monitoring have proven to be crucial elements at the core of business activities, the surrounding environment, and society as a whole. Therefore, businesses have started voluntarily disclosing their objectives, actions, and performances on sustainability issues into their sustainability and CSR reports.

The growth of sustainability reports can be circumscribed into three phases (Marlin, Alice and Marlin, 2003; Tschopp and Huefner, 2015). The first phase began in the 1970s and 1980s, when reports were mainly prepared for eco-marketing campaigns – namely for 'greenwashing' scopes – with few comparable data. The second phase breathed life over 20 years ago to meet the expectations of various categories of stakeholders. Then, the third phase arose corresponding to the explosion of international standards frameworks as well as the related introduction of third-party reporting certification to increase data comparability and verifiability. In modern times, we could recognise a fourth phase related to the progressive movement, from a voluntary regime of disclosure enacted by an international standards framework to a mandatory regime of disclosure regulated by the law (See Chapter 3).

Several studies prove the effective establishment of sustainability objectives, action, and results as a common reporting practice (King & Bartels, 2015; KPMG, 2017a). According to the KPMG International Survey of Corporate Responsibility Reporting in 2015, the reporting of non-financial infor-

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[10] The concept of sustainable development was postulated in 1987 in the Brundtland report (the United Nations World Commission on Environment and Development's book *Our Common Future*) as the 'development that meets the needs of the present without compromising the ability of future generations to meet their own needs' (Brundtland G.H., 1987).

mation and sustainability issues stabilises at high levels – with a reporting rate equal to 73% among the N100 companies and 92% among the G250 companies [11]. In fact, a steady increase is apparent in comparison to the prior survey conducted in 2013; at that time, N100 companies registered a reporting rate of 71% and G250 companies registered a reporting rate of 93%. If we look back at 1999, an evident explosion of reporting practices occurred, as the reporting rate for that year was 24% for N100 companies and 35% for G250 companies. Even third-party independent assurance of sustainability reporting has continued growing among the world's largest companies (G250) – almost two-thirds of whom invest in assurance.

In the last 2017 KPMG International Survey of Corporate Responsibility Reporting, a movement favoured the application of the Sustainable Development Goals (SDGs) [12] by specifically linking sustainable and responsible activities with the SDGs. As a result, the European G250 companies are leading the way towards sustainable development (e.g., Germany = 83%, France = 63%), whilst U.S. companies lag behind at 31%. The application of the SDGs is particularly evident in the utility, automotive, and retail sectors, (58%, 58%, and 57%, respectively) whereas they are not yet adequately covered in the financial services or oil and gas sectors (37% and 28%, respectively).

1.3. Meanings of non-financial information disclosure

Among scholarly academics in the stream of social and environmental accounting research, as well as professional associations and consultancy agencies, there exists a growing interest in what has been broadly termed non-financial information disclosure. This phenomenon has progressively enriched the accounting and reporting lexicons with a broader range of information, considering corporate governance issues, environmental and social matters, intangible assets, and intellectual properties, among other aspects. This interest has thus far increasingly expanded with several taxonomies of non-financial information types, all of which are grouped under the umbrella term 'non-financial information disclosure'.

Despite the growing enthusiasm regarding this issue, the concept is relatively vague, and a significant divergence of perspective seems to be gathering mo-

[11] N100 refers to a worldwide sample of 4,900 companies comprising the top 100 companies by revenue in each of the 49 countries researched in the study. G250 refers to the world's 250 largest companies.

[12] The SDGs will be further explained in Section 2.2.

mentum; in other words, there currently exists neither a common understanding nor a unanimous consensus (Eccles and Krzus, 2010; Haller, Link and Groß, 2017). For example, the Director of Responsible Investment at AXA argues that '… having found 16 different phrases to describe the kind of sustainability data that managers say they are now integrated into their mainstream analysis, it's hard surprising people are confused, and that integration is not moving as quickly as it could!' (cited from 'One Report', Eccles & Krzus, 2010). Moreover, such heterogeneous terminology is even confirmed by the wide existence of reports that present non-financial information. Such reports have been labelled differently from one another, and their non-comprehensive list includes 'corporate social responsibility report', 'CSR report', 'sustainability report', 'social and environmental report', 'non-financial statement', 'integrated annual report', and 'integrated report'(Stolowy and Paugam, 2018).

Therefore, the adoption of different terminologies seriously undermines the universal conceptualisation of non-financial information and the consistent adjustment of disclosure practices within the reports. Consequently, a clear-cut classification of academics' and practitioners' views of non-financial information alongside a track development around its meanings creates a broader picture and holistic comprehension of how non-financial information is conceptualised, conceived, and implemented within corporate reporting.

Among practitioners, the flourishing of non-financial information disclosure in the accounting and reporting system is rooted in the 'Jenkins Committee' report, published in the U.S. in 1994 (AICPA, 1994; Haller, Link and Groß, 2017). Within this report, non-financial information appears for the first time by defining non-financial information as non-financial measures with historical and forward-looking views that address a company's managerial and strategical practices regarding its environment and surrounding society (Haller, Link and Groß, 2017; Rezaee and Tuo, 2017b). The Non-Financial Business Reporting Subcommittee defines non-financial information as 'all the information about the business of the reporting entity other than financial measurements of the entity's past, present, and future resources and obligations and the results of its operations or cash flows. The subcommittee considered information about economic, social, and technological trends; industry structure and outlook; and the company's mission and objectives and its success in meeting those objectives as indicated by various performance measures' (AICPA, 1994, p. 36). The need to include such information can be circumscribed to the increasing necessity to both meet several interests under changing conditions and address the interface between a company's business and a user's need for information. To this end, the Jenkins Committee identified ten elements specific to business reporting and grouped them into five sections:

- Financial and non-financial data:
  - Financial statements and related disclosures;
  - High-level operating data and performance measurements that management uses to manage the business;
- Management's analysis of the financial and non-financial data:
  - Reasons for changes in the financial, operating, and performance-related data and the identity and past effect of key trends;
- Forward-looking information:
  - Opportunities and risks, including those resulting from key trends;
  - Management's plans, including critical success factors;
  - Comparison of actual business performance to previously disclosed opportunities, risks, and management plans;
- Information about management and shareholders:
  - Directors, management, compensation, major shareholders, and transactions and relationships among related parties;
- Background of the company:
  - Broad objectives and strategies;
  - Scope and description of business and properties;
  - Impact of industry structure on the company.

At first sight, non-financial information was conceptualised within the reporting boundaries as possessing a strong business focus, and, at that time, practitioners did not perceive non-financial information with the accountability-responsibility lens of the business itself; in other words, non-financial information was conceived as a standalone communication without links to CSR [13] issues.

Among academics, one of the first definitions of non-financial information was postulated by Gray, Owen, and Maunders (1987) as 'the process of communicating the social and environmental effects of organizations (particularly companies) beyond the traditional role of providing a financial account to the owners of capital, in particular shareholders' (p. 9). Two main characteristics of non-financial information arise from this definition; the first relates to the topics, meaning 'the social and environmental effects of organizations' are the primary issues addressed, while the second refers to the users of such information that are 'beyond … a financial account to the owners of capital'. On one hand, non-financial information relates to measures regarding CSR prac-

[13] CSR formally entered the business lexicon with the definition Howard Bowen provided in his 1953 book *The Social Responsibilities of the Businessman*. In Bowen's words, CSR 'refers to the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society' (Bowen and Johnson, 1953, p. 6).

tices that constitute the narrative of such information and come to exist nearby the traditional financial performances. On the other hand, non-financial information is released from the traditional financial statements to serve not only common shareholders and investors, but rather all stakeholders with at least one stake jointly related to the company's business.

A similar view was embraced by Eccles and Krzus (2010), who address non-financial information as 'a broad term that applies to all information reported to shareholders and other stakeholders that is not defined by an accounting standard or a calculation of a measure based on an accounting standard, such as revenue growth, which we refer to as "financial information". Thus, nonfinancial can include economic information (e.g. market size in dollars), ratios that use accounting information (e.g. sales per square foot), and accounting-type measures for which no formal standard exists (e.g. core earnings)' (p. 84). Thus, it is clearly evident that this definition combines both the content of such information and the users to whom this information may be of interest. The study of Eccles and Krzus (2010) was one of the first to recognise the fuzzy terminology around non-financial information; as such, they grouped NFI into three main subcategories: (1) intangible assets, including intellectual capital and other intangibles; (2) KPIs, addressed as quantitative measures of results, achieved using tangible and intangible assets, and related to some financial performance indicators; and (3) environmental, social, and governance (ESG) metrics, which can constitute both an intangible asset and a KPI as well as explain ESG performances.

Other scholars classify non-financial information by considering the reporting boundary outlined around this disclosure, meaning the location of such information within or outside the traditional annual report (Robb, Single & Zarzeski, 2001; Amir, Lev & Sougiannis, 2003) or other channels of communication. Accordingly, non-financial information disclosure can be exhibited within financial statements or through other routes towards an extension of a qualitative disclosure, such as press releases, websites, and surveys; for example, Barker and Imam (2008, p. 313) describe non-financial information as 'information drawn from outside the financial statements' (cited in Erkens, Paugam & Stolowy, 2015).

Among these classifications, several surveys (e.g., AXA) and literature reviews were conducted by both academics and practitioners to investigate non-financial information's postulations. In 2008, AXA Investment Managers and AQ Research submitted a questionnaire to investment professionals to classify the NFI terminology and understand which topics are interlinked with their decision-making criteria. Sixteen diverse topics were addressed, and respondents were required to rank the following response according to its meaningful relevance using an ordinal scale 1-5: 'I now take … factors into account much more than I used to'. The factors related to sustainability information – which

respondents associate with ESG issues (3.35, the highest mark) – were followed by sustainability (3.23) and then responsible investment (3.05). As the questionnaire was primarily focused on the term used for sustainability information, the results maintained the expectations (Eccles *et al.*, 2010).

The bibliometric study of Erkens *et al.* (2015) documents meanings and definitions around non-financial information that a quantitative analysis of the academic literature published on the topic. Starting from a raw sample of 3,800 articles, the final sample included 787 articles published in 53 journals over a period of 40 years (1973-2013). The findings outline two main streams according to the covered topics and the reported boundary classification. On one hand, non-financial information relates to several topics outside and different from the traditional financial performance measures, such as management quality, strategy, intellectual capital, and the CSR approach. Thus, these studies intertwine measures of ‘non-financial’ performance with traditional financial measures and understand such a linkage (Erkens, Paugam and Stolowy, 2015). On the other hand, non-financial information is conceived as the non-traditional channel of communication provided on websites and press releases, including the narrative of the business itself and a proliferation of qualitative information. The former definition seems to be the most widely accepted by academics because an emphasis on measurement is extremely recognised within the accounting system. Obviously, this definition raises the question of ‘what is it measuring?’ and thus the classification of the topic around non-financial information may be the most significant.

The study of Haller *et al.* (2017) achieved results consistent with those achieved by Erkens *et al.* (2015). The former study investigates whether or not non-financial information holds a common understanding against a murky framing of the meanings, and the authors sent a questionnaire to both academics and practitioners alike in order to determine their results. In essence, academics define non-financial information as ‘all quantitative and qualitative data on the policy pursued, the business operations, and the results of this policy in terms of output or outcome, without a direct link with a financial registration system’ (Haller *et al.*, 2017, p. 418), thus supporting the bibliometric study of Erkens *et al.* (2015). Hence, Haller *et al.* (2017) acknowledge a common understanding of such non-financial information around academics, but the lack of a unanimous consensus from practitioners remains present. This issue might consequently cause miscommunication-based harm during the implementation of mandatory disclosure adoption and in turn undermines the comparability of data, measures, and definitions.

Table 1.2 provides a summary of the non-financial information definitions grouped according to their content and the reporting boundary classification. Such controversial definitions lead to diverse assessments of non-financial information disclosure in terms of content, which will be investigated in Section 1.6.