

Accounting, Finance, Sustainability, Governance & Fraud:
Theory and Application

Sandro Brunelli
Emiliano Di Carlo *Editors*

Accountability, Ethics and Sustainability of Organizations

New Theories, Strategies and Tools
for Survival and Growth

 Springer

Accounting, Finance, Sustainability, Governance & Fraud: Theory and Application

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Editors

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Preface

The aftermath of financial scandals has fostered the consciousness that the shareholders' profit maximization, especially in the short term, does not improve the wellness for either firms or society. Such an issue, on the one hand, questions the role of the firms in the economy and, on the other hand, queries the validity of capitalism as the best model to foster economic growth. The well-known belief "too big to fail" has been jeopardized by facts. This determined significant damages in terms of jobs losses, fewer tax collections, considerable drops in money savings and so on.

In this scenario, scientific community has to move on from the traditional scope of business activity represented by the profit towards a broader purpose, which embraces the well-being of society as a whole. As a consequence, academics and social scientists are looking for other theories or have endeavoured other existing theories, such as the stakeholder theory.

Analysing the various theories about corporate social responsibility, in the literature four main dimensions related to the ultimate aim of companies were identified: (1) pursuing objectives to get profit in the long term, (2) using the power of business in a responsible manner, (3) taking into account claims from all stakeholders and (4) fostering ethical corrected behaviours. In our opinion, merging these dimensions, future research should strive to outline a new theory, which allows us to overcome the limits of the existing ones. However, it requires a profound knowledge of reality and a strong ethics basis.

In other words, scholars should devise new theories and/or models aimed at capturing and summarizing the aforementioned dimensions, debarring all of the aspects that are not oriented to the common good. Delving more into the issue, it is easy to note that each group of stakeholders has interests only in some dimensions over another. Hence, a critical point to begin with is considering the firm itself as an entity, distinguished from all the other stakeholders, with its proper aim. Once this concept is grasped, the ultimate goal of whatever type of organization should be to recognize the ability to actively—and positively—contribute to the common good.

On the same wavelength, in 2015, United Nations defined 17 Sustainable Development Goals (SDGs) aimed to achieve the development of countries consistent with

the common good. To that end, efforts should deal with the improvement of health and education, reduction of inequality and defence of the environment. Therefore, the objectives of both organizations (profit and non-profit) and individuals should be aligned in order to face challenges included in each SDG.

In accordance with this preamble, the book is organized into three parts.

The first part—Organizations Towards 2030: the Primary Interest of the Economic Entity—treats the reasons behind and the scope of the firm in the contemporary era. Hence, in Part I the concept of “primary interest of the firm” is explored in depth. It addresses the conditions that guarantee the survival and growth of firms as well as the achievement of the common good for the various stakeholders and society as a whole. Within this perspective, the mission statement of organizations was queried in order to highlight its importance over time. Besides, other critical issues, which scholars active in the field of business administration have to disentangle in the next years, were proposed in the first part. In particular, it has shed light on some issues (i.e. economic democracy, fair wages and logical tax schemes) that so far were analysed mainly from a macroeconomic standpoint. Approaches and tools, such as integrated thinking and reporting, may support accountants to overcome the sole financial disclosure. It is fundamental, indeed, embracing both financial and non-financial measures for adequately informing about how an organization is performing and how it will perform in the future.

The second part—Financial and Non-Financial Reporting and Sustainability: Challenges and Changes—is devoted to exploring the newness in the area of non-financial reporting and auditing according to recent changes in legislation at European and single country levels. First of all, a descriptive and analytical review of how the Directive 2014/95/EU has been transposed in most important European countries is provided. Then, the debate moves on with an empirical investigation aimed at assessing how firms are coping with climate change issues in their non-financial reporting disclosure. The focus of the analysis was on Italy and France. Lastly, consistently with the effects engendered by the mentioned Directive and in line with the demand for higher accountability, a narrative literature review around the role of auditors to assure sustainability in financial reporting and, indeed, the continuity of the firms is carried out, highlighting the importance of the social audit.

The third part—The Relevance of Public Sector: New Pathways for Sustainable Accounting, Accountability and Performance—shifted the analysis on the public sector. Firstly, the theme of healthcare sustainability was addressed. Developing sustainable practices within health systems is fundamental not only to guarantee the right to care but also to enhance the growth of a country. Moreover, the demographic dynamics in developed countries ask for urgent actions from healthcare organizations not only in terms of macro policies but also at the single organization level. In this sense, the role of accountants and managers can no longer be neglected. Within this complex mosaic, therefore, management accounting tools could represent the common language to orient health management towards a higher sustainable value for the patient. As accounting scholars we should help politicians and economists in the allocating process of public resources into the public subsectors of every single country. Accordingly, focusing on the European context, harmonization of public

accounts both at European level and at a national level represents a never-ending debate. Hence, it deserves a specific analysis in order to disentangle the pros and cons of accounting principles. This matter is paramount in order to foster a fair economic policy within the European Union and to operate in the lens of SDGs. Taking into account the relevance of the environmental dimension in the public sector, the last chapter deals with the map of leading practices and their environmental impact. Hence, a study about the state of the art of the Green Public Procurement in the light of the newest tendencies promoted by the United Nations in the Agenda 2030 is proposed.

Rome, Italy

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Chapter 1

Chapter 1 “**The Real Entity Theory and the Primary Interest of the Firm: Equilibrium Theory, Stakeholder Theory and Common Good Theory**” should be entirely attributed to Emiliano Di Carlo.

Chapter 2

The sections included in Chap. 2 “**The Incentives of a Common Good Based CSR for SDG’s Achievement: the Importance of Mission Statement**” should be attributed to Emiliano Di Carlo (2.1, 2.2 and 2.3) and Cristina Quaranta (2.4, 2.5 and related subparagraphs, 2.6, 2.7 and 2.8).

Chapter 3

The sections included in Chap. 3 “**SDGs Achievement: Commitment, Channels of Action and the Role of Integrated Reporting in the Disclosure Mechanisms**” should be attributed to Sandro Brunelli (3.1, 3.2, 3.3 and related subparagraphs) and Francesco Ranalli (3.4).

Chapter 4

The sections included in Chap. 4 “**Harmonization of Non-Financial Reporting Regulation in Europe: a Study of the Transposition of the Directive 2014/95/EU**” should be attributed to Silvia Testarmata (4.2, 4.4, 4.4.6 and 4.5), Mirella Ciaburri (4.3 and related subparagraphs), Silvia Sergiacomi (4.4.1, 4.4.2, 4.4.3, 4.4.4 and 4.4.5) and Fabio Fortuna and Silvia Testarmata (4.1).

Chapter 5

The sections included in Chap. 5 “**Corporations’ Eco-Consciousness in the New Deal of Non-Financial Information Disclosure System: Preliminary Evidence from Italian and French Practices**” should be attributed to Sandro Brunelli (5.1, 5.3, 5.5 and 5.6) and Pascale Delvaile (5.2 and 5.4).

Chapter 6

Chapter 6 “**The Role of Auditors to Improve Sustainability in Financial Reporting**” should be entirely attributed to Chiara Carlino.

Chapter 7

The sections included in Chap. 7 “**Value-Based Healthcare Paradigm for Healthcare Sustainability**” should be attributed to Camilla Falivena (7.1, 7.2, 7.3, 7.5 and 7.6) and Gabriele Palozzi (7.4).

Chapter 8

Chapter 8 “**Public Sector Accounting and the Sustainability of Public Finance among Accounting Bases, Harmonization and Flexibility Concerns**” should be entirely attributed to Alessandro Giosi.

Chapter 9

The sections included in Chap. 9 “**The State of the Art of Green Public Procurement in Europe: Documental Analysis of European Practices**” should be attributed to Irene Litardi (9.3 and 9.4), Daniele Alimonti (9.1 and 9.2) and Irene Litardi and Gloria Fiorani (9.5).

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Part I
Organizations Towards 2030: The Primary
Interest of the Economic Entity

Chapter 1

The Real Entity Theory and the Primary Interest of the Firm: Equilibrium Theory, Stakeholder Theory and Common Good Theory



Emiliano Di Carlo

Abstract According to the entity theory, the firm is a real person interested in survival and growth quantitatively and qualitatively. However, the literature is often vague and ambiguous for what concern the conditions to achieve for the survival and growth, as well as the modalities through which find the right compromise between continuity (or long-term profitability) and social function (or sociality) of the firm. This chapter wants to contribute to the theories that consider the firm as a real entity, proposing the concept of ‘primary interest of the firm’, which includes the conditions that allow firms to survive and grow, as well as to serve the common good of their stakeholders and society. The primary interest concept is multidimensional and derives from the intersection of three theories: equilibrium theory, stakeholder theory and common good theory.

Keywords Primary interest of the firm · Equilibrium theory · Stakeholder theory · Common good · Purpose of the firm

1.1 Introduction

During the last decades, the corporate failures (both financial and environmental) and the global financial crisis, have fed the economic, political, social and academic debate on what should be the objective of the firm (Asher et al. 2005; Blair 2002; Bower and Paine 2017; Fontrodona and Sison 2006; Freeman et al. 2004; Hart and Zingales 2017; Jensen 2001; Keay 2008; Sundaram and Inkpen 2004). Indeed, the choice may be based on the effect of the purpose on the durability of the firm as well as on the economic development, and thus on the social well-being. This consciousness has led

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many scholars and practitioners to criticize the theories that have been used for several years to understand and guide managerial behaviour (e.g. shareholder theory).

Recently (August 2019), in the USA nearly 200 chief executive officers belonging to the Business Roundtable redefine the role of business in society, stating that the interests of shareholders do not come before the interests of all other stakeholders. Corporations should take into consideration, simultaneously, different groups of stakeholders, as well as the society as a whole.

Using the entity theory approach, that considers the firm as a real person with its own interest, this chapter wants to contribute to the debate on corporate finalism by proposing a combination of arguments from the intersection among three theories: equilibrium theory, stakeholder theory and common good theory. This intersection gives the concept of ‘primary interest of the firm’, which includes the conditions that allow firms to survive and grow, as well as to serve the common good of their stakeholders and society. The equilibrium theory asks to achieve simultaneously, in the short term and long term, the economic, financial and monetary equilibriums. However, to be sustainable the firm should achieve the so-called equilibrium of interests that derives from the intersection between stakeholder theory and common good theory. The overall equilibrium needs to achieve simultaneously, in the short and long period, four interdependent equilibriums: the economic, financial, monetary and interest equilibriums.

According to the primary interest model the profit cannot be considered as the purpose of the firm, instead it is a condition to survive and grow. In the long run, good ethics is good business and vice versa, being ethics an aspect of the business.

The chapter consists of eight sections. In Sect. 1.2, the theoretical framework of the primary interest is presented. Sections 1.3, 1.4 and 1.5 are dedicated to the description of the three theories that comprise the primary interest model: equilibrium theory, stakeholder theory and common good theory. Section 1.6 analyzes the intersections among the three theories, while Sect. 1.7 focuses on the overall equilibrium of the firm according to the primary interest model. Section 1.8 is dedicated to the conclusions.

1.2 Theoretical Foundation of the Primary Interest of the Firm as a Real Entity

In literature, as well as in both the corporate governance code and code of ethics, the terms ‘interest of the firm (or company)’, ‘interest of the company’, ‘best interest of the firm’ and ‘self-interest of the firm’ are often used but rarely defined. Furthermore, even when defined, scholars and practitioners give different contents and meanings to those terms that may be grouped into three main categories depending on the theory used: shareholder theory, stakeholder theory and entity theory. These theories find their basis on the notion (or nature) of the firm (Chassagnon 2011).

While for shareholder and stakeholder theory the firm is an *artificial person* (or legal fiction), a nexus of contracts (Coase 1937; Jensen and Meckling 1976),

according to the entity theory the firm is a *real person* with its own interest (i.e. its survival and growth), even though it needs the law to be conceived (Mark 1987).

Garriga and Melé (2004, pp. 65–66) point out that the theories on corporate social responsibility are focused on four dimensions: (1) meeting objectives that produce long-term profits; (2) using business power in a responsible way; (3) integrating social demands and (4) contributing to a good society by doing what is ethically correct. On the basis of this classification, the two scholars observe that ‘further research could analyze these four dimensions and their connection in the most relevant theories and consider their contributions and limitations. What seems more challenging, however, is to develop a new theory, which would overcome these limitations’ (Garriga and Melé 2004, p. 66).

We assume that the starting point of the new theory should be the assumption that the firm is a separate real entity with its own interest and responsibilities to achieve simultaneously all these dimensions. The governance body should exercise a mediating role among the different stakeholders’ interest with the final end to conduct the firm toward its interest (i.e. the common good). Indeed, a theory that seeks to address only the interest of a specific group of stakeholders (e.g. shareholders or employees) or a stakeholder group (e.g. both shareholders and employees) can only partially succeed in achieving all those ambitious goals, since any stakeholder (or stakeholder group) is normally oriented only to one or some of these dimensions (e.g. shareholders to the profitability of the firm, employees to the continuity of the firm regardless the effect on society).

Our purpose derives from the intersection of three theories: (1) the theory of equilibrium (from the Italian doctrine *Economia Aziendale*), (2) stakeholder theory and (3) common good theory (from the Social Doctrine of the Church) (Table 1.1).

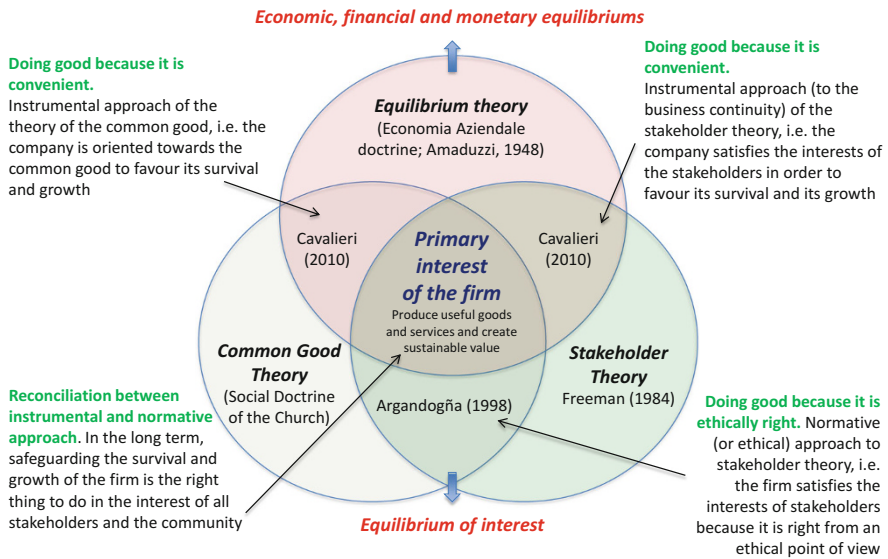
The intersection between stakeholder theory and common good theory was proposed by Argandoña (1998) who says that the normative approach of the stakeholder theory can find a theoretical foundation in the common good theory.

According to Argandoña the firm participates to the common good, ‘producing useful goods and services, and producing them efficiently (so as to create wealth) and sustainably, so as to guarantee the conditions in which each participant receives from the company what he or she can reasonably expect’ (1998, p. 1097). However, the author does not specify *how to achieve the right compromise between continuity and the social function of the firm*. In order to fill that gap, we add the equilibrium theory (Amaduzzi 1948) to the stakeholder theory and common good theory.

The intersection among these three theories includes the two elements of what we call ‘primary interest of the firm’: (1) the scope of the economic activity (i.e. producing useful goods and services to satisfy customers’ needs) and (2) a condition that allows the firm to survive and grow (i.e. ensuring a sustainable value creation in the short, medium and long term).

The three theories, individually, present all the advantages and limitations regarding the conditions for the survival and growth of the firm, as analyzed in the following sections. However, the limitations of one or more theories are compensated by the advantages of the others. The intersection finds a simultaneous equilibrium among various dimensions of responsibilities of the firm.

Table 1.1 Theoretical framework of the primary interest of the firm



Source: The author’s elaboration

The satisfaction of needs through the production of useful goods and services is the basis of the business, the purpose of the economic activity, that is a prerequisite for value creation. If an entity does not meet the needs it cannot create value for itself or for its stakeholders.

1.3 The *Economia Aziendale* and the Theory of Equilibrium

1.3.1 The *Economia Aziendale*

The *Economia Aziendale* (*EA*) is an Italian doctrine founded in 1927 by Gino Zappa (1927) who focuses on the ‘azienda’ as a coherent unity (i.e. inseparability) of ‘economic operations’, which characterizes institutions. Zappa (1956) states that the *azienda* is an ‘economic institution intended to last for an indefinite length of time and that, with the aim of meeting human needs, manages the production, procurement or consumption of resources in continuous coordination’ (p. 37, our translation). In particular, the *EA* focuses on the ‘existence conditions and life manifestations of the azienda’ (Zappa 1927). The concept of *azienda* includes three different types of organizations (Cavaliere 2010): (1) business entities (or firms), (2) public administrations and (3) non-profit organizations. As cells of the economic system, they can all contribute to society well-being. ‘It is not possible to have, in fact, the development of the national economy without the development of the individual cells, the *aziende*,

where the national wealth is concretely produced' (Cassandro 1969, our translation). Onida observes that the firm does not follow solely economic purposes, and its life has not only economic problems, since 'as social institution, the firm has necessary to contribute to the human being, to promote the development of his personality and to better achieve the purposes of human life associated to it, which they are essentially of ethical nature' (1971, p. 44, our translation). Ferrero points out that the firm is a 'durable source of present and future common welfare' (1968, p. 63, our translation).

The concept of the institution in Zappa's definition allows separating the stakeholders' interests from the *azienda's* interest. According to Anselmi, 'human beings could not defeat the course of time while *aziende* can be immortal' (2014, p. 39, our translation). The life of the organization 'goes beyond the permanence of people constituting, in a specific moment, the organization itself' (Airoldi et al. 1994, p. 163, our translation).

More recently, some scholars of the *Economia Aziendale* studied the link between that doctrine and the stakeholder theory (Signori and Rusconi 2009; Rusconi 2018), and the principle of the common good of the social doctrine of the Church (Caldarelli et al. 2011; Costa and Ramus 2012).

1.3.2 The Theory of Equilibrium: Contributions and Limitations

The theory of equilibrium was proposed by Aldo Amaduzzi (1948), one of the Zappa's pupils. Amaduzzi gives the conditions of continuity and growth of business entities (one of the three types of *aziende*). In particular, the economic equilibrium, both in the long and short term, is considered, in a mathematical system, together with the financial and monetary equilibriums. The work of Amaduzzi has been pioneering in having underlined the survival conditions of the firm in the long term, giving an answer to how and why the *EA* can contribute to the debate on the objective of the firm (Cavalieri 2010).

The following describes the three equilibriums.

1.3.2.1 Economic Equilibrium: The Long-Term Profitability of the Firm

The economic equilibrium requires that in the long term the flow of revenues is higher than that of costs. The value is created when the positive difference between revenues and costs achieves a certain level, called 'pure' profit, that is when revenues are able to remunerate the all factors of production (Ferrero 1968, p. 200; Onida 1971, p. 18), considering in these factors also the capital of the owners and the entrepreneur for his/her work. The undistributed profit favours the durability of the firm. Indeed, the ratio of *retained earnings/total assets* is one of those that allow the evaluation of the probability of bankruptcy of the firm (Altman 1968). In this sense, all stakeholders, not only shareholders, should be interested in the profit.

The value creation condition must be achieved in the long term. This obviously does not mean that the short-term equilibrium is not important, but instead that imbalances in the short term (costs higher than revenues) do not affect the going concern assumption when it derives from accidental factors that will be absorbed by effective and efficient management of the firm.

According to this view, achieving the long-term profitability is not the purpose of the firm, but a condition for its continuity and growth. As stated by Cassandro, 'limiting the objective of the company to profit maximization will diminish the fundamental economic and social functions of the company. The most important ones are to create new wealth for the community and distribute it among those that have contributed to it' (1969, p. 826, our translation).

In order to achieve long-term economic equilibrium, the firm should also have financial and monetary equilibriums. These two short-term equilibriums were deeply analyzed in the fields of accounting and finance as bankruptcy predictors (the so-called financial ratios) (Altman 1968; Beaver 1966, 1968), highlighting the importance of these equilibriums for the continuity of the firm.

1.3.2.2 Financial Equilibrium

The financial equilibrium is achieved when the firm has the right correlations between the typology of investments (assets) and that of financial sources (liability and equity). This equilibrium allows the firm to satisfy timely its financial obligations, without prejudicial effects on the future (Cavaliere 2010). Having an appropriate relationship between assets and liabilities plus equity allows reaching and maintaining the financial stability of the firm, especially in periods of crisis. Indeed, that equilibrium is referred to as the capital structure or long-term solvency of the firm.

The overuse of debt to leverage returns for the financing of corporate assets was considered to be one of the causes of the 2007 global financial crisis. This overuse was determined by the financial incentives used to solve the conflict between the managers and the short-term oriented shareholders. However, financial incentives are extrinsic motivations (Osterloh and Frey 2004) that may increase the conflict with the survival and growth of the firm as well as with all the other stakeholders, for example, when managers are incentivized to engage in excessive risk-taking, or to increase excessively the level of debt-equity which has a leverage effect on the return of the shareholders (Naidu 1984). In these cases, a conflict of interest between the firm and its creditors arises (Leland 1998; Myers 1977).

Financial equilibrium can be measured through the solvency ratios that indicate the ability of the company to meet its long-term debts. For instance, the financial leverage ratios provide an indication of the long-term solvency of the company, measuring the extent to which the firm is using long-term debt.

1.3.2.3 Monetary Equilibrium

The firm achieves the monetary (or cash flow) equilibrium when it is able to pay timely its obligations, for example, to suppliers, financiers and employees. Thus, it is referred to as the liquidity of the firm, its solvency in the short term. This may require the provision of suitable means of access to credit, when the flow of payments (for purchased supplies or contractual commitments) is not aligned, over time, with the flow of receipts (arising from the sale of products or by recovery of loans). In the long run, monetary equilibrium is closely related to the economic one, in the sense that if the latter is achieved, the former will be respected (Cavalieri 2010, p. 28). Indeed, in the long term, the cash inflow connected to the revenues is higher than the stream of payments that measure the costs.

In the short term, monetary equilibrium may have time lags between cash inflows and cash outflows, which, albeit temporary, must be compensated. Consequently, even if the firm records a positive income, according to the accrual accounting, in the short term the monetary equilibrium is not necessarily achieved. This time lag is due to the dynamics of purchases and sales, the different methods of contracting, as well as the dynamics of borrowings and granted loans. Monetary equilibrium is also linked with financial equilibrium, which is summarized in two elements, financial solidity and firm solvency. Thus, financial equilibrium also sets the basis for monetary equilibrium because having financial stability/solidity increases the likelihood of balancing cash outflow with cash inflow over time.

Monetary equilibrium can be measured through the liquidity ratios that indicate the company's ability to pay debt obligations and its margin of safety through the calculation of metrics including current ratio, quick ratio and operating cash flow ratio.

Following the contribution and limitations of the equilibrium theory.

Contributions

- (a) It gives the conditions to achieve for the survival and growth.
- (b) It asks to achieve, in the short term, simultaneously, the economic, financial and monetary equilibriums, allowing the study of their mutual relationships, linking the effect that the short-term management has on the long term.
- (c) The equilibrium system allows the highlighting of the boundary between entrepreneurial conduct, oriented towards business continuity and speculative and irresponsible conduct, typically oriented to the short period.

Limitations

- (a) Even though the equilibrium theory underlines the need to suitably remunerate all stakeholders, it does not deal with their classification in order to understand their expectations and, therefore, determine how to maintain them linked to the firm.
- (b) It draws the attention to the duties of the company towards its stakeholders, while it seems to consider less the duties of stakeholders towards the company.

1.4 The Stakeholder Theory: Contributions and Limitations

Stakeholders are any group or individual who may affect or be affected by the obtainment of the company's goals (Freeman 1984, p. 25). According to the stakeholder theory, there is a need to take into consideration the needs of all stakeholders (not only shareholders). The reason behind the stakeholder theory can be normative and instrumental (Donaldson and Preston 1995). The former underlines the importance to consider not only the economic and legal dimensions of the business but also the ethical one (Phillips et al. 2003, p. 481). The instrumental approach asks to pay attention to the stakeholder's needs when it allows to create value for the shareholders (Jensen 2001; Jones 1995; Plender 1997).

Following the contribution and limitations of the stakeholder theory.

Contributions

- (a) The long-term orientation of the corporate governance must consider the stakeholders' expectations in the process of value creation (Jensen 2001).
- (b) Considering the stakeholders' interests is not only a moral imperative but also an economic necessity 'in a world where competitive advantage derives increasingly from intangible contents in human and social capital' (Plender 1997, p. 2).
- (c) It stimulates the stakeholder's segmentation, even if they belong to the same group (for instance subgroups of suppliers, shareholders), to understand their expectations, their bargaining power and therefore suggestions for their management (Coff 1999; Mitchell et al. 1997; Vilanova 2007), in order to maintain good relationships with them;
- (d) It allows understanding why the methods of distribution of value among stakeholders affect the ability of the company to transform competitive advantage into positive economic performance or, on the other hand, why certain companies, despite their competitive advantage, fail to have good performance (Coff 1999).
- (e) It requires focusing not only on the economic results but also on their causes, that is how the results are obtained. It was noted that to 'improve organizational performance by monitoring the financial performance is as useless as trying to improve the performance of a sport team looking just at match results' (Atkinson et al. 1997, p. 35).

Limitations

- (a) The interest of the firm is considered as a sum of stakeholder interests that are in trade-off among them. These competing interests could bring too much complexity in the decision process of the management, creating difficult ethical dilemmas (for instance is it right to satisfy the shareholder's interest or that of the employees when such interests compete each other?) (Argenti 1997; Jensen 2001).
- (b) It leaves too much discretion to managers (Keay 2008), confusing the choices to be made, with a negative impact on business continuity (Jensen 2001; Sundaram

and Inkpen 2004). In this regard, Jensen (2001) states that stakeholder theory ‘allows managers and directors to devote the firm’s resources to their own favorite causes—the environment, art, cities, medical research (...) By expanding the power of managers in this unproductive way, stakeholder theory increases the agency costs in the economic system.’ (p. 14). Moreover, Tirole points out that ‘management can almost always rationalize any action by invoking its impact on the welfare of some stakeholder’ (2010, p. 62).

- (c) It does not consider the conditions that allow the company to survive and prosper, that is the effect of stakeholders’ management on the equilibrium conditions.
- (d) It does not solve the problem on how to mitigate the managerial opportunistic behaviour (Phillips et al. 2003, p. 496).
- (e) It puts more emphasis on the company’s obligations towards the stakeholders than on the duties that stakeholders have towards the company (Argandoña 1998, p. 1099; Fassin 2012), since the particular interests of the stakeholders are not associated with a common interest in which all actors involved would enjoy the benefits.

1.5 The Common Good Theory: Contributions and Limitations

The common good is the set of a society’s living conditions that promote the well-being and human progress of all citizens (Arjoon 2000; Martini 1993, p. 35), that is their cultural, moral and economic flourishing and growth. The concept of common good appears when the social human dimension is considered (Melé 2009, p. 235). While the shareholder approach and the instrumental stakeholder approach consider the man as a mere means to an economic end, the common good approach considers the man as an end in itself. It follows that his/her happiness and perfection (or flourishing) constitute the objective of the activity that he/she carries out.

The result of the application of the concept of common good to business entities (Argandoña 1998; Melé 2002, 2009; Sison and Fontrodona 2011, 2012, 2013) is to consider individuals as members of the same corporate community (Melé 2012), who support the recognition and promotion of a common interest, together with the pursuit of their particular interests.

Stakeholders must see in their contribution to the firm the possibility to better meet their needs, while the firm should be interested in meeting stakeholders’ needs in order to improve its survival and growth. Argandoña observes that ‘the common good has to do with the creation of these conditions that will allow for those involved in the business to achieve his personal objective. It can be said that there is no conflict between the common and the personal good (...) The common good is not the sum of the individual goals of members: first, because these individual targets include many more things than the company can offer; and secondly, because the company facilitates the achievement of personal goals indirectly, through the achievement of its objectives’ (1998, p. 1097).

Individuals have needs (or wishes) who are satisfied with certain goods. For example, the remuneration that one receives for his/her job is a good that allows him/her to satisfy certain needs through the purchase of goods and services. The work, in turn, produces other goods for the individual, such as the possibility to perform an interesting job, to establish relationships with other people, to develop him/herself. Despite these goods being able to satisfy needs and desires, usually in the economy some of them are not considered as such, although they motivate the individual and contribute to the common good. Argandoña (2009, pp. 3–4) distinguishes three categories of goods *extrinsic goods* (both physical goods, such as remuneration, and intangible goods, such as the satisfaction from recognition by superiors); *intrinsic goods* (e.g. the satisfaction for a well done job, the acquisition of knowledge, the development of certain capacities, interaction with other people); and *transcendent goods* (e.g. to satisfy the needs of customers, contribute to the success of the employees, and ensure profit to shareholders and the continuity and growth of the firm). This classification of goods becomes crucial since it gives importance not only to extrinsic motivations but also to the internal ones (Osterloh and Frey 2004), and thus not only on the results but also on the actions performed to enable those results. According to Arjoon et al. ‘Unethical practices occur when there is a disorder between internal and external goods (i.e., between means and ends). An exclusive focus on goods of efficiency can distort one’s perception and judgment through blind spots and moral slippages, which make it difficult to recognize ethical issues and to determine what is the right thing to do’ (2018, p. 150).

Contributions

- (a) Stakeholders are not seen as only self-interested ‘individuals’ but as ‘persons’ (Argandoña 1998, p. 1094) capable of cooperating with a spirit of service, altruism and reciprocity, thus they have intrinsic and transcendent motivations to develop, for the common good of the community (hence for themselves), collaborative relationships. The observance of moral rules derives from intrinsic motivations rather than economic incentives, which may most foster opportunistic behaviours rather than mitigate them.
- (b) It offers ‘the means for determining, in each specific case, the rights and duties of the participants, in accordance with the common good of the company, of the particular “society” it has with its stakeholders, and of society as a whole’ (Argandoña 1998, p. 1100).
- (c) Stakeholders have an interest in the common good company, so the firm itself should reciprocate by having an interest to meet their needs (Argandoña 1998, p. 1099).
- (d) It underlines not only the rights of the stakeholders but also their duties to contribute to the continuity of the firm and consequently to the common good of society (Argandoña 1998, p. 1100). The rights and duties of individuals, in fact, are components of the common good. The company is, therefore, instrumental to stakeholders and vice versa.

- (e) The theory of the common good is linked to virtue ethics, as it requires acting for the good of the company, the stakeholders and the community (Arjoon 2000). According to Bright et al. ‘virtuousness emphasizes actions that go beyond the “do no harm” assumption embedded in most ethical codes of conduct. Instead, it emphasizes the highest and best of the human condition’ (2006, p. 249). Stimulating the virtuousness of the agents and stakeholders and highlighting the importance of intrinsic and transcendent goods, the common good theory has a positive effect on the value creation process of the firm and on the mitigation of opportunistic behaviour and unethical practices. Indeed, ‘the common good provides direction for guiding behavior of all the various stakeholders and the context for understanding virtuousness, while it is through virtuousness that the common good is effectively realized. Virtuousness and the common good are therefore in effect two sides of the same coin.’ (Arjoon et al. 2018, p. 143).
- (f) If a stakeholder is aware of the link between the common good and its own interest, this will encourage the reporting of acts against the firm (for instance whistleblowing in the case of corporate fraud).

Limitations

- (a) Common good theory focuses on the concept of satisfying human needs, without deepening the aspect of the equilibrium conditions to be achieved in order to allow the survival and growth of the firm.
- (b) If, on the one hand, the opportunistic behaviour is mitigated by the orientation towards the common good and to the virtuousness, on the other hand the misinterpretation of the common good (the firm as good for everyone, a firm with duties and not rights) and excess of good (Kaptein 2017) may compromise the overall equilibrium of the firm, providing an excuse for managerial opportunism.
- (c) Although it is clear for the individuals that contributing to the common good also favours themselves, they may ‘free ride’ because they do not intend to support the ‘costs’ associated with this contribution (Olson 1965), at least until they notice the negative consequences on themselves of such opportunistic behaviour.

1.6 The Intersections Among the Three Theories

The following three intersections represented in Table 1.1 are now analyzed: (1) Equilibrium theory and common good theory; (2) Equilibrium theory and stakeholder theory; and (3) Common good theory and stakeholder theory. Thanks to those intersections, the analyzed limitations of one or more theories are compensated by the advantages of the others.

1.6.1 Equilibrium Theory and Common Good Theory

This intersection highlights the instrumentality of the theory of common good to firm continuity, by examining the effects that the dissemination of the common good culture and virtuousness generate on short- and long-term equilibrium conditions (i.e. economic, financial and monetary equilibriums). What is the effect of non-economic incentives (or intrinsic and transcendent motivations) on the equilibrium conditions? In addition, the effect on the equilibrium conditions can be studied by observing the obligations of the stakeholders to participate for the common good of the firm. Stakeholders must contribute to the common good so that the company (i.e. the community) can survive and grow. The rights/duties approach recalls the principles of reciprocity, fairness and loyalty in business and stakeholder relationships. Cooperating in order to achieve a shared objective, stimulates identification with the company (Akerlof and Kranton 2005; Stryker and Burke 2000).

1.6.2 Equilibrium Theory and Stakeholder Theory

This intersection refers to the instrumentalities of stakeholder theory to the firm's continuity, which implies identifying the firm's stakeholders and their interests, defining the degree of consideration to be attributed to each category based on their characteristics, and defining resources to be allocated in response to their expectations. In other terms, it is suggested to examine how the stakeholder management affects the economic, financial, monetary and interest equilibriums, in the short and long term.

1.6.3 Common Good Theory and Stakeholder Theory: The Equilibrium of Interests

That intersection, on which the equilibrium of interests is based (i.e. the fourth equilibrium included in the primary interest of the firm, see Table 1.1), refers to the study of Argandoña (1998) which finds in the theory of the common good a theoretical foundation for the stakeholder theory. He argues that reflecting on the concept of common good and applying it to the stakeholder theory can help to better understand not only this latter theory but also the common good (Argandoña 1998, p. 1094). If the orientation towards the common good is accepted 'it becomes clear that there will always be conflict, but not between the common good of the firm (properly understood) and the individual good (again, properly understood) of those that have a part in it. If there is conflict, it will be between the particular interests of one person or group and those of another; between particular interests and a misunderstood common good' (Argandoña 1998, pp. 1097–1098).

The intersection of the theory of the common good with stakeholder theory highlights the normative approach of the latter, which recognizes the existence of an ethical dimension (Phillips et al. 2003, p. 481), a moral duty to respect the rights of the stakeholders.

The equilibrium of interests is intended as a balance between the interest of the firm (survive and prosper) and the interests of its stakeholders. This equilibrium is achieved when the rewards, not only monetary (e.g. non-material extrinsic goods, intrinsic and transcendent goods), received by stakeholders are aligned to the contributions (including their virtuousness) they provide to the firm. The equilibrium of interests can therefore be analyzed on at least two levels: the first is the balance between the interests of the firm and those of capital and labour and the second level considers all the other stakeholders, as well as community and environment.

The equilibrium of interest can be measured, even if partially, through non-financial indicators (e.g. customers' or employees' satisfaction). These measures are sometimes considered to be leading indicators of future financial performance (Jensen and Berg 2012; Yongvanich and Guthrie 2006). The equilibrium of interests is a precondition for the economic, financial and monetary equilibriums, and it is closely connected to the sustainability of the economic equilibrium from both social and environmental point of view. It follows that the equilibrium of interests is the outcome (positive and negative) that the business has on people and the environment, and therefore is closely connected to the business model adopted by the firm (Di Carlo 2017) and by its virtuousness. In this regard, Cavalieri points out that 'the distribution of the value among all the persons involved in the production process does not take place after the value has been created, but it is implicit in the way the value is created' (2010, p. 26, our translation).

The 17 Sustainable Development Goals of the United Nations all belong to the equilibrium of interest since they ask the organization to contribute to the well-being of society.

1.7 The Overall Equilibrium and the Primary Interest of the Firm

The intersection among equilibrium theory, common good theory and stakeholder theory provides the multidimensional primary interest of the firm, supporting the so-called integration thesis (Agle et al. 2008; Garriga and Melé 2004), or reconciliation thesis (Gibson 2000, p. 246), which sees no contrast between instrumental and normative ethical behaviours, since the instrumental approach does not refer to the interests of a single stakeholder category (e.g. shareholders) or of a group of stakeholders (e.g. shareholders and employees), but to the interest of a company to its continuity, a common good on which everyone should converge.

The primary interest marks the boundary between physiology and pathology in following the stakeholder and/or the common good approach. In particular, the

satisfaction of stakeholders' needs (material and non-material) can be guaranteed as long as it has positive effects on (or at least does not worsen) long-term equilibrium conditions. While in some periods, or in some contexts, management may be able to meet the interests of all stakeholders and to spread common good, in others it may not be able to do so, given the risk of compromising the survival of the company. Meeting the current interest of stakeholders by compromising a firm's continuity is not ethical.

According to the primary interest model, the overall equilibrium needs to *achieve simultaneously*, the economic, financial, monetary and interest equilibriums.

The overall equilibrium is a sufficient condition for the continuity and growth of the firm—indeed the needs satisfaction is a necessary, but not sufficient, condition—allowing the creation of value for the firm itself and for the different categories of stakeholders involved and socially recognized, in the short-, medium- and long term. The equilibrium conditions are the result of (and in turn affect) the business model of the firm as well as the ability of the firm to satisfy customers' needs (Di Carlo 2017).

The sustainability over time of the economic equilibrium includes three conditions financial, monetary and interest equilibriums. The short-term profit maximization (Friedman 1970) may obscure the importance of these three equilibriums, and thus the long-term consequences of that short-term orientation.

The same company can have different equilibriums of interest (and therefore different ratios between contributions and rewards) depending, among other things, on the context, cultural and legal environment, in which it operates. While in a certain environment the overall balance is achieved when the company remunerates congruently all its stakeholders, in another context such fairness (or virtuousness) could be risky for its survival. It could be the case of those countries where companies that have a greater chance of survival are those that do not pay taxes, are corrupted, use illegal labour, pollute, offend the dignity of employees and so on. Thus, the real possibility to achieve the equilibrium of interests and, at the same time, maintain profitability over time, does not depend only on the ethics of the entrepreneur. A virtuous businessman, while wanting to operate ethically, might not be in a position to do so.

The overall equilibrium is achieved when it is not possible to ameliorate a single equilibrium condition (economic, financial, monetary and interests) without worsening the survival and growth of the firm. It can also be stated that the overall balance is a system of four interrelated equilibriums, which the solution of the system (survival and growth of the firm in the long term) should meet simultaneously.

Thus, the firm should struggle to tend towards the best overall equilibrium, and the combativeness to achieve the common good represents the basis for evaluating the ethics of the firm.

All four equilibriums affect each other. Furthermore, since the firm is a homeostatic system, it must strive to maintain its evolutionary equilibrium over time (Amaduzzi 1948, pp. 306–308; Giannessi 1960, p. 63). The overall balance is evolutionary in the sense that over time the firm may need to change its goals for

the best achievement of its survival and growth. In other words, the life cycle of the firm may see different optimal overall equilibriums.

The overall equilibrium aims to align the firm's interest (i.e. satisfy human needs and survive and grow in the long term) with stakeholders' interests, giving a guide to the managers and having an instrument to discipline their eventual opportunistic behaviour. This orientation, or common purpose, may produce cohesion between the firm and its stakeholders. Stakeholders should be aware that their particular interests are better achieved through their long-term commitment to the firm.

One of the most relevant aspects of the primary interest model is to separate the concept of economic equilibrium (i.e. satisfactory profit in the long term), from that of financial and monetary equilibriums, by giving a practical guide to link the effect of the short term on the long term. Indeed, if in the long run achieving the former also includes the ability to have achieved the latter, in the short term any financial and monetary imbalances (as well as a disequilibrium of interests) may affect the future economic equilibrium, thus the survival of the firm. For example, an enterprise may present a satisfactory short-term profit while supporting a monetary imbalance as it fails to cash in its credits. If that imbalance is not resolved, it will affect the economic equilibrium, due to the need to increase the firm's availability of money through debts.

1.8 Conclusions

In order to integrate the continuity (or long-term profitability) and the social function of the firm (i.e. serving the common good of stakeholders and society), the primary interest model has been proposed as the intersection among the equilibrium theory, stakeholder theory and common good theory. The common good of the company consists of achieving its multidimensional primary interests, i.e. satisfying human needs through the production of useful goods and services and creating sustainable value (or sustainable profit), in the short, medium and long term.

The primary interest asks to achieve, in the short term, simultaneously, the economic, financial, monetary and interest equilibriums, allowing the study of their mutual relationships, linking the effect of the short term on the long term.

The primary interest of the firm gives a 'compass' for guiding governance and management's choices. What really counts is not what is good for the owners, employees, the stock market and so on. If a choice does not achieve the interest of the firm, it is not good for its stakeholders and community.

According to the primary interest, there is no conflict between shareholder theory and stakeholder theory. Instead, there is a different emphasis on one or the other, depending on what is best for the overall equilibrium of the firm, given certain internal and external factors. In this regard, Adams et al. (2011) consider *shareholderism* and *stakeholderism* as ideal-type, polar strategies. 'Between them resides a continuum of intermediate stances that find merit in both views. There may be purists who subscribe to strong versions of either view regardless of the

circumstances. Most decision makers, however, will follow their principles to find a middle ground depending on the context' (Adams et al. 2011, p. 1332).

The common good of the firm is to achieve its primary interest. In other words, tending towards the primary interest of the firm means to pursue the common good of the company's stakeholders and of its community. The value should be created either in the short term or long term. The long run has no time-limit since the firm should tend to be immortal, pursuing the common good forever.

Thus, the role of the governance would be to mediate the competing interests of the stakeholders, promoting the common good view of the firm, while stakeholders, community and political institutions have to approach and understand the company's problems by paying attention to the effects of their behaviour on its continuity.

The primary interest recommends avoiding the idea that the objective of the firm coincides with the particular interest of a specific stakeholder or group of stakeholders, since the corporation needs the contribution of all its stakeholders (Koslowski 2000, p. 138), and at the same time suggests avoiding assigning more objectives that could lead to trade-offs being difficult to manage (Argenti 1997; Jensen 2001), and increasing the agency costs due to managerial opportunistic behaviour. The presence of a superior interest (i.e. the interest of the firm) allows the solving of competing interests among stakeholders (for instance, shareholders and employees).

In addition, the primary interest mitigates the debate that contrasts the instrumental and normative views of stakeholder theory, due to the fact that the instrumental approach does not refer to the shareholders' interest, but rather to the company's primary interest. Moreover, the primary interest harmonizes the goals of individuals, firms and the economy. As pointed out by Arjoon et al., 'contemporary business models and corporate governance mechanisms often promote separation and tension among these goals' (2018, p. 147).

1.8.1 Further Research

Literature and practice provide several indicators for the measurement of economic, financial and monetary equilibriums, as well as for understanding their mutual relationships. Further research should explore how the equilibrium of interests affects the other three equilibriums. For example, what is the effect of the common good orientation towards employees on the monetary, financial and economic equilibriums, in the short and long terms? How these equilibriums affect each other?

Moreover, it can be useful to study how to disseminate the culture of the primary interest of the firm.

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Chapter 2

The Incentives of a Common Good-Based CSR for SDG's Achievement: The Importance of Mission Statement



Cristina Quaranta and Emiliano Di Carlo

Abstract The normative stakeholder theory is the most appealing approach for business in order to achieve the SDGs and an ethical corporate social responsibility (CSR). However, the incentives for managers to follow a normative rather than an instrumental approach to stakeholders' management are unclear. Indeed, in both cases they have the duty to satisfy stakeholders' interests (in the latter case with the aim to maximize profit, in the former with the awareness that stakeholders, as persons or groups, have needs and wants to be cared). The chapter would find out incentives for managers to implement an ethically driven CSR by linking the stakeholders' normative concept to the common good from catholic social teaching (Argandoña 1998). Those incentives are intrinsic and transcendent needs to be satisfied together with the virtuous cycle generated by a business oriented to the common good. However, how could managers start orienting their business to the common good? Literature on mission statement gives the answer considering it as the main tool to spread ethics in business and orients firms to act in compliance with ethical principles.

Keywords Common good · Mission statement · Stakeholder theory · Extrinsic goods · Intrinsic goods

2.1 Introduction

Nowadays, when visiting the website and the formal documents of multinational companies, it is possible to assess how they are likely to pride themselves of their corporate social responsibility (CSR) and overcoming the traditional trade-off economy-sociality (Alexander and Buckingham 2011; Frémeaux and Michelson 2017; Miron et al. 2011; Semeniuk 2012).

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The economic system is experiencing structural changes to connect the values of community, society, and humanity as a requirement for survival and development (Miron et al. 2011). For this reason, in 2015, the United Nations established 17 Sustainable Development Goals (SDGs) each of them aimed to provide development in the three main fields of social, economic, and environmental sustainability.

Corporations themselves are shifting from being a distinct body from society with their own philosophy, culture, and policies, to be a mix of values and cultures of the community in which they operate and to which development they contribute. Responsibility, seen as dynamic process useful to harmonize the interest of various groups of stakeholders (Miron et al. 2011), leads corporations to have the duty to consider SDGs while making profit, thus ethical and moral issues more than economic ones (Teraji 2009).

Nevertheless, the attention is posed on what CSR is and why corporations are committed to be responsible toward society. The way in which companies approach CSR is driven by many reasons that in turn bring different effects of CSR practices on society.

Literature used to combine different approaches to CSR and gives it different meanings (Garriga and Melé 2004): as 30 years ago Votaw states, “corporate social responsibility means something, but not always the same thing to everybody” (Votaw 1972: 25).

Sometimes literature also refers to CSR as corporate social performance (Wood 1991), corporate citizenship (Zadek 2001) or sustainable business (Vogel 2005). From a shareholders’ model perspective (Friedman 1970) CSR does not allow the integration between market goals and the interests of society, due to the CSR’s primary commitment to the former (Semeniuk 2012). “There is one and only one social responsibility of business to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game [. . .] without deception or fraud” (Friedman 1970: 6).

This approach transforms individuals that participate to the business activities into an instrument to maximize principal’s wealth (Jensen and Meckling 1976), “Never mind the plight of workers—they are their own contractors, free to come and go as they please. Never mind the common good of society—that is for government to decide” (Sandelands 2008: 93).

However, concern for profit does not exclude to consider the interests of stakeholders but the satisfaction of those interests is allowed only if it can contribute to the maximization of shareholders’ value (Plender 1997).

Indeed, there are two reasons underlying the stakeholder’s approach to CSR: one that is instrumental to the maximization of shareholders’ wealth and second that is a normative stakeholders’ perspective.

The instrumental approach exploits the stakeholders’ orientation to better serve the firm’s profitability. Settled in this field the legitimacy theory approach: the organization has to justify its existence through legitimate economic and social actions that do not jeopardize the existence of the society in which it carries on, nor the environment (Suchman 1995). The instrumentality behind CSR sacrifices the common interests

and generate a vicious cycle that sacrifice in turn the inalienable rights of individuals internal or external to the organizational context (Melé 2009).

While the normative stakeholder approach could be summed up in the following question “How should the firm relate to its stakeholders?” rather than “What happens if the firm relates to its stakeholders in certain ways?” (Donaldson and Preston 1995). “[. . .] every group of stakeholder has the right to be treated as an end to itself rather than a mean for another end” (Evan and Freeman 1988: 101, *our translation*), thus, they have to be treated regardless of the effects on the firms’ financial performance.

If we think about CSR as an ethical practice, the normative stakeholder theory is the most appealing approach. Argandoña (1998) was committed to providing a theoretical foundation to this statement by considering the common good approach from the Catholic Social Teaching.

Since the aim is to find non-instrumental ethics in CSR in order to integrate socioeconomic and environmental issues to achieve SDGs, why should we integrate the common good to the existent normative framework? It would be enough to address a theory according to which business has to take care of stakeholders’ needs because this is the right and ethic procedure to follow.

However, we search for the managerial incentives to follow a normative approach rather than an instrumental one, knowing that, in both cases and in impartial conditions, they have to satisfy the interests of all stakeholders involved (in the latter case by considering them as an instrument to reach profit maximization, in the former one by considering them as persons with needs and wants to be cared).

The concept of common good makes a step forward because it puts emphasis more than only on “a fair way to treat stakeholders” even on three moral concepts strictly connected each other’s. First of all, the need to consider persons as an end to themselves rather than as an instrument for business. Secondly, the possibility to generate, through work, goods aside from the extrinsic and material value of remuneration and, finally, the needed condition to be part of a community of people, interact each other’s in order to give and receive something good back.

Thus, the common good theory starts from the normative approach to stakeholders and adds intrinsic incentives for managers to behave ethically.

Take the same example of managers facing a business decision. They can choose to follow a normative approach (e.g., invest in a socially responsible project only with the aim to guarantee a good treatment to stakeholders, without the sureness that this investment will lead to maximize business performance) or, an approach to the common good. Choosing the latter, managers should invest in social projects with the awareness to receive back a non-economic incentive (e.g., an intrinsic good: the satisfaction for a good job, knowledge, intangible rewards, happiness) and with the consciousness that a business oriented to the common good will generate a virtuous cycle able to make business performance increase in the long term.

However, how could managers start orienting their business to the common good? Literature on mission statements gives a possible answer: “firms as part of society would contribute to the common good through their specific and clear mission statement” (Melé 2009: 238).

The chapter focuses on mission statement as main tool to spread ethics in business and orients firms to act in compliance with ethical principles. “The common good needs to become the focal point of the mission of business in a world that is divided and beset by every type of conflict” (Arjoon 2000: 174).

The work is structured as follows: the first paragraph is committed in understanding the differences between instrumental and normative approach to stakeholder management and the importance of the common good theory. The second paragraph is a literature review on the concept of common good. The third one is a theoretical analysis on the importance of the mission statement in a leading firm to a common good-based CSR. The last paragraphs will be devoted to conclusion and contributions for theory and practice.

2.2 Stakeholders’ Management Approaches

Literature addresses to different approaches to stakeholder’s management explaining how they can contribute to firms’ value creation. Donaldson and Preston in early 1995 argued that stakeholder theory contains three different approaches, a descriptive approach and an instrumental or normative one, respectively addressing the following questions: What happens? What happens *if*? What should happen? (Jones 1995).

The instrumental approach exploits the stakeholders’ orientation in order to serve the firm’s profitability and maximize shareholders’ wealth at the expense of other stakeholders. Thus, the instrumentality behind CSR sacrifices the common interests and generate a vicious rather than a virtuous cycle, that sacrifice in turn the inalienable rights of individuals internal or external to the organizational context (Melé 2009). This would be in contrast to the SDGs established by the United Nations whose aim is to share peace and prosperity for all people and the planet itself, improve health and education, reduce inequality and spur economic growth.¹

While, according to a normative stakeholder approach (Donaldson and Preston 1995) “[...] every group of stakeholder has the right to be treated as an end to itself rather than a mean for another end” (Evan and Freeman 1988: 101 *our translation*), thus, they have to be treated regardless of the effects on the firms’ financial performance.

Having both theories, the tendency to take care of stakeholders in order to create value, which are the variables pushing managers to choose one rather than another orientation? If the mere instrumental arguments that fairness toward stakeholders contributes to firm’s performance is not enough to convince firms to treat stakeholders fairly (Bridoux and Stoelhorst 2014: 108), which is the incentive for managers to follow a normative approach?

Stakeholder literature has for long recognized that both normative approach (treat stakeholders fairly) (Donaldson and Preston 1995; Jones 1995) and instrumental

¹<https://sustainabledevelopment.un.org/>

approach can contribute to firm performance and competitive advantage (Harrison et al. 2010) if applied consistently over time (Bridoux and Stoelhorst 2014).

However, “a firm adopting fair approaches may find it difficult to maintain the needed consistency over time in facing certain types of change in its external environment. The orientation of the firm depends on motivation of its managers/stakeholders, and researches suggest that the motivational effect to choose one rather than another approach depends on whether managers is reciprocal (fairness oriented) or self-regarding (arms-length oriented)” (Bridoux and Stoelhorst 2014: 113).

A normative approach makes managers able to act in accordance with “what is good or bad,” while, the instrumentality of managers’ behaviors tends to come along the “effectiveness” dimension. Even if the contribution of fair managers to stakeholders’ management is not fully compensated in the form of personal benefit, they are motivated because of fairness itself.

However, there could be the possibility that managers’ fairness will result in higher employees’ efforts as experiments shown (Fehr et al. 1997).

Moreover, the use of contractual financial rewards will tend to damage the voluntary contribution of fair managers to create value, because seen as a signal of hostile intentions (Fehr and Falk 2002; Fehr and Rockenbach 2003). The use of financial incentives to motivate fair managers will destroy rather than create value because of the lower contribution to what is needed to secure personal economic benefits: strong reciprocators are willing to sacrifice a significant amount of resources to punish unfairness (Fehr and Gächter 2000).

In contrast, self-regarding managers are willing to create value only for a mere self-concern. Their actions are driven by a cost–benefit analysis and motivated by the assumptions that the traditional economic approach (agency theory for example) make about human behaviors (Bebchuck and Fried 2004).

It is important the hint of Bebhuck and Fried (2004) that recognize the difficulty in maintaining feeling of fairness and equity when those feeling are not compatible with monetary incentives able to align stakeholders’ contribution and personal payoff.² Therefore, the study of Bridoux and Stoelhorst (2014) confirms that a fair manager will contribute more to value creation if the firm adopts a normative approach to stakeholders’ management, so, to CSR processes. While, a self-serving manager will contribute more to value creation if the firm adopts an instrumental approach to CSR, that could be translated in the shareholder or instrumental stakeholder approach.

However, as said in the introduction to the work, corporations have always the duty to consider ethical and moral issues while making profit (Teraji 2009) and their aim has to be aligned to the SDGs (so the achievement of social environmental and economic objectives). The need now is to make them coexist and find another way to incentivize self-regarding managers to balance sociality with morality, as well as find a way to make fair manager willing to receive back incentives of other nature, as a reward of their fairness.

²Paradoxically, the last statement gives “advantage” to the instrumental approach of stakeholder management on the normative one.

2.3 The Common Good as Stakeholders' Management Incentives

Osterloh and Frey (2000) suggest that the general decline and weakening of morality in the business context is due to the dynamic and systematic relationship between the intrinsic and the extrinsic motivations leading managers' actions.

Extrinsic motivation and the goods that it generates reduce virtuousness shifting the focus of productive activity to the monetary reward: the end is not the activity in itself but the extrinsic good derived. This leads to the reduction of commitment for intrinsic motivation of managers/employees.

Moreover, according to Heath (2009), extrinsic incentives will not make people able to evaluate their actions from a moral point of view but on their personal interest side. The key is to consider man as an end rather than an instrument for profit, it would allow people to behave ethically and even if those behaviors do not produce immediate effects on economic performances, they will release positive effects on the community as a whole.

With this aim, the common good theory (Melé 2009; Goodpaster 2017; Sison and Fontrodona 2012; Arjoon et al. 2018; Argandoña 1998) does not consider the firm as the sum of stakeholders' interests but it exists to reach a broad interest that transcend individuals and reflects the interest of the community.

Indeed, the concept of common good appears with the social dimension of human beings (Melé 2009). Consider persons as an end to themselves leads to wonder: What persons usually would find for themselves? Which kind of goals people are likely to pursue during their life? Which are the needs people would satisfy? Happiness, self-esteem, self-realization, etc. are some of the elements answering these questions and leading business studies to consider goods different from material ones. These goods are intrinsic goods (i.e., personal satisfaction for a good job, knowledge acquisition, happiness) or transcendent goods (i.e., make something good for others) and their achievement depends on the social nature of men manifested in their tendency to associate with other men within the community (Argandoña 1998).

The good treatment of employees does not require costs, but it produces positive effects on employees' well-being as well as the well-being of their families. They will surely reciprocate happiness to people who contribute to it.

A leader oriented to the common good will never destroy the economic condition of the company or jeopardize the business continuity in order to improve people happiness; however, He/She would contribute to stakeholders' happiness finding the right boundaries to ensure simultaneously the survival and growth of the firm. If the primary focus is on profit maximization (goods of efficiency), employees develop negative feelings toward organizations, while, adding to financial rewards the satisfaction of intrinsic and transcendent goods will bring benefits to both the employees and the community as a whole, generating a virtuous cycle and positive feelings in the long term.

The incentive for an altruist manager (not driven by a common good approach) to behave ethically is no more than its altruism, while the common good model brings

Table 2.1 Managers’ contribution to business value creation according to CSR orientation

| 2 | 1 | | | |
|------------------------|----------------------|-----------------------------------|--------------------------------|----------------------|
| | Shareholder approach | Instrumental stakeholder approach | Normative stakeholder approach | Common good approach |
| Fair manager | DV | DV | CV | CV |
| Self-regarding manager | CV | CV | DV | CV |

1: CSR orientation

2: Managers attitude to behave

DV: Destroy value

CV: Create value

Source: Author elaboration

the possibility to receive back intangible goods from community and generate personal growth, self-esteem, etc.

A person could not grow only by giving something good to others. To accomplish a whole fulfillment he has to receive back something good from the community in which he lives.

A firm has to use resources to satisfy the intrinsic needs of its employees; it has to guarantee them a certain degree of satisfaction, knowledge acquisition, etc., in order to make them willing to continue to work for the achievement of the firm’s mission, develop new skills and improve their peculiarities (Pérez-lopez 1993) by contributing both to business and community development.

Table 2.1 shows the relation between managers’ attitude to behave in a self-regarding or fairway and the orientation of the firm’s CSR practices. As said, CSR could be driven by instrumental or normative approach and the consequence of this choice on business value creation depends on the motivations that managers have in following one rather than the other.

The instrumentality of CSR tend to damage the voluntary contribution of fair managers to create value; they would tend to destroy value if their only incentives were the maximization of profit for shareholders. However, with a normative approach, they would be motivated to act ethically because, searching for fairness, this would be the right thing to do. Fair managers driven by a common good CSR would add to their fairness intrinsic incentives beneficial for them and the community as a whole, leading to the contribution of value creation. It means that in both a normative and a common good approach fair manager would tend to create value. While a self-serving manager will create value if the firm adopts an instrumental approach to CSR, this is the reason why a normative stakeholder approach would not fit with their behaviors. However, between a common good and a mere normative approach even self-regarding managers would choose the one that provides them additional motivations (in this case intrinsic ones) to participate in the value creation process. Thus, the latter approach would fit both kinds of managers’ behaviors.

2.4 Definition of the Common Good

As Smith (1999: 625) observed, “Talk about the common good, in the twentieth century, has been all but abandoned.” The difficulty in accepting the common good is linked to the dominant individualistic view of the human person. The human being has always been considered as an individual, even before forming part of any group (Sison and Fontrodona 2012).

In the academic literature, the common good is largely discussed with reference to human flourishing (good life do not consist entirely in work or veggioing leisure) and happiness (*eudaimonia*) (Finnis 1998; Sisón et al. 2012; Melé 2016; Ryan 2018; Arjoon et al. 2018). Others refer to the sum of those conditions of social life, which allow social groups and their individual members (from now speaking about individuals not as “bees in the hive” but as persons, Argandoña 1998) to get ready access to their own fulfillment (Argandoña 1998; Goodpaster 2017). Almost the majority of the academics agree with the need to address at the common good referring to the interaction between community good and personal good (Frémeaux and Michelson 2017; Melé 2016). It means that humanistic firms participate in the community goods because they allow persons to accomplish personal goods.

According to Sison and Fontrodona (2012), the common good is about the work through which human being not only produces goods and services (objective dimension) but also, more importantly, develops technical or artistic skills and intellectual and moral virtues (subjective dimension). It concerns the consideration of tangible and intangible assets shared by individuals and the community itself, the possession of which everyone can benefit (Alexander and Buckingham 2011).

As highlighted by Jourdain and Chênevert (2015), one of the lacks in the organizational context leading firms to fail in their long-term orientation, is that they are not likely to monitor their culture as well as assess the alignment between the value nurtured by the organization itself and the value of its employees. In its model, Barrett (2006) refers to the last three levels of consciousness of employees as a common good in terms of the necessity of employees to “meet the needs of their soul.” He suggests that individuals reach a middle level of consciousness at the moment in which they are able to transform self-interest (satisfy the need of their ego) for the common good: individuals begin to free themselves from their fears related to survival and start to search for love and respect (Barrett 2006; Van-Eerven Ludolf et al. 2017).

Moreover, the common good is discussed with reference to social cohesion, thus compliance to social rules and order a mutually supportive community of free individuals pursuing these common goals by democratic means and needs for a “new ethic of social responsibility”. The participation in the life of the political community will make people able both to participate to the common good and to share its benefits (Hollenbach 2002).

The intrinsic satisfaction that occurs in life must occur in an individual’s life, but in terms of causal connections, they depend on social interactions with others. Common good focus on the well-being of persons and serves both corporate interests and those of the broader community in which it operates, keeping faith with its fellow citizens.

Since it concerns the treatment of human beings with respect, in the organizational context an inclusive common good is those that focus on employees' well-being (Alexander and Buckingham 2011). The enhancement of the well-being of each individual/employee occurs only when there is the presence of a good that transcends the individual himself, for example, the good to be a family (Deneulin 2006).

In defining the common good sometimes there is the tendency to refer to a set of means that make possible the members of society realize their personal objectives (Argandoña 1998) rather than the intangibles reached by persons through particular social conditions and means.

The focus was on which the "common goods" really are and which are the instruments used in order to reach these sharable commons. For example, providing employees with the right working conditions to develop personal skills is a way to provide them with the right instruments useful to reach common goods. Indeed, happiness and knowledge are shared by employees to their family or people around them, without limit of spread.

Table 2.2 clarifies this relation conditions–definition, linking each contribution to the area of research to which it belongs.

This work would address to the Catholic Social Teaching literature stream.

Even if it does not address directly to the organizational subject, it says a lot about human work, employees, and employers (Marek 2015). Thus, the foundation of efficacious leadership is the ability to encourage people to achieve organizational aims, first the mission. Catholic leaders should not strive to achieve their own benefits. They should seek to ensure the common good of all members of the organization. They ought to be able to unite the staff in pursuing the mission of the company; in this way, they will participate in building the prosperity of their employees, their families, customers, the local community and, as a result, in the development of the world. It urgently needs business leaders for whom profits are not the exclusive goal in order to achieve the common good (Marek 2015: 33).

"For years I have reflected on leadership and business, on those virtues and qualities making of a business a good business and of an individual a good man-ager. Today, I can conclude that respect for others if the key. Without respect for employees, business could not exist" [. . .] "I feel offended every time in which an employee is defined in the same way as it was a machine or something like that. It is instead a human being full of desire of fulfillment, made in the likeness of God. Individuals/employees are the structure of this society and I am proud for their achievements and for what they are" (Rich De Vos, declared Christian leader—our translation).

The firm serves to elevate the man's well-being, to improve his personality and make human life's objectives possible to be achieved, being them (objectives) ethical in nature (Onida 1971). The ultimate goal of business is to provide an environment that would allow and encourage people to achieve their goals, which, at the same time promote the common good.

Table 2.2 Common good: Conditions and definitions

| Sources | Conditions for the common good | Common good definition |
|---|---|---|
| Finnis (1998); Ryan (2018); Goodpaster (2017); Argandoña (1998) | Overall conditions of life in a society that allows different groups and their members to achieve their own perfection more fully and easily | Human fulfillment/perfection |
| Melé (2009); Goodpaster (2017) | Respect for human rights, dignity, and promoting human relations | Human flourishing |
| Ryan (2018); Arjoon et al. (2018); Sison and Fontrodona (2012); Melé (2016) | Virtuousness; common good ^a | Happiness (<i>eudaimonia</i>) |
| Frémeaux and Michelson (2017); Melé (2016) | Interaction between community good and personal good | Personal good accomplishment; individual well-being |
| Alexander and Buckingham (2011) | Serving corporate interests and community interests | “Tangible” and “intangible” assets the possession of which benefits everyone in society |
| Sison and Fontrodona (2012) | Work in common that allows human beings not only to produce goods and services (the objective dimension), but more importantly, to develop technical or artistic skills and intellectual and moral virtues (the subjective dimension) | Human flourishing; virtues |
| Argandoña (1998) | Benevolent leadership (ethical decision-making, sense of meaning, positive impact for the community, inspiring hope and courage) | Shared benefits for all members of the community |
| Roos (2017); Figar (2016) | Virtuous habit of making decisions and taking actions | Practical wisdom |
| Van-Eerven Ludolf et al. (2017) | Free oneself from fears related to survival | Meeting the need of the soul |
| Schiefer and Van der Noll (2016) | Compliance to social rules and order | Social cohesion |
| Robèrt and Broman (2017) | Cooperation | Sustainability |
| Graves (2012) | Higher education | Intellectual capital |

^aParticular is the contribution of Arjoon et al. (2018) who considers the common good in itself not as the goal to be achieved through the right social “instruments” but as an instrument that together with virtuousness serve to reach a higher goal that is happiness (*eudaimonia*)

Authors’ elaboration

It has an ethical obligation to support employees' rights to fulfill their potential (Arjoon 2000). The Kantian vision of human relations in business according to which employees are human resources or assets of the productive process and, consumers, means useful to obtain profit, has been overlapped by the acknowledgment that employees and consumers are more than that: they are persons and as persons, they merit to be respected (Melé 2009).

As Signori and Rusconi suggest (2009), the common good has two dimensions: the first one is an internal dimension because it refers to relation of the firm with its internal stakeholders and the second one is an external dimension because it addresses to the relation between business and community. Such dimensions are independent each other's. The contribution to a particular stakeholder's common good must be coherent to the contribution of the whole society common good (Melé 2009: 238). This is possible through the satisfaction of final users' needs and through the creation of sustainable value for all stakeholders involved in business.

Thus, the value creation for society includes human beings' development and respect of their personality (Calleja and Melé 2016).

2.5 Determinants to Understand Common Good Behind Firms' CSR

We now discuss the determinants that explain why mission statement can be the first step to measure the company orientation toward the common good. Literature provides the right elements to understand the importance of mission and its accurate elaboration, as well as suggests the inclusion in the mission lines of some specific elements (Ireland et al. 1992; Pearce and David 1987; Vogt 1994) in order to manage the relationship with stakeholders. The chapter would give a forward contribution in suggesting key mission statement's contents that determine when the business is oriented to the common good as well as help to elaborate a right mission in order to start spreading this culture throughout the organization.

2.5.1 Mission Statement and Internal Dimension of the Common Good

True leaders should have a clear vision of the common good and the means to promote it and they are supposed to lead people to attain some goals and objectives. The virtue theory framework (Arjoon 2000) considers the essential elements of an organization as a tripod comprising the company's "mission" (in this case the common good). If one of the three elements (mission, leadership, and structure) miss, the entire system would collapse. Without a mission, companies' leaders as well as the society as a whole become "vagants."

What it is required is Christian/ethical leadership from professional and business people at all levels to lead the companies back to a vision of the common good. Therefore, the role of the mission statement, that is a formal summary of the objective of the firm itself, is to orient the firm, managers, and employees toward the common good (Melé 2009).

Melé (2009) observes how the common good principle provides a “compass” for social life, included the business activity: firms as part of society would contribute to the common good through their specific and clear mission statement (p. 238).

Moreover, he observes that a mission statement that is coherent with the common good approach it is a practical way to introduce ethics in business from the top of the pyramid (in boards of directors and management team) and, an efficient implementation of such mission, is the best way to spread ethics throughout the organization (Melé 2009).

The elaboration and the following implementation of the mission statement are realized by considering the correlation between the values of firms and the values of every single employee (Marius-Costel 2016).

The role of the mission has to be effective that to reflect the employees’ morality (David et al. 2014) trying to put together the firm’s values and the values of stakeholders which is identifying in it (Campbell and Yeung 1991). This relation is summed up in an “emotional link” and “sense of mission” between the organization and its workers.

These reflections capture the need for companies to develop a mission whose contents strictly refer to their need to positively approach with the company’s employees and not only be involved in the mission to satisfy customers and external stakeholders’ requirements. This attitude toward employees is the internal dimension of the common good.

However, the most common measurement of the emotional link between firm and employees (the involvement of employees in business activity) is proposed by Allen and Meyer (1990) which distinguishes an affective relation, an emotional commitment of individuals reflected in his personal identification with the firm, and a normative relation.

In the former case, the employees’ objectives and values are aligned with the values, objectives, and mission of the organization itself. The employee remains anchored to the firm because of his/her personal desire. This is a specific case in which the firm is able to generate common good.

In the latter case, employees remain in business because of a cost-benefits evaluation; the social cost in case of abandon is higher than the need to go. He has a sense of “duty,” a social and moral pressure bringing him to such decision (Zheng et al. 2010).

Literature considers mission statement as a tool containing the main objective of the firm would like to achieve and, for this reason, they consider it as a key element in order to assess if the business performance’s expectations have been satisfied (Matejka et al. 1993).

The implementation of actions suggested by the mission statements is materialized by considering specific conditions that refer to the values and virtues of the organization. Indeed, one cannot properly talk about virtues without reference to some goal (in this case the common good).

Virtues are those qualities that enable people to direct their behaviors (Arjoon 2000); such an approach identified in the moral/ethics dimension of business could be able to shape behaviors within companies and tie all actions and decisions to what has been included in the mission statement by the policy maker.

Recalling literature about which the “scope” of organization ought to be it is good to mention the work of Marius-Costel (2016) according to which the scope of the firm has to be identified beyond it, in society as well as in the contribution that the former is able to provide to the common good.

According to the author, the long-term goal attainment of the firm starts from the publication and declaration of its own mission. Therefore, the mission statement is explained according to the potential correlation between the values’ system of the organization and its identity/personality.³

It is not casual, the fact that the concept of “person” referred to the organization (De Geus 2002) confirms the need to reduce firms to a specific set of values. In other words, the business performances could be influenced by the kind of culture they showed. It is needed to clarify the existing relation between the organizational culture and the employees’ principles and then try to align the two dimensions.

2.5.2 Mission Statement and External Dimension of the Common Good

The mission statement becomes essential for managing the important relation “firm-stakeholders” and the latter, in turn, expect the publication of a clear mission being it as the perfect “mirror” of the company’s identity (Leuthesser and Kohli 1997).

Bartkus and Glassman (2008) focus their works on the accuracy that the mission statement deserves toward stakeholders. The fact that this document would include or not the mention to primary or secondary stakeholders suggests how some groups of stakeholders are more important rather than others (Mitchell et al. 1997). Other works show a positive correlation between the mention of specific stakeholder in different business documents (Fairfax 2007) and the mention of a specific group of

³Represented by the author as the organizational core of the firm. It means that the firm identity takes rise from the set of values that reinforce and support the expected behaviors of the organization and its employees.

stakeholders in the mission (Bart 1997; Bartkus et al. 2004; Leuthesser and Kohli 1997). The evident use of “stakeholder rhetoric”⁴ within business documents support the thesis according to which many firms recognize the importance to be attributed to these internal and external actors (Donaldson and Preston 1995), by generating in the meantime a strong relation between the firm’s stakeholder orientation and its mission. It is obvious that this presence of mind implies the fact that the firm has to implement behaviors aimed to benefit such actors since their direct or indirect influence on the firm’s performances themselves; hence, the organization mission statement needs to be accepted by stakeholders as an accurate indicator of its own priorities (Bartkus and Glassman 2008).

Seeing the mission as an indicator of the company’s priorities highlights our need to consider the content of this document as a tool to measure the orientation of the firm’s CSR.

Thanks to a study conducted by Bartkus et al. (2004) on a sample of the top 100 companies belonging to Fortune 500 of the year 2001, it has been possible to highlight the frequency of the presence of some terms within the analyzed mission statements.⁵ Results demonstrate how the 63% of that mission focused the attention on customers, the 34% was oriented to the employees’ satisfaction, the 13% to the environment and its safeguard, the 19% to the protection of diversity and the 31% paid attention in writing the mission on community and the world in general (Bartkus and Glassman 2008). The same work then would have highlighted how the most common elements included within the mission would be the one most influent in the firm’s action and decision (Bartkus and Glassman 2008).

Speaking about stakeholder’s orientation means to speak about the second dimension of the common good approach that is the external one. In this case, it assessed the role of the firm itself within the community, of which employees are an integral part.

2.5.3 The Community as External Dimension

Naughton and Harvie (1996) stated that, if organizational goods are properly ordered, they could bring the right conditions necessary for human development within an organizational context where the good of persons is intrinsically connected to the good of the community.

Among them, profit is not the most important good but without profit (and others extrinsic goods) there can be no other goods: the workplace where people develop

⁴Statements or speeches suggesting the importance and the commitment that the firm attributes to the non-shareholders such as, for example, employees, consumers and society in general. These arguments then affect many business tools such as websites or annual reports and mission statement (Fairfax 2007).

⁵32 missions out of 100 have not been assessed because of their non-existence or non-publication.

has little relevance as the organization would cease to exist. On the other hand, for example, a family need money in order to enjoy free time together and enhance the sense of familiarity and the feeling of “happiness to be a family.” Money, in this case, is not the aim but, without money, it would not be possible to reach the final intrinsic goal that is happiness.

The intrinsic and transcendent goods are the so-called common goods because of their ability to be shared with the whole community, inside or outside the firm. Knowledge and happiness, for example, are personal intrinsic goods but even common because if men/employees want, they can share them: a virtue could be contagious.

Employees have to work together toward a mutual goal by producing a common good (cooperation) (Serenko and Bontis 2016), they have to cooperate, help, and provide unilateral benefits to one another. In turn, they will receive benefits from their colleagues as part of an operational routine. Organizational members would share their knowledge with others and produce intangible goods for everyone's advantage: “Managers should focus on the development of positive knowledge sharing culture when all employees believe they contribute to a common good” (Serenko and Bontis 2016: 689).

It is difficult to measure the common good but it is important to take consideration of it because of its wide conception of value creation and the higher contribute it could bring to CSR and to the community. There could be companies that create much more value than the expected one. For example, think about training courses provided by the firm to employees, the aim of the firm is for sure to increase positive effects on stakeholder's behaviors. Imagine then the possibility for employees to share the benefits exploited thanks to these courses, indirectly the firm has been able to create value for the whole community.

2.6 A Hint to the Code of Ethics

Moreover, to clarify norms and values in which it is identified (Kaptein 2004) firms usually use code of ethics. Differently from the mission statement, it has a role to let the “why” of the firm be known and declare which objectives the latter is intended to reach (Stevens 1994). The two instruments are quietly different due to fact that the code of ethics is committed in the articulation of a real set of values and to answer the following question: “which are the moral and ethical standards within which the mission statement of the firm has to be pursued?” (Stevens 1994). To integrate the code throughout the organization means to define and give priority to corporate responsibilities using internal business policies and strategies in order to make the code as a non-separated entity. The long-term performances depend on the level of involvement and of employees and on how much they feel tied to the decisive and relevant mission, defined with a clear ethically based vision (Stevens 1994). Thus, code of ethics and mission statement have a different nature being the former a “plan of action” for the achievement of the latter, in the same time it is ascertained the relation between these two

documents as strategic instrument useful to set the guidelines for stakeholders' behaviors (Hosmer 1991; Schwartz 2001; Stevens 1994; Trevino and Nelson 1995; Rogers and Swales 1990).

2.7 Conclusion

The chapter suggests the importance of firms' "identity card" in order to be included in the list of companies able to add an intangible and non-measurable values to their value creation process and participate to the achievement of SDGs.

CSR, indeed, is fueled by different mental approaches paradoxically even an instrumental one such as the shareholders' value maximization approach. The common good theory adds incentives with respect to an ethical normative theory of stakeholder, even if non-financial one. Indeed, it leads to responsible behaviors even if the latter have not immediate effect on financial performances, they, however, will have a positive impact on humans' well-being and on the community. Different the situation if it is considered the normative stakeholder approach, according to which ethical behaviors have to occur without tangible or intangible incentives.

The previous paragraphs were involved in the analysis of literature useful to understand the importance of the mission. The chapter takes in consideration treatment of individuals/employees as a mean or as an end to themselves, the stakeholders' orientation of the mission and the link of the mission with the code of ethics, being the latter a plan of action for the achievement of the firm's sustainable objective (mission oriented to the common good).

The implicit core of this chapter lies in the consideration that through work humans not only "do things" but also they "do themselves." Humans need to work in order to develop themselves; otherwise, there would not be dignity for all.

As suggested by Melé in its work *Meaning of work in Catholic Social Teaching* (2018)⁶ persons must work because they have received skills from God and they have to use those skills for the service of others. What does it mean the term "work" in the context we are focusing on? We discuss about work as a mean of caring for the environment and people, as a sense of transcendent and spiritual activity. This meaning has to be reflected in the actual and future generation, to give business the right path to follow and reach a CSR that is sustainable in the long-term. "Caring" for people means to create conditions for growth and sustainability, maintaining the stability of the environment, and its ethical and financial dynamism as well.

This would generate a common purpose (Argandoña 1998), something like a community of people serving other people.

⁶Paper presented at the 20th Symposium on Ethics Business and Society, IESE Business School, Barcellona (2018).

Employees work for a company because it offers them the possibility to get their motivation (intrinsic, extrinsic, and transcendent motivations). It is not just getting money, they work together to have something in common. The common purpose is the common good: all people in the organization create it and all of them could benefit from it and share those benefits.

The chapter has focused on Christian thought and values because, having a CSR whose roots are identified in ethics implies to have a true transcendence, the need of a real morality in pursuing the good for all stakeholders involved in the business.⁷

Paul Polman (Unilever Chief Executive Officer) with his *10-year Unilever Sustainable Living Plan* is a good example of what sustainability and long-term value creation mean. He explained “I didn’t want to be seen as “courageous” because I have simply do what it took to develop Unilever as a business that could provide employees and **future employees** with a purpose to engage, customers with healthier products, and communities in which it does business with reasons to support it.”⁸

Despite these evidences the mission statement of Unilever tends to confirm what known about the sustainability of its business, but does not consider employees:

Our mission is to *add vitality to life*. We *meet every day needs* for nutrition; hygiene and personal care with brands that *help people look good, feel good and get more out of life*.

The reason does not lie in the lack of caring for people but probably in the lack of importance attributed to the mission statement in showing the internal dimension of the common good.

Ethical social responsibility is an example that management and leadership have a wide purpose and that offer purpose means to offer people a meaning for work. The latter, in turn, is important for the development of society as a whole. The right for companies is to invest in their people and ask them what they need and what they expect from their job, this will lead them to create a sense of identity, a sense of purpose, and a meaning for life.

2.8 Contribution to Theory and Practice

The contribution of this chapter is to understand the non-material incentives behind a CSR oriented to the common good. It gives its contribution to literature committed to assessing common good in business and how this approach would be the most appealing to achieve the balance between social environmental and economic issues as required by SDGs. It suggests the importance of a mission statement in understanding the firms’ common good orientation. Here, the words of Melé: “firms as part of society would contribute to the common good through their specific and clear mission statement” (2009: 238).

⁷The work of a mum to take care of her man and children is the best example of fulfillment reached through human work.

⁸Source: Business insider.

Moreover, the chapter contributes to assessing the double effect of the common good approach to CSR both on self-serving and fair managers' behaviors.

The chapter is addressed to managers who would like to be oriented to good governance, based on purely ethical principles and objectives, but do not take in consideration yet the importance of the mission as starting point to show this aim internally and externally. It is addressed on potential investors; given the higher importance of the common good orientation in productive context, they could be able to distinguish companies according to the mission and the way it is elaborated.

The chapter is addressed to consumers, always much more interested in how companies produce and how they treat employees. To confirm the latter statement, a not-for-profit organization in the United States has launched the worthy *Free2Work* campaign, that put companies in front of the requirement to respect higher humanity standards in order to incentivize them for a positive cultural and ethical change.

The chapter is addressed also to agencies that are involved in rating companies according to their degree of social responsibility and sustainability; they would have to include among the variables of measurement also the mission statements' evaluation according to the degree to which it is common good oriented.

CSR improves company reputation, and, being recognized through the mission to have a real CSR based on ethics and virtues would surely generate a positive word of mouth.

Socially responsible firms are more likely to have internal anti-corruption practices and so they are more likely to come clean. Good relations with communities, employees, responsible products, etc. are mostly associated with lower fines; so, the chapter is addressed to regulators who could go easy on those companies.

Finally, the chapter has to sensitize academics on the issues discussed in order to be sure that future generations will benefit from higher education on what concern ethics and virtues in business. They have to be educated about financial issues without never forgot to balance social and economic needs.

Important to highlight is the need to implement the second step in evaluation, so the limit of this work and its future development.

First of all, understand the keywords to be included in the mission and then, the indirect measurement of the common good orientation through the mission statement has to be followed by a direct measurement of the real implementation of what is shown in the mission. This in order to make of the common good not only an ideological line to be followed but also a real implementation practice throughout the organizational context.

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Chapter 3

SDGs Achievement: Commitment, Channels of Action and the Role of Integrated Reporting in the Disclosure Mechanisms



Sandro Brunelli and Francesco Ranalli

Abstract This chapter deals with the great challenge represented by the desirable achievement of Sustainable Development Goals (SDGs) by profit and non-profit organization. To do so, organizations should strive in individuating which channels, rather than others, could lead them to the success and how to report results achieved over time. The more recent literature has individuated two channels for success: the development of sustainable business models through strategic alliances and several important topics in the large field of Accounting for Sustainability (A4S). In the light of these pillars, the chapter proceeds first in illustrating successfully strategic alliances occurred around the world as positive patterns for further alliances. Then, using the lenses of sustainability, important issues such as Big Data and its governance, tax compliance, economic democracy and fair wages accounting will be dealt in order to prioritize actions organizations should take for the achievement of many SDGs. All actions required ask for effective disclosure mechanisms. Hence, we argue the need of suitable Integrated Reports not necessarily in the form of Integrated Reporting (IR) proposed by the International Integrated Reporting Committee (IIRC) able to outline input, processes, output and outcome as a result of commitment and channels used by organization for the SDGs achievement.

Keywords SDGs · Sustainable business models · Strategic alliances · A4S · Integrated Reporting

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3.1 Introduction

As known, in 2015 the United Nations have issued the Sustainable Development Goals (SDGs) (United Nations, cited in Le Blanc 2015).

Each of these 17 goals has a number of targets and are all aimed to provide a Sustainable Development on three dimensions: social, environmental and economic (United Nations 2015). Besides, they will have to be achieved by all entities, namely public, private (thus, even corporations) and individuals themselves by 2030, and have substituted the previous Sustainability Goals, namely Millennium Development Goals (MDGs, United Nations 2015).

Since the MDGs, even though brought different sustainable results, have not fully accomplished their task, the United Nations decided to recommit themselves to the establishment of new Goals so as to correct the deficiencies carried by MDGs.

Kumar et al. (2016) recognize several differences between MDGs and SDGs, among which:

- The SDGs comprehend a wider range of goals and targets with respect to their predecessors.
- While MDGs referred just to low-income countries, the SDGs must be attained by all countries, namely low-, middle- and high-income countries.
- The SDGs, contrarily to MDGs, were developed by much more considering all stakeholders' opinions, such as through face-to-face assemblies and Web-based polls.

Moreover, as Le Blanc (2015) points out, differently from MDGs, SDGs are deeply interconnected with one another.

This implies that corporations committed to achieving a specific goal will then end up by furthering even other goals.

The recently developed literature underlines two fundamental pillars for the realization of sustainable development by companies: sustainable business models enriched by strategic alliances and 'sustainability accounting'.

If by 2030, hopefully, almost all companies will achieve SDGs, they will all need a proper report to demonstrate in detail their strong sustainability engagement to investors and other external users. Thus, by analyzing these two topics, it can be assumed SDGs pursuit by companies will ultimately encourage the production of 'Integrated Reports' aimed at representing in a concise and *integrated* way which sustainable strategy a given company has implemented, and how this strategy affected its resources, capabilities, intra-organizational and inter-organizational networks, employees' motivation and reputation. In a very recent bright research by Gibassier et al. (2018) have provided an ethnographic study regarding the adoption process of 'Integrated Reporting' (IR) by a pilot company. Seizing the challenge proposed by other scholars (among them, O'Dwyer and Unerman 2016) in observing 'accounting in action', authors conclude that when disruptive management innovation, like <IR> is, draw great consensus in few time, the result in a concrete

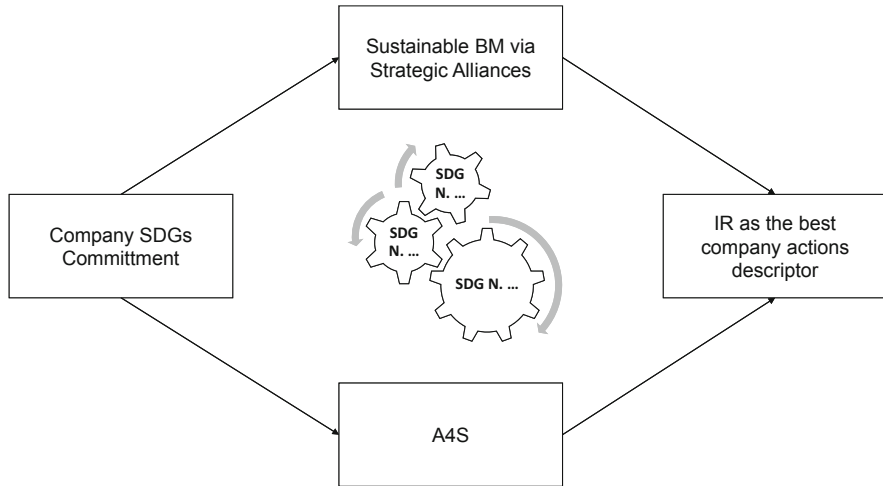


Fig. 3.1 SDGs achievement: commitment, channels of action and disclosure. Authors' elaboration

application is more a myth than reality. At the same time, authors arguments are in favour of <IR> because its potential effectiveness to demonstrate how by embedding a sustainable approach (Cheng et al. 2014), firms were able to create benefits for their own employees, society, urban areas and natural environment.

In this sense, as shown in Fig. 3.1, the creation of sustainable business models together with alliances and accounting for sustainability (A4S) can be seen as the two 'channels' through which SDGs achievement will lead to increased effective IR by companies.

This chapter is aimed at exploring the two channels, their features and open issues organizations have to address in order to pursue effective strategic alliances and sustainable accounting determining, in the long run, the achievement of SDGs and an effective integrated disclosure. Thus, the chapter proceeds as follows: Section 3.1 explores the importance of strategic alliances to achieve firm's sustainable business model. To this end, in Sect. 3.2 and related subparagraphs several successful alliances reviewed by other academics in recent times will be recalled using the lenses of the Bottom of the Pyramid and Environmental dimension. Section 3.3 deepens the role of sustainable accounting in terms of relevance of Big Data and other important related fields such as tax compliance, economic democracy, fair wages and sustainable performance measurement. Section 3.4 concludes with final remarks tracing trajectories for further research. As we will see, while strategic alliances have been, in several cases, effectively pursued around the world and the related academic interest has been adequate, on the other hand a great space for developing new solution in terms of A4S tools exists. At the end, the process towards mandatory and effectively (although flexible) Integrated Reports could put all cards in their places in this intricate mosaic.

3.2 The Importance of Strategic Alliances for Developing Sustainable Business Models

There is widely spread consensus among scholars that reaching sustainable goals for companies implies turning their own business models into ‘sustainable business models’ (Fig. 3.2).

In fact, as a business model expresses ‘in which way a firm does business’ and, thus, how it is able to create value through its activities and final products or services, if a company decides to implement a sustainable strategy, this will necessarily imply, most of times, a change in its business model (Schaltegger et al. 2012).

As argued by Geissdoerfer et al. (2018), a sustainable business model internalizes sustainability principles into the common business model concept, it enlarges its recipients of value creation from just customers and shareholders to the overall range stakeholders. The authors describe the sustainable business model as a model that creates financial and nonfinancial value to the whole set of stakeholders, while having a long-term vision.

Many other academics provide definitions of sustainable business models, among whom:

- ‘a sustainable business model is a changed business model to account for a sustainable development’ (Roome and Louche 2016).
- ‘a sustainable business model is a transformed business model oriented to the generation of positive externalities to society and environment’ (Schaltegger et al. 2016).

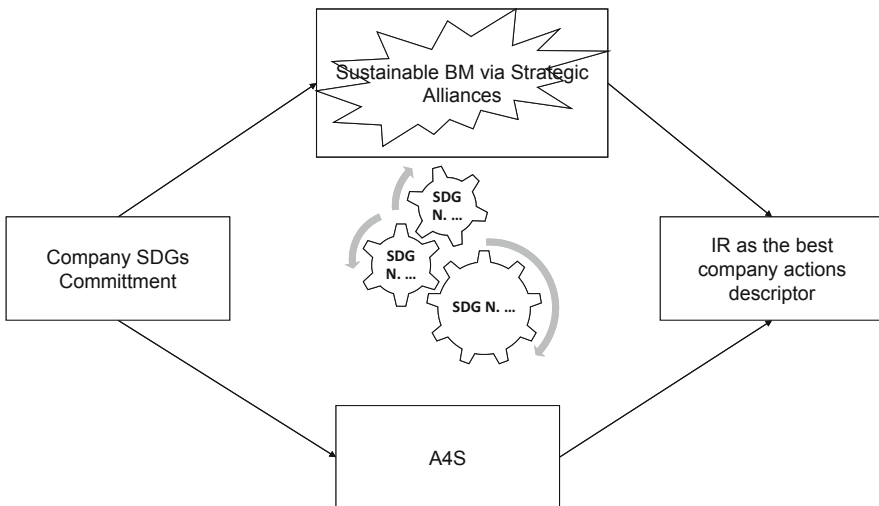


Fig. 3.2 SDGs achievement: A focus on sustainable business models via strategic alliances. Authors' elaboration

- ‘a sustainable business model involves sustainable processes and outputs’ (Boons and Lüdeke-Freund 2013).

All these definitions are very close to the one provided by the International Integrated Reporting Committee (IIRC 2013), according to ‘a business model describes the value creation process starting from inputs, going through business activities until final outputs, highlighting how the six capitals were back affected’.

Moreover, the collaboration with other businesses is paramount to operate effectively in the lens of sustainability. This cooperation is referred to as ‘strategic alliances’. Strategic alliances entail collaboration among different companies through the sharing of resources and capabilities, without changing their corporate identities (Ireland et al. 2002). This sharing of resources (which may be either tangible but especially intangible, that is specific skills and capabilities that a company may lack and another one owns) breaks the rigid organizational boundaries down (O’Dwyer and Gilmore 2018) and allows companies to gain competitive advantage. The degree of this collaboration will ultimately be reflected in their own business models (Lowitt, cited in Bocken et al. 2014).

Among the various benefits, cooperation enhances organizational learning of new capabilities (Inkpen, cited in Hoffmann and Schlosser 2001).

Besides, strategic alliances create a larger pool of information (O’Dwyer and Gilmore 2018) about the market collected by each of the partners, which may allow more effective sustainable strategy formulation.

Therefore, to achieve a sustainable development, companies will necessary need to refocus on their new business models and how the latter can be enriched through resources and capabilities contributions by strategic partners. Since the Consultation International Integrated Reporting Framework recognizes the business model as a fundamental concept, the realization of Integrated Reports by companies may be the smartest way to show their ongoing sustainable business transformations to external users.

We will now provide several evidences of sustainability engagement regarding the social and environmental dimensions by companies, to show both how the developed theory regarding sustainable business models and strategic alliances can be applied into practice. As we will see, the sustainable commitment affected many of the elements the IIRC requires to disclose *integrally* in the business model description of a company’s IR.

3.2.1 Bottom of the Pyramid Challenge

The most challenging sustainability goal related to the social dimension for corporations is expanding their own businesses in the Bottom of the Pyramid (BoP) market (Prahalad 2004).

Although being for a business, the most arduous sustainability-oriented challenge, if properly managed, the pyramid could bring to the achievement of many of

the SDGs, as individuals belonging to the Bottom of the Pyramid defined as follows (Calton et al. 2013):

- People having a very constrained income
- Limited nutrition
- Poor availability of potable water
- Restrained healthcare systems
- Poor education
- Inadequate and unsafe infrastructures

Thus, even though the BoP market segmentation directly tries to defeat poverty (Goal 1), it indirectly affects all the SDGs related to the social dimension.

A question that may arise at this point could be: Why for-profit organizations should focus on this complex market segment? The reason lies primarily on the number of potential consumers, since the BoP counts around 4 billion individuals (Calton et al. 2013).

In fact, apart from the social and economic issues listed above, the other big challenge for businesses is entering these markets in a ‘legal way’. As London and Hart (2004) point out, almost all the domestic businesses in BoP countries operate in informal economies, that is in black markets. The reasons behind this choice are related to the high costs and long waiting period engendered by formal economies (London and Hart 2004).

However, the benefits related to the expected number of BoP consumers, the stronger brand reputation and image that may result from this tough sustainability-related commitment, and consequently the potential increase in new consumers in developed countries, may offset the limitations described above.

As previously noted, SDGs fulfilment entails the introduction of a new sustainable business model supported by strategic alliances. However, in this context what is crucial for a business to succeed is the selection of partners to create such an alliance.

In particular, scholars recognize that to be successful in a BoP market, a company should collaborate with non-profit organizations or profit-organization with a committed social sustainability-related mission.

Indeed, London and Hart (2004), by conducting a case study related to several multinationals, which expanded their business operations in BoP countries, found that most of the companies’ failure in these markets was related to the choice of inadequate partners, namely their existing ones or those domestic corporations operating in a legal way.

Companies needed the collaboration of primarily sustainability-committed corporations, which were the only ones that could have known the real needs of individuals resident in specific BoP countries. Only this way may ensure most suitable product prices, which strategic way these multinationals could have brought benefits to the whole society and how they could have ultimately been profitable while implementing cost efficiency.

With this regard, Telenor and Grameen are an exemplar of how, through strategic cooperation, companies may be able to succeed in social sustainability goals while

even generating positive financial returns. Therefore, even though formed before the development of the Agenda 2030 by ONU, and mainly oriented to defeating poverty in low-income countries, this strategic alliances contributed to the achievement of many SDGs related to the social dimension.

Telenor is a Norwegian company operating in the telecommunications sector, which together with Grameen Bank (a Bangladeshi Bank famous because of its social sustainability commitment, that is defeating poverty by providing micro-loans to poor Bangladeshi people) formed two distinct organizations in Bangladesh, namely GrameenPhone and Grameen-Telecom.

The former was basically managed by the Norwegian company with a focus on achieving financial returns by offering telecommunications services in Bangladesh, while the latter was administered through the expertise of Grameen Bank managers with the aim to provide workplaces and simultaneously microfinances to Bangladeshi people (Seelos and Mair 2007).

From a financial standpoint, this venture was able to generate high revenues through the strong customer's satisfaction as Bangladeshi people, thanks to the introduction of a telecommunications service, were able to save money usually invested to buy tickets to reach their abroad-living relatives.

From a social sustainability point of view, the venture was able to offer workplaces to an extremely large number of poor people, which not only guaranteed a payback of the micro loans, but also a higher standard of living, and the satisfaction derived from being employed enhanced their learning motivation and productivity.

Besides, many women obtained these new jobs, which implied the overcoming of gender discrimination in businesses and also a new role for them in their own families.

New income for people meant new tax revenues for the Bangladesh government, which could have spent to improve society well-being.

An additional consideration to be made is related to the fact that GrameenPhone is currently one of the largest taxpayers, which not only stems from a prominent financial performance (Seelos and Mair 2007), but also from accounting practices fit in sustainable behaviour (this tax-related topic will be better discussed in a subsequent section).

Therefore, as businesses are currently required to address the Agenda 2030 goals, the Grameen venture may represent a good pattern on which to rely. Besides, executives may consider an Integrated Report as the most efficient and effective means to indicate to their analysts and investors:

1. How they complemented their own mission and vision with the one of the partner company.
2. How they leveraged the opportunities and risks of these extremely challenging countries.
3. How their own products or services enhanced their own six capitals and even the public owned ones (such as cities infrastructures).
4. How the expected improved economic conditions of this country may affect their future performance.

In effect, as even stated by the IIRC, all these aspects are essential to determine the net worth of a company in the contemporary era.

3.2.2 *Environmental Dimension*

In this subsection, we will describe three case studies regarding environmental sustainability commitment by companies provided by academics (in particular: Ammenberg and Hjelm 2003; Canzaniello et al. 2017; Rossignoli and Lionzo 2018) seen through the business model as developed by the IIRC framework.

The reason of this new perspective is to underline how sustainability goals pursued by companies affect and enhance all the six capitals proposed by the IIRC.

In fact, the business model introduced by the council may be considered as the most complete one since it includes all the relevant aspects that are necessarily influenced by the companies' sustainable behaviour, and particularly because it considers both business owned and not owned capitals (such as infrastructures, air, water and forests).

This would justify the usefulness of an Integrated Report for a company following SDGs.

Ammenberg and Hjelm (2003) analyzed the case of 26 companies, which committed themselves to a better environmental sustainability management through the establishment of a common building for wastes.

This new operation would dedicate a specific recycling section for each recyclable item, due to the fact that before creating the alliance, each firm failed to well categorize the wastes for the recycling process (meaning that some type of materials were wrongfully combined with others).

Clearly, this implied the learning of new know-how through cooperation, together with new technical procedures to reduce the energy used, that is they enhanced the Intellectual Capital of their business model.

Additionally, by using more sustainable unprocessed inputs, they were able to produce eco-friendly manufactured products, that is improved Manufactured capital.

The resulting effect of these innovations was increased motivation by employees (Human Capital) and a greater support by other authorities, such as governments and media (Social and Relationship Capital).

Lastly, the newly developed green activities led to positive externalities to the natural environment (Natural Capital) and improved financial performance thanks to higher existing consumers satisfaction and the raise of new ones (Financial Capital).

Canzaniello et al. (2017) studied the case of several chemical companies, which formed a strategic alliance to jointly develop a procedure to assess their suppliers' environmental sustainability.

In fact, the authors underline that with the rising concern about sustainability (and SDGs are a proof of it) companies need to take a sustainable approach on each of the aspects of their business models (in this case they are therefore referring to Manufactured Capital of the business model).

In particular, their reputation may be undermined because of the unsustainable behaviour by their own suppliers. These businesses alone did not have the required capabilities to produce such an assessment procedure, thus there was the need to combine their skills together (i.e. sharing of Human Capital).

Besides, by joining all the different information that each of them had regarding stakeholders sustainability requirements (as already stated above one of the benefits of strategic alliances is the sharing of information for decision-making) they not only derived a useful supplier questionnaire for assessment, but also underlined the importance of sustainability evidences in suppliers' reports (Canzaniello et al. 2017).

From this perspective, suppliers themselves may therefore be motivated to publish Integrated Reports, as could be a way to prove in quite fewer pages with respect to the usual financial reports their overall sustainable practices.

This case highlights how there could be a spinning effect to sustainability reporting among corporations themselves, instead of simply being viewed as a request by external stakeholders.

The third case regards four companies belonging to the energy sector, of which two concerned with production and the other two with service delivery. As a consequence of the various pressures imposed on companies belonging to this potentially environmentally harmful sector, the four businesses reframed what represented to them the concept of 'value creation' by internalizing the importance of sustainability. To better achieve this new goal, they decided to create a strategic alliance to share various resources and capabilities.

By complementing their tangible and intangible resources, they were able to introduce 'green energies' which not only prevented increased pollution (as CO₂ is one of the biggest causes of it) but also provided new competitive prices, which were accessible also to the low-income consumers segment (Rossignoli and Lionzo 2018).

In this way, they were able to reach both environmental and social (related to reduced poverty) goals, and thus positively affect the six forms of capitals.

Hence, all the above-described cases provide a basis and an evidence for scholars and companies themselves to understand how corporations can effectively implement the SDGs, and especially how they can communicate their results in the most straightforward way.

The next section describes the second channel through which SDGs may be achieved: sustainability accounting.

3.3 A4S Open Issue

An Integrated Report combines features of both financial reports (which are prepared following financial accounting standards) and sustainability reports.

The most of current research appears to be strongly focused on the way accounting practices (as said, definitely included in an Integrated Report) should be adapted to the new requirements to achieve SDGs.

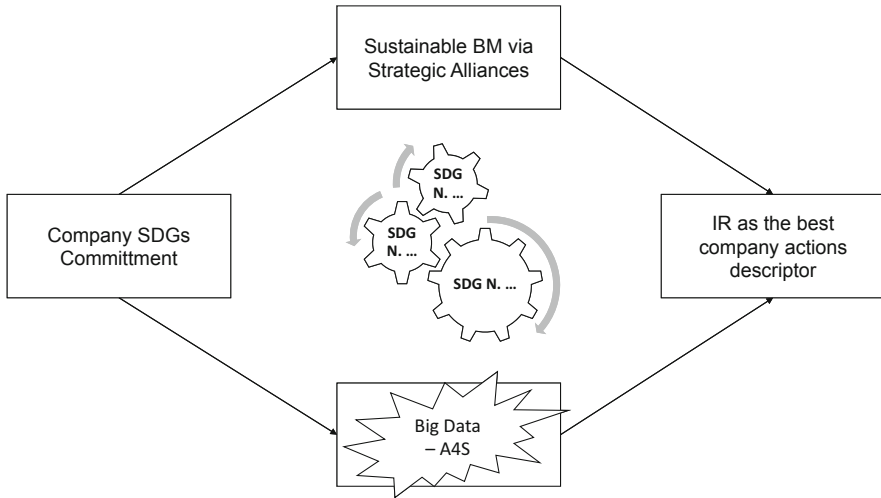


Fig. 3.3 SDGs achievement: A focus on A4S. Authors' elaboration

Although this research is still in progress, there are two topics that are relevant in the new view of accounting, namely: importance of Big Data and fields of A4S (Bebbington and Unerman 2018). We will describe these two matters in the next subsections (Fig. 3.3).

3.3.1 Importance of Big Data

Arnaboldi et al. (2017) outlined the impacts that Big Data may have on new accounting approaches through two research strands: Big Data as a new resource and Governance of Big Data.

3.3.1.1 Big Data as a New Resource

The rapid and apparently unrestrainable growth of the use of social media, such as Facebook, Instagram, YouTube and Twitter, is one of the main debated topics of the last decade.

From the business point of view, the wide range of data (Big Data) generated by these social media and described through the 'three V', namely volume, variety and velocity, has increasingly been used by companies as a source of information for marketing research and risk management (Arnaboldi et al. 2017). Accountants instead tend to ignore such data. They may disregard Big Data because of the plenty of data they have to manage due to new disclosure requirements by Standard Bodies and the urgency to respect the deadlines of the fiscal year (Janvrin and Mascha 2014).

Research has shown the potential of Big Data by studying the smart use that can be done with them in urban areas. City governments utilize data coming from social media to measure the well-being of citizens in a particular town, possible environmental upsets and even educational conditions (Kitchin cited in Arnaboldi et al. 2017). Thus, accountants may be inspired by this city government's behaviour and may exploit as well Big Data as a source to control and measure how properly and successfully their companies are dealing with SDGs accomplishment.

Additionally, academics have even suggested the possibility for accountants to express information retrieved from social media in terms of data visualization, that they often make use of (Cuganesan and Dumay, cited in Arnaboldi et al. 2017).

The potential role of Big Data as a resource for accounting represent the starting point for a new research path aimed at finding and establishing objective performance measures related to companies' compliance to SDGs.

3.3.1.2 Governance of Big Data

As a solution to monitoring a company's attainment of SDGs for accountants is that of managing Big Data, many challenges in the governance of this 'cyber information' arise.

In particular, accountants will be required to: gain new analytical skills, assessing the reliability of data, collaborate with other organizational functions and deal with privacy concerns (Huerta and Jensen 2017).

In order to measure their companies' performance following the SDGs pursuit, accountants will have to gather data (if necessary monetize them) required for calculating their organizations' KPIs.

However, storing and summarizing these data appears to be a quite tough task for accountants. In fact, as Coyne et al. (2018) state in their paper, the large volume and variety of Big Data requires an accurate sorting of this information, to avoid the risk of being unrecoverable.

Additionally, as Big Data may take forms other than the narrative ones such as images, voice messages or even videos, in these listed cases summarizing data through visualization may be arduous.

Besides, accountants will have to carry a deep analysis regarding reliability of data, that is discarding incomplete information, untruthful data and recognizing that not every individual utilizes social networks, which prevents generalization (Arnaboldi et al. 2017).

Furthermore, accountants will also need to analyze data in terms of expected future performance.

This would evidently imply a collaboration between accounting and marketing functions, as the latter role is already dedicated to forecast possible future sales based on Big Data collection and analysis (Bhimani and Willcocks 2014).

For example, as a business is committed to the realization of SDGs, it may produce and sell more sustainable products; marketing and sales function will then

assess, through Big Data analyses, whether these eco-friendly products maximized customers' well-being, as well as if they contributed to a more sustainable planet.

By the same token, accountants will also need to collaborate with IT specialists and even legal specialists (which are knowledgeable about privacy laws) to successfully manage Big Data to their purposes (Coyne et al. 2018).

As it is evident, in monitoring their companies' SDGs accomplishment, accountants will have to cooperate with other organizational functions and even with the public sector, such as governments, which should retain data at a national and local level (Bebbington and Unerman 2018).

As Huerta and Jensen (2017) point out, when utilizing Big Data, companies have to deal with privacy concerns not only from a regulatory point of view but also from an individual customer or employee point of view.

In fact, even though a company may respect privacy laws, it may exploit cyber data in a way that people become annoyed (Huerta and Jensen 2017). Even if the intention of accountants in this case may be merely positive (i.e. make use of Big Data to assess the impact of their companies' activities and outcomes on customers, employees, and broad society well-being, as well as on the natural environment and urban areas, SDG 11), individuals may perceive these exploitation of their data as detrimental to their privacy.

Lastly, as it is one of their main tasks, accountants will have to conduct a cost-benefit analysis related to the investments in technology (fixed costs) necessary to retrieve Big Data (Bhimani and Willcocks 2014).

Therefore, because the importance of Big Data requires accountants to develop new expertise (human capital), and the final KPIs based on Big Data may measure the societal and also environmental impacts of business operations (social, relationship and natural capital), an Integrated Report may cope with the task of disclosing these aspects in a comprehensive way.

Besides, the integration of the various organizational functions described above is again in line with the interconnected outlook that an Integrated Report imposes on an organization disclosures.

3.3.2 Fields of Accounting for Sustainability

The pursuit of SDGs by companies as a way to enhance companies' profitability through co-production, requires accountants not only to deal with new data (Big Data), but also to consider matters that may foster their companies' financial success thanks to sustainability, namely: importance of tax compliance, achievement of economic democracy, fair wages and sustainable performance measurements (Bebbington and Unerman 2018).

Indeed, we can argue that in the contemporary world, the description of what a successful company has shifted from a company that is able to provide returns to shareholders *complemented with* the satisfaction of other stakeholders' interests to a

company that is able to provide *long-term returns* to shareholders *as a result* of its social and environmental sustainable behaviour.

The last proposed definition outlines the importance of company's sustainability to guarantee long-term value creation for shareholders, which is consistent both with the Agenda 2030 Goals (i.e. encouraging sustainability by everybody, including businesses) and with the idea behind the production of Integrated Reports.

For this reason, SDGs can be seen as a way to boost the adoption of different forms of Integrated Reports by companies, as an Integrated Report best shows all the activities, practices and commitments that an organization has gone through to achieve sustainability and the resulting profitability outcomes.

As a result of this modern way of thinking, accountants will be called to consider new topics (the four ones mentioned above) that in the past business perspective would not have given enough relevance, but that presently are seen as central for a valuable, and thus sustainable business. We will describe them beneath.

3.3.2.1 Importance of Tax Compliance

For a long time Corporate Social Responsibility (CSR) issues have actually disregarded the relevance of tax payments by companies (Christensen and Murphy 2004).

However, especially in the light of the SDGs enacted by the ONU, the importance of corporate taxes for an ethical behaviour is much more evident.

Indeed, making fair tax compliance, companies will be able to indirectly contribute to many different SDGs, specifically through the means of government expenditures (since taxes are revenues for governments), which are mainly dedicated to:

- Food and agriculture (Goal 2)
- Healthcare services (Goal 3)
- Education (Goal 4)
- Communities, infrastructure and transportation (Goal 9 and 11)
- Social security: Regarding retired people, disabled people and families of deceased workers, which could be seen as a way to prevent a form of poverty (Goal 1 and 3)
- Unemployment (Goal 1 and 3)

Besides, by not correctly complying with taxes, companies will not only neglect the above listed sustainability concerns, but will also impair citizens, who will be required to pay higher taxes in the future (Christensen and Murphy 2004).

Thus, those companies that have understood the essentialness of sustainability for long-term business value, will also be tax compliant and will be incentivized to prepare and publish Integrated Reports due to their connectivity among financial and nonfinancial aspects, which is fundamental to prove (to their external users) their real commitment.

In fact, these reports will deal with tax concerns both from a financial accounting standpoint and from a nonfinancial one, depicting the positive impacts that tax

compliance will have on the inputs of the described business models, namely: social and relationship capital, human capital, manufactured capital and natural capital.

Conversely, researches have shown that many companies declared to be ethical in their websites and reports while simultaneously implementing tax avoidance practices (Sikka 2010).

Unfortunately, many businesses are tax haven or Offshore Finance Centres (OFCs)-based because in these jurisdictions the tax burden is extremely low and they are not supposed to perform their business activities in there (Preuss 2010).

Taking the example of an US company that is tax haven based, by paying no or minimal taxes, from an economic and even ethical point of view, this business will not contribute to the well-being of the society resident in the OFC, and clearly neither will do so in the US state in which most of its activities are performed.

These unethically managed businesses may do so to enhance their profits and returns for shareholders, without really understanding that nowadays shareholders are looking for companies' long-term financial sustainability, which surely cannot come from these 'risky investments'.

Indeed, as stated by Sikka (2010), shareholders may be more favourable to invest in law compliant companies than in those whose tax evasion may be sooner or later discovered.

Additionally, these companies were and still are able to hide their hypocritical behaviour both thanks to the capabilities of their accountants, who are able to conceal these aspects (Sikka 2010) and thanks to the fact that the lack of connectivity between financial reports and separate CSR reports may wrongfully lead users to believe that what companies are reporting is true. As a result, the following three main points can be observed from the previous discussion:

- Tax compliant companies, which have realized the fundamental role of taxes in sustainability, will be more favourable to provide Integrated Report as its transparency and connectivity of issues can demonstrate their concrete dedication.
- A path towards mandatory Integrated Reports would be suggested because thanks to the IR requirement to disclose all business activities of the company's business model, where these activities are held and to which a government company actually owes taxes, users of this report may better understand if the reporting company is a tax evader.
- At the same time, possible pressures towards the use of Integrated Reports may let unethical companies, and especially their accountants, to understand which are the real drivers of long-term financial sustainability, and thus may guide them to legally account for taxes.

3.3.2.2 Achievement of Economic Democracy

Another 'innovative' area, which deserves attention by accountants, is the achievement within corporations of economic democracy (Bebbington and Campbell 2015).

The role of accountants goes beyond that of simply following standards to correctly account for assets, liabilities and equity; they must show through their accounts what a company is doing, what are its values and what is its decision-making.

Therefore, especially in the light of the new twenty-first century sustainability requirements for companies, accountants will have to find how to ameliorate their companies' decision-making that they portray through accounting transactions and lastly through financial statements, to justify positive impacts on the society, environment and consequently, to their businesses themselves.

Thus, the pursuit of economic democracy, which is mainly related to the workplaces (Malleon 2013) may be a solution to decision-making to account for sustainability.

Economic democracy may be reached through cooperatives (Bebbington and Campbell 2015), where employees are involved in their businesses' decision-making.

In the case of a small-size business, this may be easier to accomplish, instead large-size businesses will need the role of 'representatives' of their all employees (Malleon 2013).

This kind of cooperation will directly address different SDGs, in particular: improved working conditions (goal 8), reduced inequality (goal 10) and increased inclusiveness of individuals for sustainable development (goal 16 and 17).

Indeed, by granting employees the right to participate in their business decision-making, the biggest issue of inequality will be defeated (Malleon 2013), as employees will be able to share their point of view instead of just obeying to their managers.

This will imply a higher commitment and satisfaction by employees, as they will feel as 'self-dependent' and thus even a higher productivity.

A higher productivity by employees is an essential element for improved companies' performance, and this is why companies should deeply consider this aspect of democracy, which has been for a long time disregarded.

Besides, democratically managed organization also highlights the importance of alliances (underlined by the Agenda 2030 goals), even within the same organization, to foster sustainability.

However, the benefits brought by cooperation will not only be directly related to employees' conditions, but will also affect the broader environment.

Indeed, employees concerned about the urban area and the overall context in which they live, will have an incentive to take these matters into account in their participation to decision-making. Thus, economic democracy will be able to indirectly embrace almost all the goals of the Agenda 2030.

From an accounting point of view, the inclusiveness of employees in decision-making will surely be reflected by the company's transactions and lastly by its accounts in financial statements (as indeed accounting is the 'language of business') and a smart analyst may easily depict this aspect.

Nevertheless, even in this case, the use of an Integrated Report may facilitate the comprehension by users of how an organization has 'used' its social capital through

collaboration, and how the latter has contributed to all other forms of capital through the various upon-agreed business activities.

This again confirms the fact that companies' recognition of the SDGs' significance for their long-term value will quicken their adoption of Integrated Reports, and will pose new challenges in their accountants' roles.

3.3.2.3 Fair Wages

The critical discussion held so far regarding new perspectives in accounting stemming from companies' SDGs fulfilment makes clear that the issue does not lie in the accounting techniques and standards per se (which are of course still valid), but in the way these techniques are used by accountants.

For example, as argued before, accountants may rightly calculate taxes on their profits, and from a technical point of view their procedures are in effect correct, but at the same time they may hide a tax avoidance behaviour.

The same reasoning applies also for the accounting for workers' wages: a relatively low total amount of the 'wage expenses' line item in income statements may be a signal of a poor company's concern about sustainability.

It is not just about 'an employee wage', it is about 'a wage that is able to affect an entire current and future society and the environment in which it lives'.

Indeed, by having a low income, employees will experience a poor standard of living both currently and in the future through their pensions.

At the same time, their contributions in the form of taxes to the government will guarantee an impoverished standard of life also to disabled people, and spouses and children of deceased workers.

Moreover, by having restrained funds, governments will be unable to assure improved health care systems, renewed public infrastructures, urban services and appropriate investments in education.

As a consequence, accountants will have to understand how a simple calculation for wages may have a possible negative 'circular effect' on the whole economic, social and environmental system.

Recognizing the problem above-mentioned, Gerstein and Friedman (2016) point out the need of a 'conscious accounting', which can be expressed through the commitment to decrease the CEO to average worker income ratio.

Indeed, the authors believe that a solution to unfair wages may be a democratically redistribution of income from Top Managers to lower-level employees due to the too large detachment that exists between the two kind of salaries.

In this way, not only the higher wage will bring about the social and environmental benefits described above, but also the overall disbursement of the company (bypassing just the income statement, where executives' salary is not reported) will be unaffected.

Even in this case, to show the overall 'integrated picture' of how workers are motivated through higher wages, how governance decides its own remuneration and how all this may affect society, the use of an Integrated Report may be most suggested.

3.3.2.4 Sustainable Performance Measurements

The need to put sustainable development at the heart of companies' strategies and the tool represented by adopting an Integrated Report framework, arise two interrelated questions:

Which should the new KPIs related to SDGs achievement be? And what should their benchmarks be? The problem that lies at the very basis of this research is that MDGs' performance indicators at a country level failed to be accurate mainly because of the absence of data that had to be collected for such indicators and methodological problems (Jacob 2017).

As the SDGs' predecessor performance indicators resulted to be unreliable, this would mean that the development of the new indicators for the Agenda 2030 goals would lack of an effective previously used methodological approach that they could have followed.

Moreover, Jacob (2017) also claims that since SDGs are wider and more specific than MDGs, the KPIs to be established (indeed they still have to be settled) are needed to be more meticulous.

It may seem reasonable for accountants to rely on performance indicators at a national level to develop performance indicators at a business level, but since the path towards the establishment of the former appears to be truly complex, the elaboration of the latter even results to be intricate.

Another point that must be stressed is related to the benchmarking: there cannot be a unique and universal benchmark for each KPI, but there must be different benchmarks for each KPI based on each country's economy; political, legal and societal status; level of technology; demography and natural environment (Butler et al. 2011).

3.4 Final Remarks

The existing literature has recognized two fundamental pillars in companies' sustainability engagement: sustainable business models and A4S.

The first, which regards all the designed and implemented business activities and outcomes aimed to create positive externalities to society and environment, has well been developed by scholars.

The research related to the second pillar, instead, which regards how accountants can comply with standards while embedding a sustainable behaviour, is still ongoing and incomplete. As a consequence it needs further elaboration.

However, what literature is missing is the identification of the most appropriate reporting system to account for business sustainability development.

Indeed, there are many options related to sustainability reporting practices, such as GRI compliant sustainability reports, but they pose many limits for assessing the overall credibility of corporate sustainability disclosures (Isaksson and Steimle

2009). The main reason of this possible ‘false transparency’ is related to the lack of connectivity between annual financial reports and the mentioned sustainability reports, as the latter are required to be prepared separately from the former.

Instead, by analyzing the two pillars of businesses sustainable development, we conclude that IR represents the best reporting method.

IR, in fact, not only provides a detailed and interconnected depiction of a company financial, social and environmental activities and corresponding performance results in just one Integrated Report, but it even highlights to investors, analysts and businesses themselves, that corporate success is driven by a sustainable strategy.

Thus, as the United Nations have established that by 2030 corporations (and not only them) will have to bring concrete results with reference to a sustainable development, mandatory IR will be needed to prove real businesses commitment and achievements in a transparent way.

Lastly, it must be noted the need to develop precise KPIs by both IIRC and ONU to allow better understanding by external users of a company’s financial, social and environmental performances and to allow comparability among businesses.

What we still do not know is whether and to which extent the present framework proposed by the IIRC for realizing the IR activity is the best one or if we should think at new formulas or ways to prepare Integrated Reports (Soyka 2013; De Villiers et al. 2014). At the same time, the issue regarding effective implementation of Integrated Reports persists, as demonstrated by recent research published in leading journals. Finally, the compulsoriness of integrated reports could be dangerous in fostering apparent sustainable behaviours represented more by the production of mandatory documents than concrete actions for a better world. In this respect, mandatory Integrated Reports combined with a certain degree of flexibility (in terms of information flow to develop) and an effective internal control system could represent the best balance. In this sense, the Directive 95/2014/EU has represented a good starting point, which soon will need a fine-tuning action. At last, the auditors profession should enlarge its skills for running auditing activities never imagined until now, which deserve scholars’ attention.

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Part II
Financial Reporting, Non-financial
Reporting and Sustainability: Challenges
and Changes

Chapter 4

Harmonization of Non-financial Reporting Regulation in Europe: A Study of the Transposition of the Directive 2014/95/EU



Silvia Testarmata, Mirella Ciaburri, Fabio Fortuna, and Silvia Sergiacomi

Abstract This chapter deals with the new European Union Directive 2014/95 on non-financial and diversity information (NFI Directive). The aim of the study is to explore the transposition of the NFI Directive in the leading European countries to understand what and how non-financial information is reported and verify whether the flexibility given to Member States in the implementation of the NFI Directive has implied that individual national interests prevail on achieving the success of NFI disclosure harmonisation. The research method is a multiple case study on the transposition of the NFI Directive in France, Germany, Italy, Spain and the UK. The comparison of the transposition laws indicates significant differences shape company obligations at the country level; however it appears that the harmonisation of non-financial reporting regulation in Europe has generally enhanced the consistency, transparency and comparability of NFI disclosed by companies and has improved corporate accountability to a large extent.

Keywords Corporate social responsibility · Corporate reporting · Directive 2014/95/EU · Mandatory disclosure · Non-financial information · Regulation

4.1 Introduction

Corporate Social Responsibility (CSR) has become a well-established concept whereby companies integrate social, environmental, ethical human rights and consumer concerns into their business operations and core strategy in close cooperation with their stakeholders (EC 2011). Although conceptualizing and institutionalizing

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CSR has evolved over the last century, there is not a single widely accepted definition of CSR (Martínez et al. 2016). For the purpose of this study, according to the European Commission, we view CSR as “*the responsibility of enterprises for their impacts on society*” (EC 2011, p. 6). Based on this perspective, responsible companies should maximize the value creation for its stakeholders and identify, prevent and mitigate the adverse effects of their actions on the environment (Freeman et al. 2010).

The CSR conceptualization of the European Commission highlights the importance of stakeholders, the need to create value for them in the long term as well as to respond to environmental or institutional pressures, so that firms are beneficial to society. Indeed, the European approach to CSR is characterised by a culture of collective effort on the part of business to better society (Matten and Moon 2008). Under this view of CSR, the firm exists to benefit society, and the redistribution of profits is seen as a means to improving society. In turn, responsible companies are expected to “add on” a social role to business, making their business activities sustainable and being accountable for their CSR practises (Dutot et al. 2016; Pistoni et al. 2016).

CSR reporting is a way of communication between an enterprise and stakeholders, in fact it provides information about an enterprises’ strategy, its social policies and performance on CSR (Dumay 2016; Matuszak and Rózanska 2017). In particular, CSR (or non-financial) reporting aims to meet specific information needs and to respond to external pressures arising from different stakeholders (Dumay et al. 2015). In fact, non-financial information (NFI) could facilitate managers, and other stakeholders, to take decisions more consciously (Carini et al. 2018). Furthermore, for companies with superior sustainability performance, the disclosure of NFI could allow them to increase their market value (Healy and Palepu 2001; Hummel and Schlick 2016).

The important challenge that CSR reporting has to face is represented by the information asymmetries that can occur between corporate managers and stakeholders. In fact, if there is incomplete information, stakeholders are not able to understand whether the managers are acting according to their interests or not; for example, they could overvalue irresponsible actions of the company or, on the contrary, undervalue actions that are socially responsible (Alchian and Demsetz 1972; Fama and Jensen 1983; Healy and Palepu 2001). Therefore, transparency is one of the essential conditions to ensure an effective self-regulation, allowing the stakeholders to make an easy evaluation of the corporate actions (Jackson et al. 2017).

To this regard, mandatory disclosure of NFI is seen as a useful policy instrument because it allows to enhance transparency and comparability of CSR reporting (Jackson et al. 2017). So, the conviction that the regulation of NFI leads to improvement in terms of quality, transparency and comparability of information has become widespread in the last few years (e.g., Venturelli et al. 2017).

According to this perspective, after numerous actions aimed at harmonizing the accounting rules for the preparation of financial statements, the European Union (EU) has begun to regulate the disclosure of NFI such as social and environmental aspects of the business activity (EC 2001). In this sense, the EU acknowledged that an appropriate analysis of environmental and social aspects is necessary for an

understanding of the company's development, performance and position and that the disclosure of NFI is vital for managing change towards a sustainable global economy by combining long-term profitability with social justice and environmental protection (EC 2013).

However, taking into account the evolving nature of this area of corporate reporting and having regard to the potential burden placed on companies below certain sizes, Member States have often chosen to waive the obligation to provide NFI in the annual report of EU companies (EC 2011). Thus, after several attempts to increase the relevance, consistency, transparency and comparability of the voluntary disclosure of NFI by EU companies during the last 15 years, the EU decided to make mandatory the disclosure of NFI provided by large companies and groups across the Union through the issuing of the Directive 2014/95/EU (also called NFI Directive). Thus, this Directive represents an important regulatory action towards harmonising the CSR reporting practises of all European Member States and marks the shift in CSR reporting from a voluntary exercise to one that is mandatory for the EU companies concerned (La Torre et al. 2018).

The purpose of this study is to explore the transposition of the NFI Directive in the leading European countries in order to understand what and how NFI is reported and assess whether the harmonisation of non-financial reporting regulation in Europe has enhanced the consistency, transparency and comparability of NFI disclosed.

The remainder of this chapter is structured as follows. Section 4.2 investigates the shift of CSR reporting from a voluntary to a mandatory basis and provides the theoretical foundation of NFI disclosure. Section 4.3 explores the Directive 2014/95/EU analysing its goals and requirements. Section 4.4 studies and proposes a critique of the transposition of the Directive 2014/95/EU into national legislation of the following European countries: France, Germany, Italy, Spain, and UK. The final section provides some closing remarks and the limitations of our analysis.

4.2 CSR Reporting: From Voluntary to Mandatory Disclosure of Non-financial Information

CSR reporting reflects the evolution of corporate reporting and includes issues concerning a company's environmental and societal impacts and policies (Matuszak and Rózanska 2017). Because the term "non-financial information" refers to disclosing information about society and environment (Haller et al. 2017), we use CSR reporting and non-financial reporting (NFR) as synonyms in this study.

Nonetheless the number of CSR reporting has increased significantly over time the companies that disclose NFI still form only a small minority worldwide. In some countries, such as China, Denmark, France, South Africa and the UK, guidelines and legal requirements have already been developed for the purpose of making disclosure of NFI mandatory (e.g. in China and South Africa environmental and social

disclosure is a listing requirement) (De Villiers and Alexander 2014; Ioannou and Serafeim 2017), while in most countries NFR is a voluntary exercise.

The debate on whether CSR reporting should be based on a voluntary or mandatory basis has lasted for at least a decade. At the beginning, companies advocated in favour of voluntary reporting, while non-governmental organizations or other pressure groups expected mandatory reporting. Currently, both companies and stakeholders are accepting and promoting legal regulations in the area of CSR reporting.

The theoretical foundation to justify voluntary CSR reporting is legitimacy theory (An et al. 2011; Deegan 2002; Cho et al. 2012; Archel et al. 2009). According to this sociopolitical theoretical approach groups of stakeholders are able to judge and influence an organisation's decisions and actions (Archel et al. 2009). So, this stream of literature assesses that voluntary disclosure of NFI enhances the social perception of companies as legitimate (Deegan 2002) and that the voluntary adoption of CSR reporting is a response to stakeholders' expectations and their demand for information so as to confer legitimacy to organisations (O'Donovan 2002). Moreover, voluntary approaches emphasize flexibility, because it allows companies to operate social activities in accordance with their strategic objectives (Jackson et al. 2017).

However, there is widely spread consensus among scholars that that mandatory regulation for CSR reporting enhances transparency, as it is believed that companies will not disclose material data unless they are obliged by law (Stubbs and Higgins 2015; KPMG 2017). In addition, mandatory disclosure increases consistency and usefulness of NFI, as voluntary reporting is incomplete and irrelevant to stakeholders (Crawford and Williams 2010). Moreover, mandatory regulation of NFR improves the comparability and accountability of companies, because legislative provisions promote more homogeneous corporate practises and minimum standards applicable to all companies that belong to a specific category (e.g. Deegan 2002; Jackson et al. 2017; Venturelli et al. 2017). Finally, mandatory regulation could also positively influence a company's market value (Wang and Li 2016; Ioannou and Serafeim 2017).

On the other hand, some scholars point out that the rationale behind the mandatory disclosure of NFI is motivated by two grand theories that can be misleading because they cannot be proven empirically (La Torre et al. 2018). The first rationale frequently used to justify accounting harmonisation is that the comparability of information is desirable, but this belief is usually a narrow political justification (Saravanamuthu 2004). The second taken for granted claim is that mandatory CSR reporting can enhance corporate accountability. In this regard, it has been noted that understanding national culture and local practises is necessary for regulating NFI disclosure and understanding the national transposition of the supranational regulation, such as the EU directives (Abeydeera et al. 2016). In addition, Bebbington et al. (2012, p. 90) demonstrate that, in the regulatory context of CSR reporting "*formal legislation alone may not be sufficient to create a norm*". To be effective, the coercive forces of legal requirements need to provide internal legitimacy. In turn, legitimacy requires coherence within a hierarchical system of norms, both formal and informal, in which the formal norms are "congruent with previous practice" and

the informal norms define how to make and apply the rules (Bebbington et al. 2012). Accordingly, the pull towards compliance fails when incongruences with the “prevailing informal norms of behaviour” make legal requirements impractical and illegitimate (Bebbington et al. 2012). The shift from mainly voluntary to more mandatory NFR means that the theoretical motivations behind CSR reporting need to be reconsidered. If the CSR reporting is mandatory, this means that the coercive force of the law prevails on informal norms and companies disclose NFI because they must (Archel et al. 2009). Thus, the State and supranational institutions, such as the European Union, play a crucial role in explaining corporate legitimization strategies and supporting the ideology for legitimising CSR reporting.

While the issue of social and environmental disclosure has been on the EU agenda for 20 years (Carini et al. 2018), a regulatory action on NFI disclosure has only recently taken place in Europe with the issuing of the NFI Directive (EU 2014). At a policy level, the underlying motivation for the transition from voluntary to mandatory disclosure of NFI is the growing need for transparency and rigour of NFI disclosed by EU companies (EC 2013).

It is worth underlining that the EU decision to introduce new requirements to disclose NFI by means of the instrument commonly used to achieve the harmonisation, namely the directive, highlights the political will to pursue the harmonisation rather than the standardisation of CSR reporting.

To this regard, it is necessary to briefly describe the elements that characterize the harmonisation and standardisation process. While harmonisation is a political process aimed at achieving a certain degree of comparability of accounting and reporting rules, minimizing the level of variability of possible accounting and reporting choices, standardisation involves imposing predefined rules that are adopted as a single supranational model (Thorell and Whittington 1994). Therefore, compared to standardisation, harmonisation is a weaker international force for aligning national practises.

According to the model of legitimacy-influenced disclosure (Dumay et al. 2015), based on material legitimacy and transparency, understanding what and how NFI is reported becomes more significant than explaining the motivations and drivers behind the adoption CSR reporting. Therefore, we will investigate the content on the NFI Directive and its transposition to understand the differences across Member State’s domestic practises and the ability of the NFI Directive to foster change in the corporate accountability due to its legal force.

4.3 The EU Directive on Non-financial Information

The overall policy objective of the NFI Directive is to contribute to the change towards a sustainable global economy by combining long-term profitability with social justice and environmental protection, in line with the objective set out in the EU 2030 agenda for Sustainable Development, by enhancing transparency of CSR reporting for internal and external stakeholders.

Now we will explore what and how NFI is reported according to the requirements of the NFI Directive by answering the following question: what are the main requirements provided by the Directive 2014/95/EU for the non-financial statement in terms of company scope, reporting format, reporting framework, reporting principles, reporting topics and content, reporting features and additional aspects such as assurance obligations and the application of fines?

4.3.1 Company Scope

The NFI Directive, which amends EU Directive 2013/34/EU on annual financial statements, consolidated financial statements and related reports apply only to large companies which are public interest entities (“PIEs”) with more than 500 employees. It also applies to large groups, of which a PIE is the parent entity, that meet the criterion of more than 500 employees on a consolidated basis. Thus, organisations must produce a non-financial report if they:

1. are a large company, as defined by Directive 2013/34/EU, defined as exceeding 2 out of 3 of the following criteria for 2 successive accounting periods:
 - a balance sheet total of EUR 20 million, or
 - a net turnover of EUR 40 million, or
 - average number of employees of 250;
2. are a public interest entity, meaning any entity which is:
 - trading transferable securities on the regulated market of any Member State or
 - a credit institution, or
 - an insurance undertaking, or
 - designated by a Member States as a public interest entity; and
3. have an average number of employees exceeding 500 during the financial year.

Additionally, Member States are allowed to broaden this definition because they differ in the ways in which they define an organisation as a large company and consider organisations to be public interest entities (CSR Europe and GRI 2017). However, the European Commission has estimated that the new reporting requirements apply to approximately 6000 entities and groups across the EU (Wagner 2018).

4.3.2 Reporting Format

The Directive does not propose a specific reporting format for the non-financial statement but provides that the non-financial disclosure shall be incorporated in the companies’ management report (EU 2014).

At the same time, if a company prepares a separate financial report for the same financial year covering the information required by the NFI Directive for the non-financial statement, a Member State may exempt that company from the obligation to draw up this non-financial statement under the following conditions:

- (a) if the company publishes that separate report alongside the management report and referenced in the latter report, or;
- (b) if that separate report is published on the company's website within a reasonable time (not exceeding 6 months from the balance sheet date) and indicated in the management report (EU 2014).

So, this provision gives companies a certain degree of flexibility to disclose NFI that can be represented through a separate sustainability report or in a format that is integrated with the annual report. This provision reflects the flexible approach towards disclosure embodied in the NFI Directive in that companies who already prepare separate CSR reports based on national, international or European frameworks may continue to do so without having to change their reporting practises and duplicate such information in the annual report (Wagner 2018). Thus, this provision gives companies the flexibility to disclose non-financial information in one of two ways: either in a format that will be integrated with the annual report or in a separate standalone sustainability report.

4.3.3 Reporting Framework

The NFI Directive takes a minimum harmonisation approach to the reporting standards that can be used for non-financial disclosures. It does not contain detailed rules for the content of non-financial reporting and does not impose mandatory EU standards. It also does not require that companies use any particular CSR framework as the basis for their reporting. Instead, companies may choose to present such disclosures in the way they consider most useful (Wagner 2018). In fact, the NFI Directive states that in providing NFI, companies which are subject to these provisions may rely on national frameworks, EU-based frameworks or international frameworks when preparing their non-financial statement specifying which frameworks they have relied upon (EU 2014).

As regard to international framework, the NFI Directive explicitly refers to:

- the United Nations (UN) Global Compact;
- the Guiding Principles on Business and Human Rights implementing the UN "Protect, Respect and Remedy" Framework;
- the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises;
- the International Organisation for Standardisation's ISO 26000;
- the International Labour Organisation's Tripartite Declaration of principles concerning multinational enterprises and social policy;

- the Global Reporting Initiative (GRI); or
- other recognised international frameworks.

This provision reflects the flexible approach towards disclosure embodied in the NFI Directive in that companies can choose which framework (i.e. national, international or European ones) to adopt and who already prepare a CSR reports may continue their reporting practises. The minimum harmonisation approach will probably result in companies using very different formats in their CSR reporting, which will result in wide variations in quantity and quality of reporting. In addition, it will likely make it difficult for the users of these reports to make meaningful comparisons across companies.

4.3.4 Reporting Principles

The NFI Directive provides two main principles as regard to the reporting content, the “comply or explain” approach and the “safe harbour” principle (EU 2014), whereas the materiality principle is not explicitly included in the NFI Directive.

Adopting a “comply or explain” approach to disclosure means that companies are required to report only on issues that are covered by their policies. If a company does not pursue policies in relation to one or more of the listed matters, the non-financial statement shall provide a clear and reasoned explanation for not doing so. This approach gives companies free rein to design their own approaches to non-financial reporting and to their CSR policies, subject to the requirement that they provide a reason for doing so (Wagner 2018).

The “safe harbour” principle asserts that Member states may allow information relating to impending developments or matters in the course of negotiation to be omitted in exceptional cases where, in the duly justified opinion of the members of the administrative, management and supervisory bodies, acting with the competencies assigned to them by national law and having collective responsibility for that opinion, the disclosure of such information would be seriously prejudicial to the commercial position of the company, provided that such an omission does not prevent a fair and balanced understanding of the company’s development, performance and position and of the impact of its activity entities (CSR Europe and GRI 2017).

Although materiality is not explicitly included among the reporting principles provided by the NFI Directive, it is a concept underlying the NFI Directive which is emphasized by the EC Guidelines on non-financial reporting. The NFI Directive only prescribes that information must be provided to the “*extent necessary for an understanding of the company’s development, performance, position and impact of its activity*”. Moreover, it is worth to note that the Accounting Directive (Directive 2013/34/EU, article 2) (which the NFI Directive amends to include the provisions relating to the non-financial information statement) provides that the “*extent necessary*” requires information to be provided where its omission or misstatement could reasonably be expected to influence decisions that users make on the basis of the

financial statements of the company (EU 2013). In addition, the materiality of individual items shall be assessed in the context of other similar items (CSR Europe and GRI 2017).

However, the NFI Directive has introduced a separate test of materiality in relation to the principal risks that are meant to be disclosed in relation to each reporting topic. As regards the impact of principal risks, therefore, the NFI Directive states that the materiality test is based on the scale and gravity of the materialisation of the risk, rather than whether knowledge of a principal risk would influence readers' economic decisions, which appears to be the applicable test for materiality elsewhere in the NFI Directive.

4.3.5 Reporting Topics and Content

As a minimum, non-financial statement should contain information for the following categories: environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters.

The NFI Directive appears to give great latitude to the Member States on the content of non-financial disclosures, because this Directive does not spell out the content of such disclosure categories in the operative language. Rather, in the Directive's preamble, there is a list of topics that either "should", "may", or "could" be disclosed for the four categories.

For environmental matters, the report "*should contain . . . details of the current and foreseeable impacts of the undertaking's operations on the environment, and, as appropriate, on health and safety, the use of renewable and/or non-renewable energy, greenhouse gas emissions, water use and air pollution*".

But for social and employee-related matters, the report: "*[M]ay concern the actions taken to ensure gender equality, implementation of fundamental conventions of the International Labour Organisation, working conditions, social dialogue, respect for the right of workers to be informed and consulted, respect for trade union rights, health and safety at work and the dialogue with local communities, and/or the actions taken to ensure the protection and the development of those communities*".

Finally, for human rights, anti-corruption, and anti-bribery matters, the report "*could include information on the prevention of human rights abuses and/or on instruments in place to fight corruption and bribery*".

According to NFI Directive (EU 2014), companies should disclose, for each of the above matters, the following information:

- (a) a description of the company's business model;
- (b) a description of the policies pursued by the company in relation to those matters, including due diligence processes implemented;
- (c) the outcome of those policies;
- (d) the principal risks related to those matters linked to the company's operations including, where relevant and proportionate, its business relationships, products

or services, which are likely to cause adverse impacts in those areas, and how the undertaking manages those risks;

(e) non-financial key performance indicators relevant to the particular business.

4.3.6 Other Reporting Features

NFI Directive has lay down additional reporting features such as assurance obligations and the application of fines in case of non-compliance.

In terms of third-party assurances, NFI Directive states that NFI integrated in a management report will be required to be audited by the company's auditors. Whereas standalone CSR reports are not required to be subject to third-party assurances although individual Member States may decide to impose such a requirement (EU 2014).

Whether Member States have required that the NFI disclosure should be included in the management report, according to the Directive 2013/34/EU they shall ensure that the company's auditor verifies the presence and consistency of NFI statement. Thus, the statutory auditor or audit firm shall check whether the non-financial statement included in the management report has been provided. Additionally, the company's auditor shall also make a consistency check:

- (a) expressing an opinion on whether the management report is consistent with the financial statements for the same financial year, and whether the management report has been prepared in accordance with the applicable legal requirements;
- (b) stating whether, in the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, he, she or it has identified material misstatements in the management report, and shall give an indication of the nature of any such misstatements if any penalties will be imposed upon organisations that fail to report adequately.

The NFI Directive states in the preamble that Member States should ensure that national procedures are in place to enforce compliance with the reporting mandate. However, the NFI Directive does not set forth details on the types of enforcement measures that should be employed nor are minimum penalty requirements mandated and allows Member States to define if any penalties will be imposed upon organisations that fail to report adequately (CSR Europe and GRI 2017).

4.3.7 Preliminary Remarks

In sum, the NFI Directive, revealing several features that make it a weak regulatory instrument due to its limited coverage of enterprises, the flexibility given to companies to design their own disclosure approach, the lack of specific guidance on the

content and framework of such reports, and the failure to set forth strong standards for third-party assurances and enforcement (Wagner 2018).

Moreover, the NFI Directive explicitly leaves many options to Member States by allowing Member States “high flexibility of action in order to take account of the multidimensional nature of CSR and the diversity of the CSR policies implemented by businesses” in the transposition of the NFI in national laws, regulations and administrative procedures (La Torre et al. 2018). Accordingly, State-specific requirements diverge when it comes to acceptable reporting frameworks, accounting standards and the format for disclosures (CSR Europe and GRI 2017).

This raises questions about how the NFI Directive has been enforced and transposed in national laws, which will be investigated in the next section.

4.4 The Transposition of the Directive 2014/95/EU

The EU Member States were required to enact laws, regulations and administrative provisions requiring NFI disclosure by 6 December 2016 and apply these provisions for the financial year from 1 January 2017 or during the calendar year 2017. Thus, in this section, we investigate how NFI Directive has been transposed into national legislations to understand whether the differences across EU Member State’s domestic legislations may jeopardise the achievement of the purpose of the NFI Directive to foster harmonisation of CSR reporting due to its legal force.

The chosen research method is a multiple case study (Yin 2015), based upon the analysis of the leading European countries. Specifically, the selected Member States are France, Germany, Italy, Spain, and the United Kingdom (UK).

For the selection of countries we have taken into account the different understanding of CSR concept and diverse initiatives taken by the respective national governments on NFI disclosure before the issue of the NFI Directive. In fact, it is worth to note that prior to the NFI Directive, a number of Member States had already implemented NFR requirements. These jurisdictions include Denmark, France, Finland, Italy, Portugal, Spain, Sweden, and the UK (Hibbitt and Collison 2004). Indeed, according to the 2015 KPMG Report, the four European countries with the highest rates of CSR reporting in annual reports were France, the UK, Norway, and Denmark (King and Bartels 2015).

Scholars argued that national differences, which are linked to the different social, cultural, and political context, are important to consider as they drive governments to adjust the requirements of the NFI Directive to fit the particulars of the local context and generate obstacles to harmonisation (Albareda et al. 2007). Moreover, if the national differences are based on established laws and historical traditions, then expectations for increased regulatory harmonisation may be difficult to achieve (Baker 2014). For Member States with pre-existing laws, amendments to such laws were required if they did not conform to the minimum requirements set out in the NFI Directive. For Member States that did not require such reporting prior to 2014, new laws had to be enacted (Wagner 2018).

Therefore, we have chosen two best practises in the regulation of CSR reporting, namely France and the UK, in addition to other European countries that had already implemented NFR requirements, such as Italy and Spain, along with the leading European country that did not have a comprehensive legislation in relation to CSR reporting prior to the NFI Directive, namely Germany.

In the following subsections, we first explore the existing national legal requirements on NFI disclosure in France, Germany, Italy, Spain and the UK before they enter into force of the NFI Directive, then we make a comparative analysis on the transposition of NFI Directive into national legislations.

4.4.1 France

France is regarded as role model for CSR reporting because it was the first country in the EU to require CSR reporting, even anticipating the encouragement of CSR reporting made by the EU in 2003. Actually, France legislation for mandatory disclosure of NFI dates back to 1970s with the introduction of the *bilan social*, a document published by companies with over 300 employees disclosing information on 134 performance indicators relating to employment matters (Jeffery 2017).

Then, in 2001, France enacted legislation that supplemented the *bilan social* by increasing its scope of reporting and readership, namely the Law n. 2001-420 on New Economic Regulations (NRE). In particular, Article 116 of this law, which was implemented through the Decree of the Council of State in 2002 amending the Article 225-102-1 of the French Commercial Code, has made CSR reporting mandatory for listed companies requiring that such information become publicly available for the first time, in contrast to the *bilan social* which only required the CSR report to be submitted to the government (EC 2013).

Subsequently, the laws Grenelle I Act (August 3, 2009) and the Grenelle II Act (July 12, 2010) were enacted to address and overcome some limits of the NRE by extending mandatory disclosure to a larger number of companies and extending the scope of the required NFI. Specifically, with the Grenelle I Act the measures were extended and applied to unlisted companies, with a total number of employees and/or turnover that exceeds certain thresholds. Then, with Grenelle II Act, by the 31 December 2013 all the companies with more than 500 employees and exceeding a turnover threshold of 100 million euros had to present a CSR report providing details on how they took into account the social and environmental consequences of their activity and social commitments in favour of sustainable development (Wagner 2018). All listed companies were also covered as of fiscal year 2012, and had to comply with a list of supplementary indicators. Furthermore, extra financial information had to be subjected to third-party verification (EC 2013).

4.4.2 *Germany*

Prior to the transposition of NFI Directive Germany did not have a comprehensive legislation in relation to CSR reporting. It did, however, have the Sustainability Code, which was a non-mandatory code providing a framework for CSR reporting.

Following the economic crisis of 2007, CSR reporting has gained increasing attention, leading to the approval of the not binding Sustainability Code in 2011 by the German Federal Government. In particular, the Sustainability Code was a framework devised by the German Council for Sustainable Development for reporting NFI and was influenced by the GRI guidelines, the UN Global Compact Principles and the OECD Guidelines for Multinational Enterprises. This code could be used not only by large companies but also by small- and medium-sized companies (Jeffery 2017, pp. 19–29).

4.4.3 *Italy*

Compared to other European countries, Italy has fewer years of experience in CSR reporting in fact its government has introduced initiatives on this issue later because it preferred to create discussion groups and committees to create consensus on CSR (Aureli et al. 2018).

Limited liability companies in Italy are required to produce a management report (“*relazione sulla gestione*”) containing an appropriate analysis of their situation, operating trends and performance (Jeffery 2017, pp. 44–51). Since 2008, companies have been required to incorporate in the analysis relevant non-financial performance indicators, including information relating to environmental and employee matters, where this is necessary for a proper understanding of their situation, operating trends and performance. Therefore, companies have had no obligation to include this information if their financial statements and other financial indicators already illustrated their position and performance with sufficient clarity.

As a result, regulation on CSR reporting in Italy has previously been very limited however, many Italian companies have adopted voluntarily CSR reporting practises (Mio and Venturelli 2013).

4.4.4 *Spain*

In Spain, a serious interest in the question of CSR reporting began to appear only in the present century. Indeed, the publication of the Sustainable Economy in 2011 was the first significant step taken in this country in the field of sustainability (Sierra-Garcia et al. 2018).

Specifically, the Sustainable Economy Act stated that from 2012 state-owned companies were required to produce annual corporate governance and sustainability reports in compliance with generally accepted standards. Such reports had to be prepared with special attention to gender equality and people with disabilities. Additionally, if the company had more than 1000 employees, this report had to be notified to the Spanish Corporate Social Responsibility Council (*Consejo Estatal de Responsabilidad Social Empresarial* or “*CERSE*”).

Moreover, the law partially included an amendment specifying that Spanish SA corporations (*sociedades anónimas*) could publish their policies and outcomes in CSR matters each year in a specific report, which had to mention whether or not that information had been examined by an independent third party. Additionally, the law recommended that the Government would make available a set of characteristics and indicators for self-evaluation in social responsibility, in accordance with international standards (EC 2013).

4.4.5 The United Kingdom

In the UK, CSR initiatives emerged as company voluntary actions and the Government acted as facilitator to provide incentives for CSR activities. Moreover, the English legal tradition states that only principles are laid down while the rest is supplemented by managerial discretion.

In spite of that, in 2006, in the UK there was a regulatory reform of corporate governance (the UK Companies Act 2006) that introduced for the first time the mandatory NFR requirement called the Operating and Financial Review (OFR) in conjunction with an expanded set of directors’ duties to ensure a more stakeholder-orientated approach to business.

However, just a few months after its enactment into law the OFR was withdrawn on the basis that it imposed a disproportionate and unnecessary burden on companies. The OFR was replaced by a Business Review, which was introduced through Section 417 of the Companies Act 2006 and included significant differences regarding the CSR reporting. Among the most important changes, it is worth to mention that the disclosure on stakeholder issues was no longer mandatory and should be reported only when it is deemed relevant to the understanding of the business.

In 2013 the Strategic Report and Directors’ Report Regulations came into force altering some elements of the Business Review, which was renamed Strategic Report, and requiring new disclosures about human rights, social and community issues as well as gender diversity and greenhouse gas emissions. However, similar to the Business Review, the purpose of the information disclosed in the Strategic Report was to benefit shareholders rather than achieve a broader stakeholder-orientated approach (Quinn and Connolly 2017).

Table 4.1 The transposition of the NFI Directive into national laws of the selected member states

| Member State | National Law | Date of Issuing | Date of Application |
|--------------|---|--------------------------------------|--------------------------------------|
| France | Ordinance n. 2017-1180 Decree n. 2017-1265 | 19 July 2017 9 August 2017 | 1 August 2017 1 September 2017 |
| Germany | Law to strengthen non-financial reporting of companies in their management reports (CSR implementation law) | 11 April 2017 | 19 April 2017 |
| Italy | Legislative decree n. 254/2016 | 30 December 2016 | 1 January 2017 |
| Spain | Royal decree-law n. 18/2017 Law n. 11/2018 | 24 November 2017 28 December 2018 | 26 November 2017 30 December 2018 |
| UK | The companies, partnerships and groups (accounts and non-financial reporting) regulation n. 1245/2016 | 28 December 2016 | 1 January 2017 |

Authors' elaboration

4.4.6 A Comparative Analysis on the NFI Directive Transposition

Since 2017, the Member States have enacted internal laws in order to implement the provisions contained in the Directive 2014/95/EU on the disclosure of NFI. Table 4.1 shows the national laws introduced by France, Germany, Italy, Spain and the UK for the transposition of the NFI Directive into their legal system. Therefore, in France, Germany, Italy and the UK, the NFI statement was required for financial years beginning on or after 1 January 2017, whereas in Spain the implementation started in 2017 only for public interest entities meeting a number of requirements and the company scope was extended one year later.

With regard to company scope Germany and Italy adopted the same requirements of the NFI Directive, whereas France, Spain and the UK adapted the requirements, by extending the company scope, as shown in Table 4.2. However, all of the analysed states, except France, focus the reporting requirements on listed companies, whereas France has extended the scope of the NFI statement to cover certain unlisted companies.

As for the reporting format of the NFI statement, as shown by the Table 4.3, all the countries adapted the requirements provided by the NFI Directive. Specifically, France and the UK have reduced the reporting format to only the management report, whereas Germany, Italy and Spain offer to the companies the option to prepare the NFI statement as separate report.

Regarding the reporting framework, the Member States adopted the same requirements of the NFI Directive, namely the possibility for companies to choose among national, Union-based or international frameworks. In addition, as shown by Table 4.4, Italy has enabled companies to adopt a mixed reporting methodology

Table 4.2 The transposition of the NFI directive—company scope

| Company scope | France | Germany | Italy | Spain | UK |
|--|--------|---------|-------|-------|----|
| Public interest entities with 500+ employees | × | × | × | × | × |
| Listed companies with a balance sheet of at least €20 million or net turnover of €40 million and 500+ employees | × | × | × | × | |
| Unlisted companies and non-listed investment funds with a net turnover over €100 million and 500+ employees | × | | | | |
| Entities who, during two consecutive years, at the closing date of each year, have a net turnover over €2 billion, and 4000+ employees | | | | × | |

Authors' elaboration

Table 4.3 The transposition of the NFI directive—reporting format

| Reporting format | France | Germany | Italy | Spain | UK |
|---------------------------|----------------|----------------|----------------|-------|----|
| Part of management report | × ^a | × | × | × | × |
| As a separate report | | × ^b | × ^c | × | |

^aIn addition the NFI statement must be published on a company's website for 5 years

^bAs a separate report, it must: (a) be published along with the annual management report; or (b) be made available on the company's website within 4 months after the publishing of the annual management report for a period of 10 years, provided that the annual management report refers to this publication (and the website)

^cAs a separate report referred to in the management report and published in the company's register

Authors' elaboration

Table 4.4 The transposition of the NFI directive—reporting framework

| Reporting framework | France | Germany | Italy | Spain | UK |
|--|--------|---------|-------|----------------|----|
| An international, national or EU-based reporting framework | × | × | × | × ^a | × |
| A mixed reporting methodology constituted by one or more reporting standards | | | × | | |

^aIn addition Spain has explicitly mentioned the following: EMAS, UNGC, UNGP, OCDE, ISO 26000, ILO Declaration or GRI

Authors' elaboration

and Spain has explicitly declared the reporting frameworks mentioned in the preamble of the NFI Directive.

With reference to the reporting principles, as shown by Table 4.5, the reporting principles stated by the NFI Directive (i.e. the comply or explain principle, the safe harbour principle and the materiality principle) are adopted by all Member States, excepted for the safe harbour principle that has been omitted by France.

In addition, it is worth to note that no Member States have provided for a more detailed explanation with respect to the materiality principle, that still remains extremely vague and no reference has made to a separate materiality test to be applied in respect of principal risks.

Table 4.5 The transposition of the NFI directive—reporting principles

| Reporting principle | France | Germany | Italy | Spain | UK |
|---------------------|--------|---------|-------|-------|----|
| Comply or explain | × | × | × | × | × |
| Safe harbour | | × | × | × | × |
| Materiality | × | × | × | × | × |

Authors' elaboration

As for reporting topics and content, all Member States comply with NFI Directive regarding both the non-financial topics (i.e. environmental issues, social and employee issues, respect for human rights, and anti-corruption and anti-bribery matters) and the items (i.e., business model, company policies, outcomes, risks and non-financial KPIs) that should be disclosed in the NFI statement, as shown by Table 4.6. Exclusively France and Italy have provided further specifications regarding non-financial topics (Aureli et al. 2018); however some of these aspects are mentioned in the preamble of the NFI Directive. On the other hand, Spain has required that the NFI statement includes an additional explanation of the sums indicated in the financial statement, which are relevant to corporate social responsibility.

With regard to verification, Germany and Spain adopted the same requirements as in the NFI Directive, as shown by Table 4.7, whereas France, Italy and the UK included a consistency check as well.

With reference to the other reporting features, the NFI Directive does not provide specific implications of non-compliance, thus the application of fines changes according to the legal system of the Member States, as shown by Table 4.8.

Specifically, Germany provides that the company, members of its management board and members of its supervisory board can be held liable for failing to provide the non-financial report or for false and misleading information. Even in the UK the non-compliance is punished with a fine and responsibility falls on each director, while in Italy the responsibility is extended to the auditors and the other individuals responsible for verification. On the other hand, France has recognized the ability of stakeholders to request the release of NFI in court, whereas Spain has not provided for any fine.

The NFI Directive aim was to pursue CSR reporting harmonisation based on the need for information transparency and comparability and to foster change in the corporate accountability (Wagner 2018). However, the EU has given to Member States a certain degree on flexibility in transposing the NFI Directive into each own legislations (La Torre et al. 2018). Although the transposition laws indicate significant differences shape company obligations at the country level, from the comparative analysis on the NFI Directive transposition in the leading European countries, it seems that individual national interests has not prevailed on achieving the success of NFI disclosure harmonisation (Archel et al. 2009).

In brief, the NFI Directive has significantly extended the scope of non-financial reporting in Germany, Italy Spain and the UK, while in France the scope of NFR was

Table 4.6 The transposition of the NFI directive—reporting topics and content

| Reporting topics and content | France | Germany | Italy | Spain | UK |
|---|----------------|---------|----------------|----------------|----|
| Information about the following non-financial topics: – Environmental matters – Social and employee matters – Respect for human rights – Anti-corruption and anti-bribery matters | × | × | × | × | × |
| A brief description of the company's business model | × | × | × | × | × |
| Company policies relating to non-financial matters | × | × | × | × | × |
| Company outcomes of policies relating to non-financial matters | × | × | × | × | × |
| Principle risks related to non-financial matters and business activities | × | × | × | × | × |
| Non-financial KPIs | × | × | × | × | × |
| Further specifications | × ^a | | × ^a | × ^b | |

^aFrance and Italy have required further specifications in relation to the four non-financial topics. Specifically, France has provided many more specifications than Italy

^bSpain has required an explanation of the sums indicated in the financial statement which are relevant to corporate social responsibility

Authors' elaboration

Table 4.7 The transposition of the NFI directive—verification

| Verification | France | Germany | Italy | Spain | UK |
|--|----------------|----------------|-------|-------|----|
| Auditor's involvement: Presence of statement | × | × ^a | × | × | × |
| Auditor's involvement: Consistency check of disclosures as part of the review of the management report | × ^b | | × | | × |

^aIn Germany the auditor's involvement is applicable for the financial year starting on or after 1 January 2019

^bIn France the auditor's involvement is required if company has 500+ employees and has a turnover over €100 million or balance sheet over €100 million

Authors' elaboration

Table 4.8 The transposition of the NFI directive—implications of non-compliance

| Implications of non-compliance | France | Germany | Italy | Spain | UK |
|---|--------|---------|-------|-------|----|
| Fines: Up to the amount, which is the highest of the following, €10 million or 5% of the total annual turnover of the company or twice the amount of the profits gained or losses avoided because of the breach | | × | | | |
| Fines: For omission of relevant information, non-compliance, or failure to submit within timeframe, €20,000–150,000 in sanctions will be applied | | | × | | |
| Fines: Determined on a case-by-case basis and imposed on the responsible persons | | | | | × |
| Fines: No fine is imposed unless an interested party asks for the disclosure of the non-financial information, if it is not available, subsequently financial penalties can be imposed by a judge | × | | | | |
| Fines: Not specified | | | | × | |

Authors' elaboration

already vast. Although generally the implementation of the NFI Directive has been a positive step, there are a number of gaps in the NFI Directive itself, which have not been adequately addressed in the implementing legislation (Jeffery 2017, p. 2). In particular, further information regarding the test for materiality, the disclosure of risks related to business relationships, the identification of specific KPIs and the standardisation of the reporting frameworks needs to be provided. Other limitations of this regulation regard the lack of a compulsory third-party verification of the truthfulness of disclosures and the lack of penalties and enforcement mechanisms. In addition, the integration of the NFI statement with other financial and non-financial reporting needs to be strengthened.

Generally speaking, it appears that the harmonisation of NFR regulation in Europe increasing the number of companies disclosing NFI (quantity of information) and the quality, consistency, relevance and comparability of the NFI has enhanced companies' overall performance through better assessment and greater integration of non-financial risks and opportunities into their business strategies (Hummel and Schlick 2016; Ioannou and Serafeim 2017); companies' accountability and transparency (Deegan 2002; Jackson et al. 2017; Venturelli et al. 2017); and efficiency of capital markets by helping investors to integrate material NFI into their investment decisions (Dumay et al. 2015; Healy and Palepu 2001; Wagner 2018).

Indeed, a more transparent and comparable NFI disclosure helps the measuring, monitoring and managing of companies' performance and their impact on society. Thus, the European Commission approach to NFR seems to shift the corporate aim from shareholders to stakeholders according to the stakeholders' theory (Freeman et al. 2010). In this perspective NFI disclosure is vital for promoting long-term sustainability and profitability through the reporting of greater information and also to improve CSR practises by increasing transparency, comparability and consistency of NFI disclosure (EC 2013). Therefore, the mandatory disclosure of NFI allows managers to become aware of the relevance of stakeholders in the value creation, and it may gradually lead to a change in the corporate culture, shifting the managers' perspective on business activities from the short to the medium and long term.

4.5 Conclusion

In conclusion, it seems to us that due to its legal force the NFI Directive and its transposition in national regulation has generally enhanced the consistency, transparency and comparability of NFI disclosed by companies and has improved corporate accountability to a large extent.

However, further refinements will likely be needed if the policy objectives of the NFI Directive are to be completely achieved. The main weakness of the new regulation is that neither the NFI Directive nor the Member States mandate either the reporting framework or the format for NFI disclosure, allowing considerable flexibility to companies on these issues. In addition, there are other flaws in the NFI regulation that have been identified in this chapter, such as the need of further

information regarding the test for materiality, the disclosure of risks related to business relationships, the identification of specific KPIs, the lack of a compulsory third-party verification of the truthfulness of disclosures and the lack of penalties and enforcement mechanisms.

These weaknesses may impede achievement of the policy goals behind the NFI Directive. Thus, further research is needed to assess whether the consistency, transparency and comparability of NFI disclosure and the improvement of corporate accountability are achieved in the implementation of the new regulation by European companies. Specifically, further research on the companies' implementation of the mandatory NFI statement would be highly valuable. If corporate actions do not move towards more equitable and sustainable business practises, then all the talk and action towards implementing the NFI Directive are in vain.

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Chapter 5

Corporations' Eco-Consciousness in the New Deal of Non-financial Information Disclosure System: Preliminary Evidence from Italian and French Practices



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Abstract This chapter deals with the sensibility of selected Italian and French listed corporations toward climate change issues and related disclosure in the light of the recent transposition of Directive 95/2014 into the respective legislations. After briefly reviewing the path which has brought to the aforementioned directive and how Italy and France have transposed its contents, eight firms (four for each country) belonging to the most representative and comparable sectors of the two countries have been selected. Then, selected features related to their non-financial information dealing with climate change aspects have been analyzed using the method of content analysis. The results of this effort are an unweighted climate-related disclosure index, which allows us to resume the state of the art of firms' eco-consciousness individually, at country level and in comparative terms. Evidence achieved suggests that the directive and its transposition have fostered higher attention to climate change aspects, especially in country with a poor tradition in disclosing non-financial information like Italy. On the other hand, the flexibility agreed by Directive and respective laws rise up questions regarding whether, to what extent and where information have to be disclosed in order to make possible effective comparisons. At last, the lack, until now, of any attempt to translate in monetary terms effects of climate-related behaviors and actions draws out doubts regarding the consistency of the overall efforts actors involved are spending to enhance the sensibility toward climate change and environmental issues.

Keywords Directive 2014/95/EU · Non-financial information · Environmental issues · Climate change · Content Analysis

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5.1 Introduction: The European Union Effort, a Differential Analysis Between Directive 2013/34/EU and Directive 2014/95/EU and Their Focus on Environmental Issues

The Economist Intelligence Unit report (2015) links climate-related disclosures to the assessment and mitigation of climate-related risks. The report states that, in order to allow investors to make informed decisions, better information and deeper disclosure are needed. In particular, publicly listed companies should be required to disclose carbon emissions and report climate-related risks. Moreover, to allow comparability, a regulatory coordination effort is needed so that standard practice can be diffused. The European Union (EU) recent regulatory actions seem to exactly meet the need identified by the above-mentioned Economist report. Since 2013, the European Parliament and the Council of the European Union have been requiring that certain types of economic entities provide, in their management report, a picture of their business from an environmental point of view, in order to allow an understanding of both the current and forward-looking performance of the firm itself. Specifically, the Directive 2013/34/EU states that the management report should describe the principal risks and uncertainties faced by the entity. To do so, the analysis might include both financial and non-financial key performance indicators relevant to the business, covering environmental issues. However, these provisions are not applicable to the whole set of business entities: in order to avoid excessive administrative burdens for small entities, Member States can exempt them from the obligation of providing a management report. The Directive 2013/34/EU sets quantitative limits for considering an economic entity as a small one. Indeed, small entities are those which on their financial statements do not exceed the limits of at least two out of three following criteria: (a) total assets € 4,000,000; (b) net turnover € 8,000,000; (c) average number of employees during the fiscal year: 50. In addition, article 19 of the above-mentioned Directive specifies that Member States can exempt medium-sized entities from providing non-financial key performance indicators in their management report. According to the Directive 2013/34/EU, medium-sized entities are those which on their financial statements do not exceed the limits of at least two of the three following criteria:

- (a) Balance sheet total € 20,000,000
- (b) Net turnover € 40,000,000
- (c) Average number of employees during the financial year: 250

The system of exemptions is summarized in Table 5.1.

In 2014, the Directive 2013/34/EU was amended by the Directive 2014/95/EU. It is important to recognize how the hesitant journey started 1 year before soon turned into a more comprehensive and better structured regulatory initiative, intended to improve the transparency of the environmental and social information disclosed by business entities. However, in accordance with the so-called “think small first” principle, the obligation to disclose a non-financial statement applies only to large

Table 5.1 The system of exemptions under the Directive 2013/34/EU

| | Quantitative limits | Exemptions |
|-----------------------|--|--|
| Small entities | (a) Balance sheet total: € 4,000,000, (b) net turnover: € 8,000,000, and (c) average no. of employees in the financial year: 50 | Exemption from the obligation of providing a management report |
| Medium-sized entities | (a) Balance sheet total: € 20,000,000, (b) net turnover: € 40,000,000, and (c) average no. of employees in the financial year: 250 | Exemption from providing non-financial key performance indicators in the management report |

Source: Authors' elaboration

public interest entities and public interest entities being parent companies of a large group, in each case with more than 500 employees on average. In the case of a group, the number of employees has to be computed on a consolidated basis (The European Parliament and the Council of the European Union 2014). The public interest entities are listed in the article 2 of the Directive 2013/34/EU. They are:

- Corporations governed by the law of a Member State and whose transferable securities are admitted to trading on a regulated market of any Member State;
- Credit institutions;
- Insurance firms;
- Companies designed by Member States as public interest entities, because of their significant public relevance.

Following the Directive 2014/95/EU, those large corporations and groups have to include in the management report a non-financial statement containing information relating to environmental and social matters. In particular, they should describe their business models as well as the main environmental and social related-risks and disclose non-financial key performance indicators. In order to link the non-financial performance to the financial one, the non-financial statement should include references to, and additional explanations of, amounts reported in the annual financial statements. Then, statutory auditors and audit firms have to verify only that the non-financial statement has been provided. Moreover, Member States can include an additional requirement according to which the information provided in the non-financial statement has to be verified by a third-party assurance services provider. The third-party assurance services provider can be different from the above-mentioned statutory auditors and audit firms. As for the disclosure format, the Directive grants companies the opportunity to choose among several established national, Union-based, or international frameworks. This provides companies with a structured template for reporting key non-financial issues, reduces administrative burden, and makes information easier to compare (The European Commission 2017). Specifically, the comparability of non-financial information disclosed throughout the Union is among the primary aims of the Directive 2014/95/EU, in the interest of investors, other stakeholders, and consumers.

In June 2017, on the basis of the Directive 2014/95/EU’s provisions, the European Commission published the “Guidelines on non-financial reporting”—hereinafter referred to as Guidelines—in order to facilitate relevant, useful, and comparable disclosure of non-financial information by firms. It is important to remark their non-binding and principle-based nature as well as to highlight their focus on “connectivity”: guidelines recognize the importance of interrelationships between different aspects of non-financial information or between financial and non-financial information. Focusing on the principle-based nature of the guidelines, Table 5.2 includes the main principles companies should consider in the arrangement of their non-financial statement.

Coming to the content of the non-financial statement, we would like to focus on the risk-based approach reaffirmed by the Guidelines and already outlined by the Directive 2014/95/EU. Indeed, companies have to disclose information about their principal risks and how they are managed and mitigated. Interestingly, this recommendation is not limited to the organizational perimeter itself. Rather, the analysis shall consider the whole supply chain (The European Commission 2017, p. 9). Moreover, corporations are expected to disclose non-financial key performance indicators consistent with metrics used in their risk assessment processes; in fact, quantitative information is deemed to enable users to measure progress, check consistency over time, and draw comparisons.

Table 5.2 The principle-based nature of the guidelines

| Principles | Explanation |
|---|---|
| “Disclose material information” principle | <ul style="list-style-type: none"> • Firms are expected to provide information whose omission or misstatement could influence decisions that relevant stakeholders make on the basis of that disclosure. • Companies should disclose the impacts, both positive and negative, of their business activities. • In order to assess information’s materiality, corporations have to examine their context as well as the specific circumstances their business has been experiencing. • The Guidelines list a number of relevant factors for the materiality assessment (The European Commission 2017, p. 6): business model, strategy and principal risks; main sectoral issues; interests and expectations of relevant stakeholders; impact of the activities; public policy and regulatory drivers. |
| “Strategic and forward-looking” principle | <ul style="list-style-type: none"> • The non-financial statement is expected to provide insights into the short-term, medium-term, and long-term implications of the information reported. • Forward-looking information is particularly valuable since it enables users to measure the company’s progress toward achieving long-term objectives. |
| “Stakeholder orientated” principle | <ul style="list-style-type: none"> • When preparing their non-financial statement, companies should meet the expectations of the overall stakeholders’ set, including investors, workers, consumers, suppliers, customers, local communities, public authorities, vulnerable groups, social partners, and civil society (The European Commission 2017, p. 9). |

Source: Authors’ Elaboration

In addition, the Guidelines help companies identify the thematic aspects they should disclose in their non-financial statement. As for the environmental issues, the Guidelines read as follows: “A company is expected to disclose relevant information on the actual and potential impacts of its operations on the environment, and how current and foreseeable environmental matters may affect the company’s development, performance or position” (The European Commission 2017, p. 14). Then, a list of non-exhaustive items to be disclosed is provided:

- Material disclosures on pollution prevention and control
- Environmental impact from energy use
- Direct and indirect atmospheric emissions
- Use and protection of natural resources and related protection of biodiversity
- Waste management
- Environmental impacts from transportation of from the use and disposal of products and services
- Development of green products and services

At the end of this preliminary discussion on the regulatory effort promoted by the European Union, we would like to highlight the most valuable aspects of this initiative:

1. In line with the sustainability concept, the European Union legislation does not consider the environmental and climate concern as a stand-alone silo. Rather, the interdependencies among social, environmental, and employees matters are recognized (The European Commission 2017);
2. The Directive 2014/95/EU provides companies with a tool for integrating sustainability information into their reporting cycle. Thus, at least for certain types of large entities and groups, users shall be provided with an integrated set of financial and non-financial information (The European Parliament and the Council of the European Union 2014);
3. The European Union conceives its regulatory action as part of a collective effort, which involves other authoritative Institutions. Indeed, the Guidelines outline that the disclosure requirements arising from the Directive 2014/95/EU make an important contribution toward the achievement of the United Nations Sustainable Development Goals (UN SDGs). Moreover, the Directive 2014/95/EU and the associated Guidelines recognize the value of several well-established frameworks for non-financial reporting, for instance, the ones developed as part of the Carbon Disclosure Project (CDP), the Global Reporting Initiative (GRI), the United Nations Sustainable Development Goals themselves, and the one developed by the Climate Disclosure Standards Board (CDSB). Specifically, firms are encouraged to rely on those frameworks for the provision of their non-financial statement. Finally, the European Commission clarifies that in the drafting of its Guidelines, the work of the Task Force on Climate-related Financial Disclosures has been closely monitored and the main Task Force’s recommendations involved areas already covered by the Directive 2014/95/EU.

With respect to action undertaken by firms, focusing on environmental issues, the aim of this chapter is to attempt a preliminary exploration regarding how Italian and French firms have implemented in their reporting practices the latest EU Directive concerning environmental sustainability. The choice of Italy and France practices is due to the weights the two countries have in the Union and to the different degree of tradition in disclosing non-financial information which is high for France and low/medium for Italy (Bold 2017). Thus, the chapter proceeds as follows: Sect. 5.2 briefly introduces the domestic legal framework of Italy and France and the firms selected for reaching our purpose; Sect. 5.3 deals with content analysis as the method we chosen for analyzing the selected firms; In Sects. 5.4 and 5.5 findings and discussion concerning Italy and French firms are pointed out; Sect. 5.6 concludes the chapter proposing some important reflections and implications for further researches.

5.2 Domestic Legal Settings and Firms' Selection

Referring to Italy, the Legislative Decree n. 254/2016 has implemented Directive 2014/95/EU. In particular, it prescribes the communication of non-financial information and about diversity by some corporations and large groups. As already established by the Directive, firms in the scope of the legislative decree are:

- (a) Public interests entities—Italian corporations listed on the Italian and EU markets, banks, insurance companies, and reinsurance;
- (b) Public interest entities being parent companies of a large group with, on average during the year, more than 500 employees and which exceed the limits of at least one of the two following criteria:
 - Total asset side of the balance sheet (BS): € 20,000,000
 - Net turnover: € 40,000,000

In Italy, the provisions of legislative decree December 30, 2016, n° 254 regarding the so-called “dichiarazione di carattere non finanziario” (DCNF) have been applicable since the fiscal year 2017. Moreover, pursuant article 5 of the aforementioned legislative decree, this information can be provided either in a specific section of the management report or as a stand-alone document subject to be recalled in the annual report and published in the company’s register.

Moving to France, it is worthwhile noting the historical and older attention is dedicated to non-financial information. In particular, the first law establishing the mandatory disclosure of some non-financial performance is dating back 1977. Recently, the Ordinance n. 1180/2017 introduces, for financial years starting on or after September 1, 2017, the new “Déclaration de performance extra-financière” (DPEF), which to be presented in the management report using the same scope of the Directive 95/2014 and, additionally, also by unlisted companies and non-listed investment funds with a net turnover over € 100 million and more than 500 employees (Commercial Code art. L 225–102-1).

The DPEF replaces the CSR information previously provided for under the Grenelle 2 act. Among information and elements included in the DPEF there is a large room for the environmental consequences of the company's activity.

Both Italy and France have opted for the inclusion in the audit report not only a declaration about the presence of non-financial information but also a consistency check of disclosures as part of the review of the management report. More precisely, the latter requirement is due in any case for Italian firms while France has established the thresholds of more than 500 employees and a net turnover over € 100 million or balance sheet over € 100 million.

In order to assess which is the state of the art in terms of environmental and climate-related reporting by Italian and French listed companies, in the light of this new regulation, we have performed a content analysis covering four of the most representative sectors in the Italian and French Stock Exchange—*Borsa Italiana and Paris Euronext*. Indeed, we have selected telecommunication, consumer services, industrial products and services, and banks sectors. We chose these sectors in the light of the similar weights they have in terms of market capitalization on the respective stock markets. The table below provides insights into the capitalization of listed corporations belonging to the selected sectors, as disclosed by *Borsa Italiana and Paris Euronext*. It is worth mentioning that the sector “banks” and “Industrial, Product and Services” show the highest capitalization respectively for Italy and France (Table 5.3).

The corporations we have selected to perform this analysis, considering financial year ending on December 31, 2017, are the following: Gruppo TIM, Gruppo Autogrill, Ansaldo STS, and Gruppo BPER Banca for Italy and Orange, Sodexo, Legrand, and Credit Agricole (SA) for France.

5.3 Content Analysis Methodology and Its Uses Overtime by Scholars on Environmental Issues

We will analyze the content of the DCNF and DPEF provided by the selected corporations, and available for downloading in their websites, by applying content analysis methodology. Content analysis can be defined as a method for gathering data that consists of codifying qualitative information in anecdotal and literary form into categories in order to derive quantitative scales (da Silva Monteiro and Aibar-Guzmán 2010). This analysis technique is concerned with both the quantitative and qualitative aspects of disclosure. Another content analysis definition is provided by Bellucci and Manetti (2017): it is a summarizing process, a quantitative analysis of messages which relies on social scientific methods. In other words, content analysis is conceived as a technique for making inferences by objectively and systematically identifying specific features of certain types of messages. Lodhia et al. (2012) clarify that content analysis is a technique that has commonly being used in the social and environmental reporting literature to assess the extent of voluntary disclosure of

Table 5.3 Domestic companies capitalization

| Macrosector | Sector | Capitalization (Italy) | Capitalization (% Tot) | Capitalization (France) | Capitalization (% Tot) |
|--------------------|-------------------------|------------------------|------------------------|-------------------------|------------------------|
| Telecommunications | Telecommunications | 17,944.9 | 2.8% | 30,903.6 | 2.75% |
| Consumer services | Travel and leisure | 4727.7 | 2.8% | 19,665.9 | 1.75% |
| Industrials | Industrial and services | 78,430.9 | 0.7% | 135,975.7 | 12.1% |
| Financials | Banks | 113,503.7 | 12.1% | 112,976.6 | 10.0% |

Source: Authors' Elaboration from Borsa Italiana and Paris Euronext public data (2018), millions of €

various items. Moreover, the same authors add that content analysis is a proper research method to measure comparative positions and trends in reporting. Lodhia et al. (2012) reiterate that content analysis is a well-established and recognized approach to the analysis of reporting in the social and environmental literature. Bellucci and Manetti (2017) signal that content analysis is a method widely adopted in organization disclosure studies since it allows repeatability and valid inferences from data according to their context. Prado-Lorenzo et al. (2009) specify that creating a disclosure index forms one branch of content analysis and represents one of the main techniques used to study the information provided by public and private institutions. Thus, in order to decide which items to include in the disclosure index, they suggest GRI emission indicators should be considered. Once the items have been identified, they have to be quantified. Hence, in order to establish the volume of information disclosed for each item, it is possible to choose a binary variable, which can take the value of either 1 or 0, depending on whether the data is reported or not. Finally, the scores obtained for each item can be aggregated in an unweighted index. da Silva Monteiro and Aibar-Guzmán (2010) have used content analysis to determine the presence or absence in corporate annual reports of statements related to different aspects of environmental concern. In line with Prado-Lorenzo et al. (2009), they have examined the disclosures of their sample firms and a score was allocated for each item in their checklist: such items received a value of one or zero, depending on whether the information was or was not included in the annual report. Lodhia et al. (2012) have adopted the GRI as a basis for their content analysis, similarly to other authors. Chandok and Singh (2017) have adopted content analysis to analyze the annual reports and websites of their sample companies. As for the quantification of disclosed items, they have assigned three marks to a company for the item disclosed in monetary terms, two marks for the items provided in quantitative terms, one mark for the information provided in descriptive terms, and zero score for no disclosure. Yin and Wang (2017) have analyzed the annual reports of listed corporations related to environmental content, scoring two aspects of quantization and timeliness. On the one hand, if environmental disclosure is a textual description, they have assigned 1 point; if disclosure is about quantitative but non-monetary information, they have assigned 2 points; and if disclosure is about monetary information, they have given 3 points. On the other hand, if the information is about the present, they have assigned 1 point; if the disclosure of information is a future prediction, they have assigned 2 points; if the disclosure is about the past and contrasting with the present, they have assigned 3 points (Yin and Wang 2017). Matisoff et al. (2013) have applied content analysis to CDP responses from 2003 to 2010, to assess the potential convergence in carbon reporting. First of all, they have assessed the content provided in firms' responses to emissions disclosure by using text analysis software to determine whether a firm provided a numerical response to emissions information (Matisoff et al. 2013). Secondly, they have used a Herfindahl–Hirschman index (HHI) to demonstrate the concentration of common keywords in firms' responses regarding emissions accounting methodology

(Matisoff et al. 2013). At last, but not less importantly, Kraft and Wolf (2018) have described qualitative content analysis as the subjective interpretation of text through the process of identifying themes or patterns.

By following Prado-Lorenzo, Rodríguez-Domínguez, Gallego-Álvarez, and García-Sánchez (2009), we have developed an unweighted index of disclosure on the basis of GRI indicators related to climate change, since the specific aim of this chapter is primarily aimed at understanding how environmental issues have been taken into account into corporate reporting practices. GRI indicators are relevant to our empirical analysis because the eight corporations we have selected use GRI guidelines in order to disclose climate-related information in their DCNF and DPEF. The decision to adopt an unweighted index is based on the recognition that there could be some arbitrariness in the use of any weighted index (Prado-Lorenzo, Rodríguez-Domínguez, Gallego-Álvarez, and García-Sánchez 2009).

5.4 Preliminary Findings

In the table below, we summarize the main categories we have adopted for developing a first insight on non-financial reporting practices by the firms included in the sample.

The primary findings emerging from the Table 5.4 are the following:

1. Two Italian corporations, Tim and BPER Banca, have conceived the *DCNF* as a sustainability report. One corporation, Ansaldo STS, has provided the *DCNF* as a stand-alone document in the Governance section of corporate website. Finally, Autogrill has included the *DCNF* in its consolidated financial statements, allowing us to state that Autogrill provides an example of Integrated Reporting. On the other side, according to the respective law, three French corporations have included the DPEF in their consolidated financial statements (the registration document), while Sodexo has included the DPEF in its Integrated Report.
2. All the four Italian corporations selected have adopted the GRI guidelines to prepare the non-financial statement required by the legislative decree 254/2016. In particular, three out of four corporations have adopted the GRI Sustainability Reporting Standards, while Gruppo BPER Banca has used the GRI G4 Guidelines. Furthermore, Gruppo Tim and Gruppo BPER Banca have considered also other non-GRI guidelines. Instead, French corporations have prepared their DCNF using more sources (Chelli et al. 2014). In particular, Orange has used AA1000 and APS standards jointly with GRIs, the UN Global Compact and the OECD Guidelines, Sodexo has opted for GRIs beyond the UN Global Compact, Legrand has merged GRI and ISOs reference, and finally, Credit Agricole, on the same wavelength of Gruppo BPER, has used the GRI G4 Guidelines.

Table 5.4 Main data of firms selected

| Corporation | Sector | Average n° of employees | Total asset | Net turnover | Mode of redaction | Reference to SDGs | Sustainability website section |
|-------------------|----------------------------------|-------------------------|-------------|---------------|--|-------------------|--------------------------------|
| Tim Group | Telecommunication | 59,429 | 68.783,00 | 19,828,000,00 | The <i>Dichiarazione di Carattere non Finanziario</i> coincides with the Sustainability Report. It is prepared according to the guidelines provided by the GRI standards and the process suggested by the AA10000APS principles | ✓ | ✓ |
| Autogrill Group | Consumer services | 58,412 | 1.239,30 | 4,594,600,00 | The <i>Dichiarazione di Carattere non Finanziario</i> is included in the consolidated financial statements. It is prepared according to the GRI standards | ✓ | ✓ |
| Ansaldo STS Group | Industrial products and services | 4081 | 371,50 | 1,360,967,00 | The <i>Dichiarazione di Carattere non Finanziario</i> is a stand-alone document in the governance section of the corporate website. It is prepared according to GRI standards | ✓ | ✓ |
| BPER Banca Group | Banks | 11,686 | 71,30 | 2,038,847,00 | The <i>Dichiarazione di Carattere non Finanziario</i> coincides with the Sustainability Report. It is prepared according to: (a) G4 Sustainability Reporting Guidelines and Financial Services sector disclosure established by the GRI; (b) UNI EN ISO 26000 Guidelines; (c) ABI guidelines; (d) CE 2017/C215/01 | ✓ | ✓ |
| Orange | Telecommunication | 138,038 | 94.714,00 | 41,096,00 | The CSR report is included in the 2017 Registration Document (which contains all the items of the Annual Financial report, part 5 Corporate, social, and environmental | ✓ | ✓ |

(continued)

Table 5.4 (continued)

| Corporation | Sector | Average n° of employees | Total asset | Net turnover | Mode of redaction | Reference to SDGs | Sustainability website section |
|-------------|----------------------------------|-------------------------|-------------|--------------|--|-------------------|--------------------------------|
| Sodexo | Consumer services | 427,000 | 14,874,00 | 20,698.00 | responsibility, pp. 311–341). Prepared mainly on AA1000 APS standards (2008) but also referred to ISO 26000 and GRI standards (p. 310). The selection of the indicators took also into account the UNGC and the guiding principles of the OECD. “More detailed information available on the orange.com website under <i>Human Inside/CSR Report</i> . All quantitative indicators are also presented in that report” (p. 334). The CSR report is included in the Integrated Report (published for the first time at the end of 2017 (year-end August 31). Reporting complies with legal requirements such as the Grenelle II law in France and is consistent with the requirements of the GRI and United Nations global compact | ✓ | ✓ |
| Legrand | Industrial products and services | 34,105 | 9,424,00 | 5521.00 | The CRS report is included in the Registration document part 4. It contains also reconciliation tables with French regulation (Commercial Code, art. 225 Grenelle 2), GRI Standards “core option” detailed table available on the website heading “our responsibility.” United Nation Global Compact (Registration Document, | ✓ | ✓ |

| | | | | | | | |
|---|-------|------------|------------|-----------|---|---|---|
| Credit Agricole (CA S.A.) | Banks | 73,707 (a) | 155.028,30 | 18,634.00 | pp. 129–130). The Integrated Report is Part 1 of the Registration document. References to ISO 14001 Environment and ISO 50001 Energy standards are also given | ✓ | ✓ |
| The CSR report is included in the registration document (part 2 economic, social, and environmental information). The cross-reference tables highlight references to Loi Grenelle II, energy transition law, UN SDG and GRI-G4. No formal link with the website where an “Integrated Report” is available | | | | | | | |

Source: Authors' Elaboration

3. All corporations selected have cited in their DCNF/DPEF their commitments toward UN SDGs achievement.
4. All the corporations selected have devoted one section of their corporate website to sustainability issues, confirming listed companies' awareness of their relevance to both shareholders and stakeholders.
5. Mostly important for the purpose of the following analysis, each company has used or referred to GRIs. This allows us to analyze the company eco-consciousness using the GRIs lenses.

As shown in Table 5.5, our disclosure index consists of 13 items, distinguishable in three main categories: Energy (codes 302-), Emissions (305-), and Risks and Opportunities related to climate change (201-). Score 1 is assigned if the disclosure item is addressed in the *DCNF/DPEF*, while score 0 is given if that disclosure item is absent. Moreover, when disclosure is present we distinguish among descriptive, quantitative, and/or monetary information provided and if all the related information are totally given in the *DCNF/DPEF* or there are other documents or physical/virtual places where additional information could be retrieved.

By summing up the scores achieved, a total disclosure measure is obtained measuring a score from 0 to 13.

GRI indicators which we use to perform content analysis belong to three different categories, identified by the GRI itself. Specifically, indicators in the first two categories—Energy and Emissions—are included in the environmental Standards, while the unique indicator in the third category—Financial implications and other risks and opportunities due to climate change—is included in the economic Standards. We have selected GRI indicators in the Energy category because the topic of using energy more efficiently and opting for renewable energy sources is essential for combating climate change (GRI 2018). Moreover, we have considered GRI indicators in the emissions category because, as it has emerged both from the analysis of supranational regulatory initiatives and the main existing literature on the field, climate change issues cannot be addressed without considering corporate GHG emissions. Finally, we have included in our analysis an indicator belonging to economic Standards, namely “Financial implications and other risks and opportunities due to climate change,” since the appraisal of corporate economic performance cannot disregard the financial implications of climate change. Indeed, as already mentioned, risks and opportunities posed by climate change have the potential to generate substantive changes in operations, revenue, or expenditure (GRI 2018). In the following subsections, we will apply content analysis methodology to the *DCNF/DPEF* published by the selected corporations for the financial year 2017, on the basis of the identified GRI indicators.

5.5 A Comparative Discussion

What emerges from a first analysis of the data provided in Table 5.6 is that only three out of 13 GRI disclosures have been satisfied by the overall group of corporations selected. They are: "Energy consumption within the organization," "Direct (scope 1) GHG emissions," and "Energy indirect (scope 2) GHG emissions." Second, and more important, among the firms selected no one has provided monetary quantification and disclosure with respect to the climate change indicators under investigation. With respect to each DCFN/DPEF of firms investigated, we can provide the following one by one summary:

- TIM is the one with the highest total disclosure measure, equal to 12. "Nitrogen oxides (NO_x), sulfur oxides (SO_x), and other significant air emissions" are not considered by the management because these kinds of emissions are not relevant to the firm. Furthermore, among the Italian firms analyzed, TIM is the only one that discloses the financial implications and other risks and opportunities due to climate change. However, this disclosure is merely descriptive, rather than being of monetary nature.
- Autogrill shows the lowest total disclosure index in our empirical analysis, by disclosing information about just 3 out of 13 GRI indicators we have selected. On the one hand, data about energy consumption within the organization are

Table 5.5 Unweighted climate-related disclosure index

| GRI indicators | Code GRI | Firm | Disclosure type |
|---|----------|------|-----------------|
| Energy consumption within the organization | 302-1 | 0/1 | Q/D/M/Q*/QA |
| Energy consumption outside the organization | 302-2 | 0/1 | Q/D/M/Q*/QA |
| Energy intensity | 302-3 | 0/1 | Q/D/M/Q*/QA |
| Reduction in energy consumption | 302-4 | 0/1 | Q/D/M/Q*/QA |
| Reductions in energy requirements of products and services | 302-5 | 0/1 | Q/D/M/Q*/QA |
| Direct (scope 1) GHG emissions | 305-1 | 0/1 | Q/D/M/Q*/QA |
| Energy indirect (scope 2) GHG emissions | 305-2 | 0/1 | Q/D/M/Q*/QA |
| Other indirect (scope 3) GHG emissions | 305-3 | 0/1 | Q/D/M/Q*/QA |
| GHG emissions intensity | 305-4 | 0/1 | Q/D/M/Q*/QA |
| Reduction of GHG emissions | 305-5 | 0/1 | Q/D/M/Q*/QA |
| Emissions of ozone-depleting substances (ODS) | 305-6 | 0/1 | Q/D/M/Q*/QA |
| Nitrogen oxides (NO _x), sulfur oxides (SO _x), and other significant air emissions | 305-7 | 0/1 | Q/D/M/Q*/QA |
| Financial implications and other risks and opportunities due to climate change | 201-2 | 0/1 | Q/D/M/Q*/QA |
| Total disclosure Index | | ... | ... |

Q = quantitative, D = Descriptive, M = Monetary, Q = Quantitative, with more precise information available only on the company website, QA = Quantitative in the DCFN/DPEF and more detailed and globalized in the company's annual report

Source: Authors' elaboration

Table 5.6 Companies' unweighted climate disclosure index

| GRI Indicators | Code GRI | Tim | Disclosure type | Autogrill | Disclosure type | Ansaldo STS | Disclosure type | BPER Banca | Disclosure type |
|---|----------|-----|-----------------|-----------|-----------------|-------------|-----------------|------------|-----------------|
| Energy consumption within the organization | 302-1 | 1 | Q | 1 | D Q | 1 | D Q | 1 | Q |
| Energy consumption outside the organization | 302-2 | 1 | Q | 0 | | 0 | | 0 | |
| Energy intensity | 302-3 | 1 | Q | 0 | | 1 | D Q | 1 | Q |
| Reduction in energy consumption | 302-4 | 1 | D Q | 0 | | 1 | D Q | 1 | D Q |
| Reductions in energy requirements of products and services | 302-5 | 1 | D | 0 | | 0 | Q | 0 | |
| Direct (scope 1) GHG emissions | 305-1 | 1 | D Q | 1 | Q | 1 | D Q | 1 | Q |
| Energy indirect (scope 2) GHG emissions | 305-2 | 1 | D Q | 1 | Q | 1 | D Q | 1 | Q |
| Other indirect (scope 3) GHG emissions | 305-3 | 1 | D Q | 0 | | 0 | | 0 | |
| GHG emissions intensity | 305-4 | 1 | D Q | 0 | | 1 | D Q | 1 | Q |
| Reduction of GHG emissions | 305-5 | 1 | D Q | 0 | | 0 | | 1 | D Q |
| Emissions of ozone-depleting substances (ODS) | 305-6 | 1 | Q | 0 | | 0 | | 0 | |
| Nitrogen oxides (NOx), sulfur oxides (SOx), and other significant air emissions | 305-7 | 0 | | 0 | | 1 | D Q | 0 | |
| Financial implications and other risks and opportunities due to climate change | 201-2 | 1 | D | 0 | | 0 | | 0 | |
| Total disclosure Index | 13 | 12 | 8D 10Q | 3 | 1D 3Q | 7 | 6D 7Q | 7 | 2D 7Q |

| GRI Indicators | Code GRI | Orange | Disclosure type | Sodexo | Disclosure type | Legrand | Disclosure type | Credit Agricole | Disclosure type |
|---|----------|--------|-----------------|--------|-----------------|---------|---------------------------|-----------------|-----------------|
| Energy consumption within the organization | 302-1 | 1 | D Q | 1 | Q | 1 | Q D | 1 | D Q |
| Energy consumption outside the organization | 302-2 | 1 | D Q | | | 1 | Q | 1 | D |
| Energy intensity | 302-3 | 1 | D Q* | 1 | Q | 1 | Q D | 0 | |
| Reduction in energy consumption | 302-4 | 1 | D | 1 | D Q | 1 | Q D | 1 | D Q |
| Reductions in energy requirements of products and services | 302-5 | 1 | D | 0 | | 1 | Q D | 1 | D Q |
| Direct (scope 1) GHG emissions | 305-1 | 1 | Q | 1 | Q | 1 | Q D (a) | 1 | D Q |
| Energy indirect (scope 2) GHG emissions | 305-2 | 1 | Q | 1 | Q | 1 | Q D (a) | 1 | D |
| Other indirect (scope 3) GHG emissions | 305-3 | 1 | Q | 0 | | 1 | Q D | 1 | D Q |
| GHG emissions intensity | 305-4 | 1 | Q* | 1 | D Q | 1 | Q D | 0 | |
| Reduction of GHG emissions | 305-5 | 1 | D | 1 | Q | 1 | Q D | 1 | D Q |
| Emissions of ozone-depleting substances (ODS) | 305-6 | 0 | | 0 | | 1 | Q ("not significant") | 0 | |
| Nitrogen oxides (NOx), sulfur oxides (SOx), and other significant air emissions | 305-7 | 0 | | 0 | | 1 | Q D (but not significant) | 0 | |
| Financial implications and other risks and opportunities due to climate change | 201-2 | 1 | D | 1 | D | 1 | D | 1 | D |
| Total disclosure index | 13 | 11 | 7D 5Q 2Q* | 8 | 3D 7Q | 13 | 10D 11 Q | 9 | 9D 6Q |

Source: Authors' elaboration

provided also in descriptive form; on the other hand, data about Scope 1 and 2 GHG emissions are provided exclusively as quantitative disclosures.

- Ansaldo STS shows a total disclosure index equal to 7 and it is the only firm providing information about polluting emissions, SO_x and NO_x, deriving from the consumption of non-renewable resources for the functioning of thermal plants and for the production of volatile organic compounds, inorganic, and heavy metals from production processes (Ansaldo STS 2018). Furthermore, it is worth signaling that even though Ansaldo STS does not devote a specific section of its *DCNF* to the indicator “Reduction of GHG emissions,” this information is provided under other items belonging to the Emissions category.
- Contrary to the other corporations, BPER Banca does not adopt the GRI Sustainability Reporting Standards but the GRI G4 Sustainability Reporting Guidelines. However, the indicators we have been using so far are applicable to BPER Banca because they are equivalent in the two above-mentioned GRI publications. In line with Ansaldo STS, BPER Banca shows a total disclosure measure equal to 7. The bank provides detailed descriptive disclosures about the reduction of both energy consumption and GHG emissions.
- Orange reaches a total disclosure index of 11. The only two indicators completely disregarded are those related emissions of ozone-depleting substances and nitrogen oxides. Summing up evidences achieved, the latter has been neglected by all companies investigated except by Legrand which provide just a little piece of information as regard.
- Sodexo scores an index of 8. On one hand this is the smallest value for French companies and it is the only French company that does not provide any information with respect to other indirect GHG emissions (scope 3); on the other hand, the remaining part of its *DCNF* is well balanced disclosing, on average, the same items provided by other companies in the study. Finally, as well as other French companies, Sodexo has paid attention to the financial implications and other risks and opportunities due to climate change. It is worth reminding that on the Italian side only TIM has provided a sort of disclosure as regard.
- Legrand is the only company encompassed in the study which scores the maximum value (13) of the disclosure index. For the majority of the items, Legrand has provided both qualitative and descriptive information. Sometimes, as in the case of direct and indirect GHG emissions, Legrand does not provide specific information in its *DPEF*, but information that is more precise can be retrieved in the annual report or on the company website. Finally, even if each indicator has been addressed, the ones related to ozone substances and nitrogen and sulfur oxides have been superficially treated or in a non-significant manner.
- Credit Agricole points out a score of 9. Besides the absence of any information with respect to emissions of ozone, nitrogen and sulfur, Credit Agricole has missed to provide information regarding energy intensity both in general that in terms of GHG emissions. 5 out of 9 indicators are addressed both in quantitative and descriptive terms. Under this point of view Credit Agricole is second only to Legrand.

Overall, as expected, the attention and the disclosure related to climate change and environmental aspects is higher in France. The longer tradition in disclosing non-financial information is the easier and logical explanation of the empirical evidence achieved. On the other hand, the distance between Italy and France is not so high and it seems that the Directive 95/2014 and the related transposition made by the two countries into their legislative settings will decisively contribute to further shorten differences: not only between Italy and France but also across the entire European Union. With the aim to provide general insights, it can be argued that the dimension of firms is not explanatory since the maximum score has been reached by Legrand which is the smallest among French companies and the fifth as a whole (if watching at the directive 95/2014 thresholds). On the contrary, what could explain better than other aspects the extent of the non-financial information compliance (and specifically the climate change and environmental aspects) are sectors to which firms belong. Not surprisingly, Companies belonging to the industrial or telecommunication sectors provide more information and are more sensitive to some aspects that for companies in other sectors are largely negligible or with a poor significance.

5.6 Questionable Features and Advices for Further Improving the Disclosure on Environmental Issues

In this chapter, we assessed Italian and French listed corporations' environmental and climate change-related reporting practices, in the light of the new requirements introduced by the respective laws, implementing Directive 2014/95/EU.

We have found that the majority of disclosures provided by the corporations selected are of Descriptive/Quantitative nature. Thus, quantitative information about energy usage and emissions is accompanied by descriptive discourses in order to justify and contextualize the figures disclosed. Moreover, descriptive disclosures are useful to highlight, in a potentially sweetening manner, corporate commitment toward environmental sustainability (de Villiers and Van Staden 2011a, b). Questionably, selected corporations do not disclose climate-related information in monetary terms, undermining the possibility to include them in corporate financial statements, which will grant energy and emissions flows the same dignity as economic and financial flows. Indeed, following Unerman and Chapman (2014), we signal that albeit difficult, the translation of environmental dimensions into monetary amounts is crucial for the direct and active consideration of environmental impacts. Literature suggests several solutions to this issue. One may be represented by the adoption of full cost accounting, which allows the monitoring of physical indicators—energy and emissions—and the estimation of these costs in monetary terms (Atkinson 2000). Another may be the development of a sustainability assessment model where the first step is the quantification of physical flows and the second is exactly the translation of this information into monetary terms (Bebbington et al.

2007). Arena et al. (2015) suggest that the environmental impacts associated to GHG emissions can be transformed into monetary values by adopting the Social Cost of Carbon (SCC) methodology. The SCC is associated with the damage caused by one additional ton of CO₂. Also, the authors show how the Environmental Profit and Loss Account can be used to translate corporate environmental results into monetary terms (Arena et al. 2015).

In conclusion, the lack of monetary disclosure represents the main limitation. This is not trivial: this absence undermines the inclusion of climate-related information in corporate financial statements, which, on the contrary, will grant energy and emissions flows the same dignity as economic and financial flows.

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Chapter 6

The Role of Auditors to Improve Sustainability in Financial Reporting



Chiara Carlino

Abstract This chapter is aimed to discuss the role of auditors in the contemporary Era to assist the development of sustainable financial reporting. In a period affected by the consequences of the Global Financial Crisis, the survival of companies and their sustainable growth are primary goals. To this end, this chapter starts from the definition of Going Concern (GC) Assumption under academic and regulatory perspectives, to move on auditors' assessment standards on this principle. Further, the focus is on the consequences for several categories of stakeholders when auditors issue a Going Concern Opinion (GCO). Following evidence from previous research on consequences of GCOs and the auditors' role and function in financial reporting environment, there is the necessity to increase the assurance of sustainable reporting. The social audit pursues this effort but fails in practice due to the lack of detailed regulation on it. Therefore, there is the need to develop a specific framework on social audit and even more, on sustainability reporting.

Keywords Going concern opinion · Social audit · Sustainability reporting · Stakeholders theory

6.1 Introduction

The Going Concern (GC) Assumption is one of the most important basis for the preparation of the financial statements. Following the grown uncertainty that affects markets because of the Global Financial Crisis, the attention to the respect of GC has become higher. Moreover, in 2015, the United Nations adopted the 2030 Agenda for sustainable development, where 17 Sustainable Development Goals (SDGs) were been defined. Through them, the United Nations want to achieve sustainable development in its three dimensions (economic, social, and environmental) in a balanced

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and integrated manner. To achieve this commitment, the sustainability of each economic entity is a primary goal. The only way to respect these requirements and ensure the maintenance of GC assumption is not to forget the relevance of all parties interested in the organization and guarantee the transparency and reliability of financial reporting disclosures. Friedman (2006) asserts that each organization should be watched as a group of stakeholders with different interests, which have to be managed by the firm itself. When each stakeholders' interest is considered in the implementation of corporate social responsibility, there is no expectation gap. However, often, this situation happens with difficulties.

In the present environment, to avoid problems related to a lack of stakeholders' satisfaction, the role of auditors plays a fundamental part. Rajan and Zingales (2001) showed that better accounting increases the level of investment and growth in the country where it is implemented. However, due to several financial scandals happened in the past, auditing standards, and in particular, standards on GC assumption and GCO were revised to increase requirements and attention from auditors. Although these amendments contributed to improving transparency and stakeholders' satisfaction and assurance, other works are required regards auditing procedures for sustainability reporting. Indeed, the possibility for companies to achieve SDGs by 2030 is subject to a proper definition and implementation of audit procedures on sustainability reports.

This chapter is aimed to present and discuss previous literature on auditors' role and on the reaction of several categories of stakeholders following the issuance of an audit report with Going Concern Modifications (GCMs). Starting from past evidence, the focus moves to the possibility and the necessity to use the auditors' work to improve the assurance of sustainability reporting.

Social audit could be defined as the assessment of a company's performance on corporate social responsibility objectives. Several authors in the past tried to find instruments and methodologies to perform a good social audit, and they agreed on the benefits of social audit in several countries (Berthin 2011; Casey and Grenier 2015).

Thus, the chapter proceeds as follows: Sect. 6.1 provides definitions and comments to the Going Concern Assumption in the academic literature and in European and American Standards. Section 6.2 describes the auditors' role and their evaluation for the issuance of a GCO following existing standards. Section 6.3 discusses prior researches on the impact of the issuance of a GCO on investors. Section 6.4 discusses previous studies on the impact of GCOs on other categories of stakeholders. Section 6.5 move to definitions, concepts, and comments related to the social audit. Finally, Sect. 6.6 concludes with final remarks and comments.

6.2 Going Concern Assumption in the Academic Literature and in Different Standards

The GC is one of the most important underlined assumption for preparation of the financial statements: several authors (Moonitz 1961; Kovanicova 2004; Janhuba 2010) consider this principle as a necessity for the accounting. Saponi (1970) asserted that the principle of GC was introduced in the Middle Ages due to the recurring of trading trips, to enable the continuity in business transactions. Indeed, the GC is designed to affect an indefinite successions of transactions (Fremgen 1968), meaning that the economic entity has indefinite life in the environment. This conclusion has some implications for accounting; in fact, the accrual basis, the assets' evaluation under the historical cost, the matching principles, the mechanisms to allocate costs among different periods (i.e., for the depreciation) are justified by the GC assumption (May 1948; Fremgen 1968; Venuti 2004). On the other hand, Sanders et al. (1959) even though considered the GC as an important precept, they did not use it to justify the application of other accounting principles. Other authors criticized the GC assumption for its implicit weakness. In fact, many years ago, Edwards and Bell (1967) aimed that the GC concept is in contrast with a not stable environment and it experiences problems in case of a long production cycle modified in rapid cycles, placed in a dynamic business environment.

However, despite academics illustrate these considerations, accounting standards consider only two possible conditions during the life of an entity: GC and liquidation, where the latter is adopted only when there is not the possibility for the entity to continue its activity for the following months. More in depth, the last version of Conceptual Framework for Financial Reporting (IFRS 2018) asserts:

Financial statements are normally prepared on the assumption that the reporting entity is a going concern and will continue in operation for the foreseeable future. Hence, it is assumed that the entity has neither the intention nor the need to enter liquidation or to cease trading. If such an intention or need exists, the financial statements may have to be prepared on a different basis. If so, the financial statements describe the basis used.

The great consideration of GC assumption is confirmed also by the other set of rules issued by Financial Accounting Standards Board (FASB), who in 2014 issued a specific Accounting Standards Update (hereafter *ASU 2014*) entitled "Presentation of Financial Statements— Going Concern (Subtopic 205-40)." It asserts:

Under generally accepted accounting principles (GAAP), continuation of a reporting entity as a going concern is presumed as the basis for preparing financial statements unless and until the entity's liquidation becomes imminent. Preparation of financial statements under this presumption is commonly referred to as the going concern basis of accounting. If and when an entity's liquidation becomes imminent, financial statements should be prepared under the liquidation basis of accounting in accordance with Subtopic 205-30, Presentation of Financial Statements—Liquidation Basis of Accounting.

Moreover, the ASU 2014 declares the management's task to evaluate whether some events or conditions, considered as aggregate, could arise substantial doubt about the entity's ability to continue as a GC within 1 year after the date of the

issuance of the financial statements. The Update specified that there is substantial doubt when exists events which increase the probability for the entity to be not able to meet its obligations as they become due in the period considered for the GC's evaluation. On the other hand, in this situation, management should perform a series of reflections:

- The occurrence of events or conditions included in its plans that could alleviate substantial doubts;
- The level of likelihood of the plans being implemented;
- The real ability of these events or conditions to mitigate substantial doubts about the entity's ability to continue as a GC.

In each case, management should disclose all information useful to users to understand the real entity's situation, and that are related to:

- Events or conditions which raise substantial doubts on the GC assumption;
- Management's evaluation on the significance of these events or conditions;
- Mitigating events or conditions contained in management's plans able to mitigate these substantial doubts;
- Final evaluation on the real ability of mitigating events to alleviate substantial doubts, and (when necessary), confirmation in the footnotes of the existence of substantial doubt about the entity's ability to continue as GC within 1 year after the date that the financial statements are issued (or available to be issued).

The ASU 2014 is also important because until its issuance, there was no guidance in GAAP referring to the management's responsibility to evaluate and disclose situations increasing substantial doubt about the entity's ability to continue its activity in the future. On the other hand, these tasks were established also by the International Accounting Standard 1 (IAS 1) "Presentation of Financial Statements" issued by International Accounting Standards Board (IASB):

When preparing financial statements, management shall make an assessment of an entity's ability to continue as a going concern. An entity shall prepare financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, the entity shall disclose those uncertainties. When an entity does not prepare financial statements on a going concern basis, it shall disclose that fact, together with the basis on which it prepared the financial statements and the reason why the entity is not regarded as a going concern.

Definitions summarized above showed the relevance of GC assumption in all legislations (under both, principle-based standards and rules-based standards). Finally, the clarification of management's tasks is important to define differences in terms of responsibilities for managers and auditors. Indeed, auditors are called to perform verifications on the maintenance of GC of the entity under investigation.

6.3 The Role of Auditors in the Contemporary Era: Going Concern Relevance During Auditing Process

Despite rules cited above established the requirement for management to disclose information related to the entity's ability to continue as GC, researchers showed a managers' reluctance to disclose GC information when the company is in situation of financial distress (Mutchler 1985; Uang et al. 2006) superseded by the propensity to support the company's reputation (Skinner 1994; Healy and Palepu 2001).

However, as highlighted by Holzmann (2010), it is possible to find more exhaustive accounting guidance concerning the GC assumption in the auditing literature, rather than among the GAAP literature. Indeed, the Statement on Auditing Standards No. 1 Section 341 (AU Section 341¹) "The auditors' consideration of an Entity's Ability to continue as a Going Concern" establishes the auditors' responsibility "to evaluate the existence of substantial doubt about the entity's ability to continue as going concern for a reasonable period of time, not to exceed one year beyond the date of the financial statements being audited." It is based on the Statement of Auditing Standards No. 59 issued by American Institute of Certified Public Accountants (AICPA) in force since January 1989, and GC disclosures have been included in US law only in 1995 through the Private Securities Litigation Reform Act.

Following the AU Section 341:

- Auditors should verify whether results obtained performing auditing procedures and considered in aggregate show a possible substantial doubt about the entity's ability to continue as GC for a reasonable period of time. Each doubt has to be supported by appropriate audit evidence and potential mitigating factors to properly evaluate auditors' doubt;
- In the presence of substantial doubt auditors should obtain information about management plans and evaluate the probability to really implement them;
- Following the evaluation of managements' plan, auditors have to assess their conclusion about the existence of substantial doubt about the entity's ability to continue as GC. When auditors conclude the existence of substantial doubt, they have to assess the adequacy level of disclosure about the entity's inadequacy to continue its activity for a reasonable period and join a paragraph in the audit report regarding their conclusions. When auditors conclude the absence of substantial doubt, they could evaluate the necessity for disclosing these information in the audit report.

The several corporate scandals (i.e., Enron, WorldCom, Lehman Brothers, Global Crossing, Parmalat, HealthSouth, Tyco, and others) and the growing presence of financial distress situations as in the current period emphasize the attention on the GC principle and on the quality of financial reporting (Campra et al. 2011;

¹PCAOB started a clarification project of the Statements on Auditing Standards (SASs). As a part of this clarification the SAS No. 1-121 were recoded among different AU Sections, where AU stands for Auditing.

Bruynseels and Cardinaels 2014; Zéman and Lentner 2018). These events (especially the collapse of Enron and WorldCom) and the subsequent collapse of Arthur Andersen generated a growing tide of criticism on auditors' role and behavior due to their collusion with managers. These situations determined a strong increase of researches on all aspects related to auditors' role and characteristics (Nogler 2008; Guiral et al. 2010; Krishnan and Sengupta 2011; Feldmann and Read 2013; Ghio et al. 2016). In the USA, these circumstances led to the passage of Sarbanes–Oxley Act (SOX) in 2002, by which the Public Company Accounting Oversight Board (PCAOB) was created with the aim to establish “auditing, quality control, ethics, independence, and other standards relating to the preparation of audit reports for [public] issuers,”² and to substitute the AICPA.

Among the others, the major contributions of SOX were to strengthen auditors' independence (i.e., through audit partner rotation every 5 years, restrictions in providing non-audit services to reduce the conflict of interests) to better regulate corporate governance mechanisms (specifying the responsibility regime between auditors and management during financial reporting procedures and the interaction between external auditors and corporate audit committee), and to increase the level of transparency of financial reporting disclosures.

From the entity's continuity standpoint, the corporate collapses cited above did not affect only the USA but the entire World. Under the principle basic regulation promulgated by the International Auditing and Assurance Standards Board (IAASB) several amendments have been issued. In particular, during the period 2004–2009, IAASB has rewritten many International Standards on Auditing (ISA), (named ISAs “clarified”), with the aim to supersede some incompatibilities between standards and some EU countries' legislation, and to enforce provisions related to auditors' independence, transparency, responsibility, and effort.

In the context of the current argument, ISA No. 570 “Going Concern” was revised to increase auditors' assessment on GC assumption. ISA 570 (revised) in line with accounting standards states that “the financial statements are prepared on the assumption that the entity is a going concern and will continue its operations for the foreseeable future.”

Referring to IAS 1 in terms of responsibility, ISA 570 (revised) specifies that auditors have the responsibility “to obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements, and to conclude, based on the audit evidence obtained, whether a material uncertainty exists about the entity's ability to continue as a going concern.” Moreover, differently from accounting standards, ISA 570 (revised) provides a series of conditions or events that, considered separately or as a whole, may cast significant doubt on the entity's ability to continue as a GC. The standard shows three categories of events (financial, operating, and others), some of which are the following:

²Sarbanes–Oxley Act (Pub. L. 107-204, 116 Stat. 745, Enacted July 30, 2002)—Section 101(c)(2).

- Loss in the balance sheet or negative current liability position
- Negative historical or prospective operating cash flows
- Lack of support by creditors or inability to pay them when maturity occurs
- Inability or discontinuity to issue dividends
- Adverse key economic and financial ratios
- Problems in obtaining funding to finance relevant investments to continue the activity
- Loss of key management without replacement
- Loss of fundamental market, license, suppliers, customers
- Undetermined regulatory or legal proceedings that could affect negatively the entity's survival
- Changes in law or regulation that affect negatively the company

On the other hand, as pointed out by Accounting standards, ISA 570 (revised) considers the possible existence of managements' plans able to mitigate substantial doubt. Auditors have to evaluate these plans, their likelihood of effective implementation and their impact on events and conditions generating substantial doubt. Anyway, the level of tests and verifications implemented by auditors in all these cases are related to the previous history of the entity under evaluation.

As highlighted by Mock et al. (2013) during the period following the 2008 financial crisis, regulators and others (e.g., US Department of Treasury's [2008] Advisory Committee on the Auditing Profession, International Organization of Securities Commissions [IOSCO 2009], and European Commission [EC 2010]) have questioned the value of the current audit report and asked for improvement in the audit report. For this reason, standard setters and regulators adopted a series of innovation to improve the level of transparency and reliability of the content of the audit report.

Among these, the most important novelty provided by the revised version of ISA 570 combined with ISA 700 ("Forming an Opinion and Reporting on Financial Statements") is the provision of a specific paragraph in the audit report assessing information related to the maintenance of the GC assumption.

In conclusion, this brief description of the GC assumption in auditing standards emphasizes its relevance during auditors' verifications in order to protect all stakeholders from damages and to prevent other scandals in the financial market.

6.4 Are Auditors Useful to Prevent Damages for Investors? Considerations from Previous Literature

Auditors have a significant role in ensuring reliable financial reporting. As in the events mentioned in the previous paragraph, when auditors deviate from independence principle and, more in general, from professional requirements, damages in the environment may cast considerable repercussions for all stakeholders and more in general, for the achievement of a sustainable economic growth required by SDGs.

In explaining its mission, Conceptual Framework for Financial Reporting (IFRS 2018) includes among users interested in transparent and trusted accounting language, with a specific reference, investors. For the public interest, trust, growth, and long-term financial stability in the global economy are possible in the presence of reliable financial disclosures which help investors to take correct decisions to allocate capitals. DeFond et al. (2002) underlined the crucial role played by the audit report in providing warning of situations of financial distress and GC problems. Also, Church et al. (2008), investigating literature prior to 2007 on the value relevance of audit report, in concluding that it conveys little information to users, included GC reports among information relevant for the market.

More in general, Christensen et al. (2014) in their research on the impact of audit reports containing a Critical Audit Matters-paragraph³ (CAM-paragraph) showed that these type of disclosures, when representing significant uncertainties drive investors to stop considering the company as a possible investment.

However, although GC audit disclosures could be included among CAMs, there is a separate regulation for GC audit reports (both under PCAOB's and IAASB's standards).

These considerations are the basis for clearly motivating the increase in researches on the value relevance of GC reports for investors and more in general, for stakeholders.⁴

Even if there is a big expectation of a negative market reaction following the GCO's release, previous literature not always showed these results (Carson et al. 2013; Mock et al. 2013; Brunelli 2018). In particular, Carson et al.'s (2013) work is fundamental because they developed a framework to categorize researches conducted on GC Uncertainties (hereafter GCO) distinguishing them in determinants of GCOs, accuracy of GCOs and consequences deriving from the issuance of GCOs. Albeit they limited the extension of their investigation to study conducted in the USA, this framework could be adopted to classify research worldwide. Observing the oldest researches conducted in the USA (Chow and Rice 1982; Davis 1982; Elliot 1982; Dodd et al. 1984), they concluded that modified audit reports had no new information content, due to an absence of negative investors' reaction following their issuance. Instead, the first research conducted on this field in the UK by Firth (1978) showed a small negative reaction to GCOs.

However, these studies did not consider separately GCOs in performing their analysis. On the other hand, Dopuch et al. (1986) observed that investors reacted negatively to media disclosures of "subject to" qualified audit opinions. It was

³PCAOB, among new requirement in auditing reporting, ask for the introduction of a CAM-paragraph, containing all significant audit matters that are documented in the engagement completion document, reviewed by the engagement quality reviewer or communicated to the audit committee. CAMs are different from Key Audit Matters (KAMs) required in the IAASB-environment because the latter are selected from matters communicated with those charged with governance.

⁴Starting from regulatory reference showed in previous paragraphs, which were limited to US and European countries, this chapter considers only researches developed in the same context.

explained by an unexpected effect due to the low number of qualified disclosures in financial news media. Similar results were achieved by Schaub (2006), who, analyzing the period 1984–1996 has verified that investors overreacted to GCO announcements made on financial media. In fact, a strong sell-off by investors is registered on the date of the announcement, followed by a recovery in the five days after the event.

An unexpected effect was registered in the USA also by other researchers some years later (Fleak and Wilson 1994; Jones 1996; Sainty et al. 2002). It is one of the reasons that led academics to focus mainly on the effect of first-time GCOs (Louwers et al. 1999; Blay and Geiger 2001; Willenborg and McKeown 2001; Taffler et al. 2004; Ogneva and Subramanyam 2007; Gassen and Skaife 2009; Kausar et al. 2009; Pucheta-Martinez et al. 2004). However, the results of these researches were mixed. Taffler et al. (2004), in the UK market, showed an incomplete stock price reaction starting one month following the GCO's release, concluding that there is a market anomaly. Following their study, Ogneva and Subramanyam (2007) did not find a market underreaction in USA and Australia, because they found that Australian investors have a modest negative response after GCO's announcement, but in the USA negative abnormal returns subsequent to GC opinions are sensitive to the choice of expected returns. Finally, adopting the same US sample of the latter study, Kausar et al. (2009) showed an investors' underreaction to the GC announcements, resulting in a downward drift of minus 14% over the 1-year period subsequent to the GCO. Kausar et al. (2009) justified these different results with problems in the data source and in the method adopted in the previous study

Willenborg and McKeown (2001) considering a sample of US firms that issued an IPO commitment concluded that GCOs are useful for uninformed investors in estimating the dispersion of secondary market values. Louwers et al. (1999) found an increase in the bankruptcy risk for companies receiving a first-time GCOs during the year immediately following this information.

In another context, represented by Spain, Pucheta-Martinez et al. (2004) did not find an impact of GCOs on stock market prices.

In Germany Gassen and Skaife (2009) found a relevance of first-time GCOs due to the negative reaction registered following that release. However, they justified their results with the new regulation issued in 1998 aimed to increase the level of information content and transparency of audit report and that influenced investors' behavior.

Other possible factors influencing investors' reaction could be the level of firms' financial distress. In fact, Blay and Geiger (2001) in the USA found that first-time GCOs cause a negative abnormal return only for companies bankrupted in the period after the release. In line with their results, Menon and Williams (2010) showed that investors' negative reaction is higher if the audit report contains information related to a company's problem with obtaining financing.

In another literature review conducted by Bédard et al. (2016), they identified more recent researches than those considered by Carson et al. (2013). In fact, also in recent years, literature investigated the value relevance of GCOs for investors. In particular, several researchers (Czerney et al. 2014; Kaplan et al. 2014; Funcke 2015;

Bédard et al. (2019; Myers et al. 2018) analyzed first-time GCOs in the American context. All these studies found that investors (in a more or less emphasized way) react negatively to the issuance of first-time GC audit reports. On the other hand, considering other important information issued in the period around the audit report date (i.e., credit rating downgrades, GC disclosures in the financial statements, and earnings announcements), all of these studies, found that investors' reaction to GCOs is affected by additional disclosures. In particular, Bédard et al. (2019) found that GC audit reports cause a market reaction only in the presence of weak GC disclosures in the financial statements. Myers et al. (2018) discussing the presence of confounding effect when GC Modifications are issued with earnings announcements concluded that the informational benefits of GC Modification reporting are significantly smaller than previously thought.

Therefore, also considering the latest researches on the subject, Bédard's et al. (2016) conclusion on the need to increase the level of information contained in the audit report remains valid.

6.5 A Focus not Only on Investors: Other Stakeholders and Their Relationship with Auditors' Role

Although in the Conceptual Framework for Financial Reporting (IFRS 2018) the investors-orientation of the legislator is clear, other relevant stakeholders were cited in the framework, such as creditors and lenders. In line with this, previous literature (Gissel et al. 2010; Carson et al. 2013; Mock et al. 2013; Bédard et al. 2016) investigated also the impact of GCOs for other categories of stakeholders. In particular, Carson et al. (2013) identified lenders as potentially affected by GC audit reports. Indeed, Chen et al. (2016) and LaSalle and Anandarajan (1997) verified that the issuance of a GCO is associated with greater problems with obtaining financing (in terms of loan spread, terms, and probability).

Among this category of study, Carson et al. (2013) included also the "self-fulfilling prophecy" which could arise when the issuance of a GCO increases the probability for a company not to survive in the subsequent period. However, it is clear that this type of situation is dangerous not only for lenders, but also for the auditor's client, and for the auditor itself.

Louwers (1998) found that bankruptcy risk is the biggest in the first year after the first-time GCOs announcement, but that this risk decreases significantly in the subsequent years. In Belgium, Vanstraelen (2003) confirmed the increase of the likelihood of bankruptcy or opening insolvency proceedings for companies receiving a GCO. These circumstances cause also an increase in the probability of auditor switching at the end of the mandatory term if preceded by GCOs in the previous 2 years.

Similar results were achieved also by Bhimani et al. (2009) in Portugal and by Ghio et al. (2016) in Italy.

On the other hand, Nogler (2004) considering a sample of US firms does not confirm a self-fulfilling effect in the long term, because, even though the likelihood of bankruptcy during the 5 years following the GCOs' resolution is higher than a general population, the "GCO companies" show that shareholders' value continues to be constant. In line with the latter study, in UK Citron and Taffler (2001) found that the company's probability of failure is not affected by the issuance of a GCO. Moreover, they did not confirm a self-fulfilling effect; instead, the level of financial distress affects the probability of bankruptcy.

Moreover, as pointed out by Sainty et al. (2002) GCO announcements increase the level of investors' dissatisfaction, especially in the case of unexpected GCO and in the presence of an auditor with a low level of credibility. These circumstances increase the probability of switching its auditor (Tucker et al. 2003).

More in general, Campbell and Mutchler (1988) performed questionnaires to verify the perception of the auditor's role in the presence of GC uncertainties and the perception about GCOs' release. They concluded that it is a common opinion that auditors should assess the recoverability of assets and provide to other users an early warning signal. In addition, for them and for other researchers (Carlson et al. 1998; Seipel and Tunnell 1995) GCOs are generally evaluated as important and necessary. In recent years, Simnet and Huggins (2014) investigated the stakeholders⁵, responses to the *Invitation to Comment: Improving the Auditor's Report* issued by the IAASB (2012). Authors found that stakeholders support the changes proposed by IAASB, concluding the need for an increase in the level of information required in the audit report.

Starting from evidence outlined from previous literature, the value relevance of audit report and GC audit disclosure is evident for all stakeholders. Hay et al. (2014); Hay and Cordery (2018) summarized fundamental theories underlying the benefits of auditing. In particular, he identified six theories related to the economic explanation for auditing: an information role, an agency role, an insurance role, an organizational control role, a confirmatory role, and a risk management role.

The information (also called signaling) explanation is related to the information asymmetry arising between managers and outsiders, due to the possibility for managers to obtain better information on the real health status of the company. Auditors could help outsiders to take decisions, increase the credibility of the statements issued by managers, especially when the latter engages a higher quality auditor (Titman and Trueman 1986).

The agency role (or monitoring explanation) operates to reduce agency costs. In fact, stakeholders could pay a lower price for shares because they think that managers have some incentives to disclose misleading information (Chow 1982). In line with this, Elliott (1994) estimates that audits help to reduce the cost of capital of a small percentage, which is a considerable amount of money in the case of a company with huge capital.

⁵Various groups of stakeholder were involved in this research, such as audit and assurance firms, users, preparers, regulators, and others.

The insurance role intervenes as guarantee for external users. Indeed, Chow et al. (1988) define auditors as a “deep pockets” due to the possibility for external stakeholders to start costly litigation, even when they have little responsibility for the client’s losses. Extending this idea to the public sector, Wallace (1980) suggests that audit could provide “political insurance.”

The organizational control role is useful to help management to control complex organizations. In a small organization, managers have the possibility to control directly operations, but when it grows, there are more difficulties in control. For this reason, Abdel-Khalik (1993) suggests the adoption of auditing as a compensatory control system.

Under the confirmation hypothesis, it is possible to assert that managers’ disclosures and audited financial reporting are complementary (Ball et al. 2012). It means that, especially in the case of high number of management forecast, firms prefer to commit greater financial statement verification by auditors.

Finally, the risk management role (also called governance explanation) depends on audit mechanisms. In particular, there are several researches that assess the relationship between corporate governance mechanisms and auditing procedures (Uang et al. 2006; Ghafran and O’Sullivan 2013; Hay and Corderly 2018). In particular, corporate governance mechanisms are useful to reduce the risk that arises when in complex organizations there are several users (such as internal and external auditors, audit committees, and independent directors) who became stakeholders themselves. For this reason, the improvement of the level of control produces benefits for all stakeholders.

6.6 The Need to Move Toward Different Approach: The Social Audit

Hay et al. (2014) elected auditing as a public good. Indeed, audited financial information provide benefits to many stakeholders who are not directly involved in the payment process of the auditor. However, to avoid the risk of insufficiency of auditing procedures, legislators impose auditing requirements for the benefit of the community (Doty 2014). Moreover, an increase in the level of audit quality is believed to be associated with better economic performance. As a consequence, Rajan and Zingales (2001) showed that better accounting increases the level of investment and growth in the country where it is implemented.

Even in settings where there have been audit failures and auditing scandals for many years, such as the USA, auditing is highly demanded, and the response to audit failures is generally to require more auditing, not less (Elliott 1994). Hay and Corderly (2018) concluded that audit practices generate direct benefits to all stakeholders, in the private and public sector.

Recent years have seen a great increase in sustainability reporting worldwide (Hess 2008). This type of disclosures is often voluntary and it is used to create a

different and positive image of the company (Hopwood 2009). However, among stakeholders, there is a growing concern that sustainability reporting does not respect transparency and truth, and consequently, rules of good corporate governance. Cohen et al. (2011) showed that investors prefer to obtain guarantees on sustainable reporting from third parties. Other researches are in line with the value relevance of audited sustainability reporting for several categories of stakeholders (Pflugrath et al. 2011; Brown-Liburd et al. 2012; Moroney et al. 2012). The necessity of reduction of uncertainties on social responsibility reports has increased the relevance of the social audit as an instrument to evaluate the social and environmental performance of companies. The first definition of *Social Audit* was provided by Kreps in 1940, when in his monograph “Measurement of the Social Performance of Business” stated “The acid test of business is not the profit-and-loss statement but the social audit.” A few years later, Bowen (1953) asserted that social audit was a high level, independent appraisal conducted about every 5 years by a group of disinterested auditors with the aim to help internal decisions.

Another definition of social audit was achieved by Bauer and Fenn Jr (1972): “the goal of the social audit movement is the mounting of a comprehensive and objective evaluation of the social performance of firms on a continuing basis.” Similarly, under a managerial point of view, the New Economics Foundation (NEF) refers to social audit as the whole process used by an organization to determine its impacts on society and measures and disclose all to the community (Owen et al. 2000).

Although the main objective of the social audit seems to maintain the same direction over the years, the academic debate has not managed to reach a conclusion about the procedures to implement to carry out the social audit.

The Committee of Sponsoring Organizations (COSO) deals to develop and provide a comprehensive framework on internal control, enterprise risk management, and fraud deterrence. Especially in 2013, they issued a white paper (COSO, White Paper 2013) with the purpose to lead organizations to include sustainability as a part of enterprise risk management among the audit process. Albeit the sustainability practices seem to reflect COSO’s guidance, and auditors from Big audit firms have identified sustainability as a priority, other considerations have to be done. Indeed, as highlighted by Zu (2013) the social audit has been subjected to several criticisms due to its internal nature. However, the debate on the principal use of social audit concluded its public use supremacy (Hess 2008).

Doubts arise regards the methodologies applied to conduct the social audit. Indeed, an always growing number of indicators were identified to measure and verify the sustainable development and growth of companies. However, even if specific areas of social audit were not properly identified, there is not the possibility to define a fixed procedure good for all situation and circumstances (Ghokrokta and Lather 2007).

Following Bowen’s (1953) definition, and the general meaning of audit, (as a series of verifications performed by an external and independent individual (or a group of individuals)), doubts arise regards the respect of auditors’ independence. For these reasons, there is the need to define more rules. Some authors draw social audit near to financial audit. In particular, Chapple and Mui (2015) tried to apply

responsibility regimes defined for financial audit also in the case of social audit failure. Indeed, they defined the social audit as “the non-financial equivalent to the audit of the general purpose financial report and the results of both reports (i.e. the disclosure and the audit) are made generally available by the client firms that commission them.” Even if the withstand idea this juxtaposition could seem right, Adams and Evans (2004) concluded that social audit is completely different from financial audit for several reasons: Social audit is not a legal requirement, there is not a single set of rules to be respected, interests of stakeholders interested in social audit reports could be in contrast among them, and much of data adopted in the social reports are qualitative and not quantitative. All these considerations are fundamental to define a specific set of rules and requirement for sustainability reports primarily, which could represent the basis to develop a specific framework also to perform useful and relevant social audit procedures.

6.7 Final Remarks and Conclusion

As known, auditing plays a fundamental role in the contribution to realize reliable and truthful financial reporting disclosures. Even if it is not able to prevent directly financial losses, it can help stakeholders to take more safety decisions to decrease damages to them and to the environment. Especially considering the current economic situation and the additional demand to improve sustainable development through greater accountability and good governance (as highlighted during the debate on SDGs), the attention to audit procedures, and the possibility to adopt them in other situations, arise.

The purpose of this chapter is to provide information on the perception of the role of auditors for different categories of stakeholders. Starting from the definition of GC in the academic literature and in several standards, the discussion moves to the auditing perspective, to draw the relevance of this assumption for auditors’ assessment. Following the investors-orientation of the Conceptual Framework for Financial Reporting (IFRS 2018) and evidence from previous researches, (even if with miscellaneous results) confirm the relevance to investors’ decisions of audit reports containing a GCM. Under the stakeholders’ theory (Mitroff 1983; Friedman 2006) consequences of GCOs were investigated related to several categories of users (lenders, clients, auditors, preparers, regulators, etc.). However, it is not possible to deduct a common conclusion of the studies, due to the lack of a homogenous orientation of stakeholders’ behavior to this type of bad news.

On the other hand, disclosures relevant to stakeholders are also represented by sustainability reports. Albeit their diffusion in recent years is evident and in line with the requirement of SDGs, its application is not regulated properly. Indeed, literature cited in this chapter shows as some regulators tried to define legal requirements for social audit, however without a correct implementation. Moreover, at this stage, social audit received several criticisms among academics. All these issues clearly display the necessity to define more rules on that discipline and in a concrete manner.

As shown among the chapter, transferring rules from financial audit to social audit is not possible due to differences between these two practices.

Sustainable economic growth starts from proper use of different resources in each organization, passing across sustainable reporting procedures to conclude with a specific set of rules to control the respect of the requirements of SDGs.

Finally, there is the necessity to develop more precise rules to standardize sustainability reports. Only in this way will be the possibility for regulators a concrete definition of a specific set of guidelines to perform useful procedures of audit on these reports.

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Part III
**The Relevance of Public Sector: New
Pathways for Sustainable Accounting,
Accountability and Performance**

Chapter 7

Value-Based Healthcare Paradigm for Healthcare Sustainability



Camilla Falivena and Gabriele Palozzi

Abstract Healthcare represents a paramount issue in the current debate around sustainability. Developing sustainable practices within health systems is fundamental not only to guarantee the right of care, but also to enhance the growth of a country. The widespread dissemination of innovation, on the one hand, could represent a way for providing a better service, in terms of quality and access. On the other hand, it is severely undermining the sustainability of health organisations due to high costs and magnitude on existing organisational arrangements. Among the various research strands aimed to identify theoretical framework to face the various challenges, Value-Based Healthcare is largely considered as the blueprint for promoting sustainable management approaches in healthcare. This paradigm stresses the importance to deliver care towards enhanced value for the patient, which could be measured through the ratio between outcomes and costs.

This chapter has a twofold aim. First of all, it is aimed at exploring the concept of Value-Based Healthcare to realise the state-of-art and to identify main issues and open questions around the drivers of value in health. Besides, it attempts to understand whether this approach could effectively contribute to the attainment of sustainable development goals. To do that, an in-depth explanation of the concepts of outcome and cost in healthcare has been carried out.

At the end of the analysis, principles of Value-Based Healthcare seem to be usefulness to cope with the need of improved practices. The focus on the value of patient, instead, allows to foster behaviours that could support the achievement of sustainable goals aimed to provide better and more accessible infrastructures. Within this complex mosaic, accounting could represent the common language to orient health management towards a higher sustainable value for the patient.

Keywords Value-based healthcare · Health innovation · Sustainability · SDGs · Accounting in health care

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7.1 Healthcare Sustainability in the Era of Innovation

United Nations (UN) Sustainable Development Goals (SDGs) aims at meeting fundamental needs of present and future generations and to guarantee the same rights to the entire population, including women and children. They are all interconnected and address the three dimensions of sustainability: economy, society and environment (United Nations 2015). Their achievement requires the involvement and cooperation among governments, public and private sector organisations, civil society and individual citizens (Bebbington and Unerman 2018).

Within the accounting field, plenty of researches are tackling the topic of sustainability. Main issues addressed concern human rights (Arnold 2010; McPhail and McKernan 2011; McPhail et al. 2016) and environment (Ascui and Lovell 2011; Bebbington and Larrinaga-Gonzalez 2008; Cuckston 2013; Kolk et al. 2008; Larrinaga-González and Pérez-Chamorro 2008; Stechemesser and Guenther 2012).

In the current debate, a paramount issue—sometimes neglected—is represented by healthcare sustainability. Healthcare is one of the most complex and fastest growing sectors (Purbey et al. 2007) and has a significant magnitude on government budgets. Besides, it could be considered as a social indicator of the quality of life and development of a country (Andaleeb et al. 2007).

Several definitions of healthcare sustainability have been provided. Some authors embraced a social perspective, asserting that sustainable healthcare concerns with an improvement of the health status of the population. Others, adopting a more management-oriented perspective, claimed that healthcare sustainability deals with the continuous innovation and improvement of components and relationships among them (Lifvergren et al. 2008). Because of the high number of interests and—sometimes conflicting—goals, even health programmes for sustainability proposed in the literature tend to be fragmented, and evidence about their effectiveness is scarce (Gruen et al. 2008).

In order to pursue sustainable objectives, there is the need for a clear strategy (Epstein and Wisner 2001) and a long-term perspective (Hahn et al. 2015), based on an interdisciplinary dialogue (Ulhoi and Ulhoi 2009). To do that, innovation may represent effective support to improve economic productivity according to SDG 8.1. The attainment of this goal is critical to allow nations to develop reliable and resilient infrastructures, guaranteeing fair and convenient access, consistently to SDG 9.1.

Over the years, plenty of disruptive innovations have been implemented within the healthcare sector to provide more affordable and accessible treatments (Hwang and Christensen 2008). However, healthcare organisations are rigid and difficult to manage due to the number—and often conflicting—interests among the various stakeholders (Glouberman and Mintzberg 2001). Politicians press for containing cost, without reducing the volume and the quality of services. Physicians and other health professionals are interested in treating diseases, with an interest in economic and management matters. Patients seek for enhanced care pathways that embrace both health-related benefits and satisfaction for the service received. Industries invest in research and development activities to deliver an innovative solution that could

increase their profit. Managers have to face the conflict of interest and conciliate internal and external expectations (Lega et al. 2013).

Besides, health innovation, on the one hand, provides solutions aimed to improve current procedures or to introduce new approaches for delivering care. On the other hand, it often represents the primary cost driver within health expenditure. Innovation, in fact, entails huge economic efforts, additional competencies and significant changes in current arrangements. Its sustainable implementation represents a severe challenge in order to avoid that innovation from common good may become a mean of inequity in accessing to care, undermining the achievement of SDG 3. Dissemination of innovation is heavily determined by: (1) the perception of innovation; (2) characteristics of people who adopt the innovation; (3) environmental factors, which include communication, leadership and management (Berwick et al. 2008). Hospital management, therefore, has to assess whether innovative technologies and approaches could lead to desired gains and benefits, consistently to the specific context and expectations of the various stakeholders.

Accounting has largely revealed its effectiveness in facing these challenges, contributing to the improvement of quality and increasing of transparency in healthcare (Kaplan and Porter 2011). Therefore, several advantages could be provided by accounting disciplines in investigating current practices of healthcare innovation management and in proposing new solutions for stemming individual and organisational resistance, as demonstrated by previous experiences (Argyris and Kaplan 1994). Notwithstanding, accounting needs to be understood and operationalised in new ways to be useful for the improvement of health processes (Pflueger 2015).

Among the various research strands developed to cope with matters that undermine the management of health organisations and care delivery, the Value-Based paradigm may represent the blueprint for developing sustainable management approaches in healthcare. The contribution of the Value-Based Healthcare theory to sustainability chiefly concerns the centrality of the value. Settling the value as primary interest endows a framework that could orientate operations carried out by health organisations.

However, within this approach, a critical question to begin with is conceptualising the value. As well as the value in the public sector, it is extended on three dimensions: (1) legitimacy and support, (2) organisational capacity, and (3) public value (Moore 1995). Thus, it encompasses access to services, profitability, high quality, cost containment, safety, patient-centredness and satisfaction. Due to the constant growth of the population's health needs, the achievement of high value for patients is becoming the overarching goal of health systems. Therefore, the value could be defined as the health outcome achieved per each unit of money spent (Porter and Teisberg 2006). Adopting such a patient-centred explanation promotes a longitudinal analysis of outcomes and costs.

As a consequence, the value is measured for each condition, affecting the whole cycle of care (Kaplan and Witkowski 2014). The evaluative process has to involve health circumstances most relevant to patients, as well as should cover both short and long-term, addressing a period long enough to catch the ultimate result of care. In this

way, evaluation activities could overcome the limits of measurement systems based on a single department—providing too scant evidence—or on the whole hospital—providing too ample evidence (Porter 2010).

This chapter has a twofold aim. First of all, it is aimed at exploring the Value-Based paradigm from a theoretical standpoint to realise the state-of-art and main issues around the drivers of value in health (i.e. outcome and cost). Then, it attempts to understand whether healthcare designed around value for patient could effectively contribute to pursuing sustainable development.

To that end, an in-depth explanation of the concepts of outcome and cost in healthcare has been carried out. Disentangling most relevant issues within the logic of Value-Based Healthcare theory could pave the way for the development of a conceptual approach for orienting managers towards decision-making processes that are able to integrate continuous technology development with organisational, financial, environmental and social requirements.

The following section introduces the most relevant principles that ground the Value-Based Healthcare paradigm. It measures the value from the relation between outcome and cost. Therefore, the Sect. 7.3 and the Sect. 7.4 explore the numerator (i.e. the outcome) and the denominator (i.e. the cost) of this equation in order to provide an extensive exploration of these two concepts aimed to highlight and disentangle most relevant matters and open issues. Section 7.5 explains the relevance of the organisational performance for enhancing the value and contributing to sustainable development. The last section synthesises the contribution of this chapter to the existing literature and illustrates potential rooms for further researches.

7.2 Value-Based Healthcare Paradigm

Value-based healthcare has been largely considering as the pivotal theory for reorganising healthcare worldwide. It overcomes previous theories that fostered the adoption of asset-based tools for aligning planning activities to the specific environment. Moreover, it represents an advancement of the Total Quality Management (TQM) approach aimed to enhance performance by increasing the quality (Deming 1994). TQM theory, as well as value-based paradigm, was based on: (1) the centrality of the customer; (2) empowerment of employees and involvement of all individuals within the organisation; (3) continuous improvement of the quality according to responses from customers; (4) ongoing quantitative assessment of the performance in order to identify strengths and rooms for refinement. Despite these similarities, the value-based approach attempts to introduce a new universal language in healthcare management around the value for the patient. This one could be raised only jointly considering outcomes and costs, operating towards maximisation of their ratio. Identifying quality into health outcome, by default this approach leads to quality improvement.

Value-based healthcare principles were introduced in the USA by Porter and Teisberg (2006) to face the zero-sum competition that characterises the health sector.

Several causes engender this situation. First of all, policies aimed at improving cost allocation lead to cost shifting rather than rationalisation of costs consistently to effective resources employment. This way, the burden of costs is transferred from a player to another, entailing to gain for one participant at the expense of others. Such a mechanism encourages providers to concentrate their efforts in enforcing their bargaining power instead of delivering a better and more efficient service. As a consequence, patients have restricted choice and access to care (Porter and Teisberg 2004). Due to several wrong strategic choices supported by short-sighted regulations, zero-sum competition is characterising both public and private health systems.

Starting from previous theories on competition and strategic management (Porter 1991, 1997), value-based logic involves a shift from a concept of care based on volume and intensity of services towards patient-centred care, based on value. The goal should be improving the outcome and increase the number of treatments. Better health inherently improves resources allocation, reducing the expensiveness of health (Porter and Teisberg 2006). Consequently, health systems could be characterised by a competition on value, which is the most potent driver of continuous improvement.

According to this perspective, performance measurement and management represent important tactics for increasing the value. However, they do not replace the measurement of outcomes and costs, which are the only factors that provide a measure of value created for the patient (Porter 2010). Figure 7.1 illustrates the relationship between outcome and cost. As shown, improvement in the outcome is not always due to costs increase.

The centrality of the patient is fundamental within the value-based approach. Increasing the value for the patient, indeed, should represent the primary interest for everyone involved in healthcare. It concerns not only the medical dimension but also ways by which care and treatments are delivered. Accordingly, the concept of value for patient embraces the value of choices regarding resources allocation; technical value relating to the appropriateness of decision implemented in satisfying

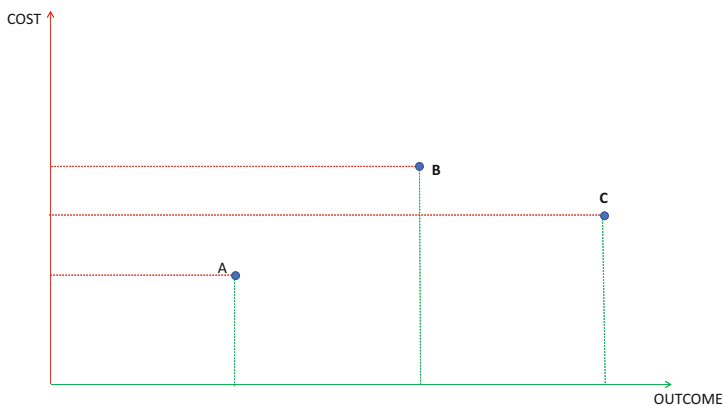


Fig. 7.1 Outcome–cost ratio. Authors’ elaboration inspired by Kaplan and Witkowski (2014)

population needs; the value of results concerning consistency between health outcomes and patients' expectations. Orienting operations towards the creation of value for the patient, therefore, integrates the interests of each type of stakeholder involved (Porter and Teisberg 2006).

The paradigm of healthcare based on value requires even a shift from a vertical approach in treating diseases to a horizontal one, tailored on the patient. To do that, management should move the attention on process rather than on structure. The focus is a specific medical condition and its relating care pathway. A medical condition involves multiple and interrelated specialities and activities and includes common conditions, complications and comorbidities. The unit of analysis, thus, is a particular patient population, distinguished by similar primary care needs (Kaplan and Porter 2011). Considering it as the unit of value creation and the unit of value measurement, organisations could better understand how to allocate resources and how the roles are appointed to various stakeholders for the different types of health problems.

To implement a high-value healthcare delivery model, Porter and Lee (2013) defined a six-steps strategy:

1. An organisation of care delivery into Integrated Practice Units (IPUs);
2. Outcome measurement and cost estimation for each patient;
3. Introduction of bundled payments that embrace the whole cycle of care;
4. Integration of care delivery across separate facilities;
5. Geographic expansion;
6. Development of an appropriate Information Technology Platform.

Such a strategy underlines the importance to analyse the full cycle of care rather than an individual phase or a single technology for treating a disease. To do that, many actors are involved, and all could actively contribute to the improvement of value. Within this approach, therefore, there is a need for effective data management. Collection and dissemination of data should be supported by a robust infrastructure, which is fundamental both to identify current and new best practices and to engage the various stakeholders.

Despite the strong theoretical background mainly built thanks to Porter's engagement, there is a paucity of studies that attempted to introduce Value-Based principles into clinical practice. Main efforts dealt with the implementation of these logics with regard to costs and reimbursement policies (Buttorff et al. 2013; Haywood 2010; Maciejewski et al. 2014; Paulden et al. 2015; Sussex and Towse 2013). Value-Based Healthcare experiences located in Sweden proved the effectiveness as a trigger strategy towards better performances. Most relevant improvements concern patients' health outcomes, care planning and reporting of outcomes. Additional efforts are required in order to increase the participation of stakeholders who are not directly involved (Nilsson and Sandoff 2015, Nilsson et al. 2017a, b). Other experiences demonstrated an in-depth understanding of the concept of the value for the patient which ground the Value-Based paradigm and advancements in outcomes measurement. However, cost assessment is neglected (Erichsen Andersson et al. 2015).

Because of the attention to measurement issues, the value in health is largely unmeasured. This is the reason why several providers perform below the Value Frontier, entailing ineffective administrative and clinical procedures and large unused capacity (Kaplan and Witkowski 2014).

As above mentioned, following sections explore most relevant issues relating to the outcome and costs, in order to promote a higher awareness around the two drivers of the value under the Value-Based paradigm, expressed by the following equation:

$$\text{Value} = \frac{\text{Outcome}}{\text{Cost}}.$$

7.3 The Numerator of Value-Based Healthcare Equation: The Outcome

The numerator of the Value-Based Healthcare equation is the outcome. For each medical condition, there is not a single outcome that could express the ultimate result of care (Porter 2010). The assessment of outcome represents the primary driver to move towards most fulfilling treatments from the patient's point of view rather than preferring highly reimbursed services. At the same time, it is a critical challenge. Indeed, the outcome is a broad concept. Besides being strongly relating to a specific condition, it embraces multiple dimensions, involving both health-related indicators and measures relating to patient experience.

The assessment of outcome from a clinical standpoint begins within the decision-making process. Because of the need for higher reliability and accountability in resource allocation choices, evidence-based approaches are currently largely exploited for assessing the appropriateness of the decisions are going to be taken. Managers and physicians are strongly engaged in implementing available guidelines and in developing new protocols in order to ensure the best outcome for the patient. The widespread diffusion of methods based on the evidence, on the one hand, is fostering research activities towards new solutions for managing care coherently to several parameters, fitting not only in medical sciences. On the other hand, it is engendered confusion around differences among the various approaches.

Evidence-based medicine is first devoted at systematically reviewing different clinical experiences relating to a specific health problem (Sackett et al. 1996). By the time, the collection of evidence has been affected also other fields, closer to policy and ethics (Eddy 1997). Nowadays, the primary scope of evidence-based practices concerns the research of a shared answer to the following questions: "Can it work?"; "Does it work?"; "Is it worth it?" (Luce et al. 2010). These questions are, respectively, aimed at understanding the efficacy, the effectiveness and the economic value of a healthcare intervention. The economic value may affect either the patient or the payer/society.

Answers could be found only by comparing a treatment to its alternatives for identifying the best solution. A treatment is considered appropriate whether it provides desired health outcomes when adopted for a well-defined population and according to established guidelines. Efficacy and effectiveness often result from randomised clinical trials. Similar explanatory tests minimise potential biases, demonstrating a causal relatedness between selected criteria and outcomes.

The comparison among the various intervention has been originated a further approach, known as Health Technology Assessment. Including drugs, devices, procedures and systems under the term “technology”, it has been defined as a multidimensional and multidisciplinary approach for the assessment of clinical, social, organisational, economic, ethical and legal implications of a technology, through evaluation of several dimensions, as efficacy, security, costs, social and organisational impact (World Health Organization 2001).

The synthesis of evidence concerning benefits and weaknesses of alternatives methods to prevent, diagnose and/or manage a clinical condition is often known as Comparative Effectiveness Research (Institute of Medicine 2009). Used by different individuals and organisations, this methodology fosters informed decisions for improving the delivery of care.

So far, it has not fully understood whether the various methods could be considered interchangeable. In accordance with Luce et al. (2010), evidence-based medicine focuses on the efficacy of the intervention and economic value for the patient’s perspective, without a synthesis of evidence collected. Health Technology Assessment, instead, attempts to provide an answer to the questions “Does it work?” and “Is it worth it?”. To that end, it deals with the collection and synthesis of evidence relating to economic, social, ethical and legal issues mainly to support reimbursement decisions. Comparative Effectiveness Research concerns, by definition, with the assessment of the effectiveness, producing information for Health Technology Assessment evaluations.

The most common measure of the outcome for the patient is the Quality Adjusted Life Years (QALY). It is a generic quantitative indicator devoted to assess the quantity and quality of life is achievable through healthcare interventions (Drummond et al. 1997). Despite the fact that it combines quality and quantity improvements through reduced morbidity and mortality, it does not capture relevant aspects concerning the quality of service, which affects patient experience. In the era of co-production (Ostrom and Ostrom 1977; Osborne and Strokosch 2013; Voorberg et al. 2015), in which the participation and contribution of the patients is a significant input for delivering care, evaluative process should consider also the difference between the medical outcome and the value derived from the patient for its experience (Pralhad and Ramaswamy 2004). Over the years, indeed, the patient from a passive recipient of the service is becoming an actor who actively creates value. The engagement of patient affects both policy formulation and planning activities and the management and the governance of health service (Pestoff 2006) in a perspective of value creation (Osborne and Strokosch 2013). Value co-creation does not benefit only the individual co-creator patient, but also other citizens and users who currently or in the future need

the service (Bovaird and Loeffler 2012). This is the reason why the patient standpoint is an important growing dimension of assessment.

Several factors influence patient experience in his care journey. In particular, six priorities have been identified (Berkowitz 2016):

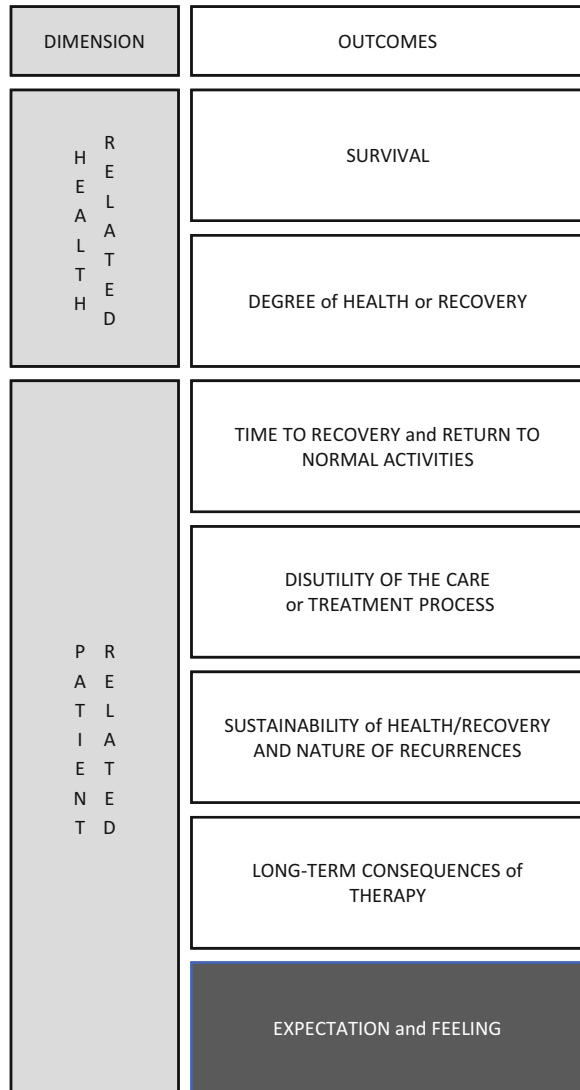
1. safety of care;
2. engagement individuals and families as partners;
3. effective communication and coordination of care;
4. prevention promotion;
5. efforts to promote healthy living;
6. a more affordable quality of care.

A paramount issue highlighted both in political talk and in health management literature is the length of waiting time for accessing to care. It is often perceived as a part of the cycle of care from the user's standpoint. Also, there is a widespread agreement that it is one of the foremost causes of patient dissatisfaction (Manolitzas and Stylianou 2018). Lower is the waiting time, and better is the patient's experience. Interaction with the provider represents another key element within value creation. It has been defined as the "moment of truth" into service management field (Norman and Skinner 2007) as it is critical in determining the level of safety and trust perceived by the user. The establishment of co-production logics has increased the relevance of this aspect as it also contributes in making the patient more conscious about his health status and his role in treating the disease. Supporting the user throughout the whole cycle of care is essential to increase his participation. In particular, fostering self-management practices by the support of innovation, on the one hand, improves the quality of life of the sufferer; on the other hand, guarantees high access to care.

Because of plenty of intangible factors, the measurement of the dimension of outcome relating to the patient experience requires huge efforts and cannot be expressed in a standardised way. Moreover, the lack of conceptual clarity around the interchangeability and variability of the terms "patient satisfaction" and "patient experience" could lead to underestimate it, neglecting important aspects (Lewis et al. 2013). Despite influenced by the level of satisfaction for the service received, patient experience is heavily actuated by the patient's own expectancies. Beliefs on how the service should be delivered and feelings relating to the health status and interactions with the environment represent an unexplored field, which cannot be easily measured.

To conclude, in accordance with Porter and Teisberg (2006), the outcome measure affects three levels. The first level incorporates the health-related dimension of the outcome. The second level within the outcome measures hierarchy deals with the assessment of the process. The last one embraces the sustainability of health in a long-term perspective. Figure 7.2 provides an illustration of most relevant measures for each level outcome measurement, highlighting the grey zone relating to the patient's own concerns.

Fig. 7.2 The outcome hierarchy. Authors' elaboration inspired by Porter and Teisberg (2006)



7.4 The Denominator of Value-Based Healthcare Equation: The Cost

As explained in the previous section, outcomes measurement is somewhat arduous. However, often estimating the total cost of treatment is ever a complicated task. Cost, which represents the equation denominator, refers to the total amount of costs within the whole cycle of care of a given medical condition (Porter 2010). Therefore, accountants have to be able to trace all costs incurred and most appropriate costing

methods in order to be able to compare them with outcomes. These duties are heavily challenging in healthcare. From the first contact with the patient to the ultimate stage of the care journey, many different types of resources are employed, plenty of stakeholders are directly and indirectly involved and a high number of—sometimes inter-related—activities are performed. The massive fragmentation of the care pathway contributes to increasing the complexity of this depicted mosaic. In addition, patients affected by the same disease might be treated differently, carrying out different procedures and/or employing different technologies (Kaplan and Porter 2011).

Prevalent approaches for economic evaluations in healthcare do not focus only on costs but also involve qualitative measures. Reasons behind deal with the aim to compare resources consumption to potential outcomes of alternative healthcare interventions. However, the various methods mainly differ for the unit of measure referring to possible benefits. Economic appraisals are also affected by reimbursement mechanisms. Table 7.1 briefly explains the most common economic evaluation models adopted in the health sector.

The above-explained methods are not consistent with the purpose of a care delivery oriented towards an enhanced value for the patient as they neglect several qualitative issues. In order to determine the quantitative value of the denominator of the Value-Based Healthcare equation, there is a need for advanced cost accounting systems, which could catch the causal relation between outcomes and costs. These, on the one hand, have to involve several dimensions simultaneously (Kaplan et al. 2015); on the other hand, these have to hit the causal relation between outcomes and costs (Philips et al. 2006; NICE 2013).

Performing cost accounting tools should be implemented for each stage within the entire cycle of care (Kaplan and Porter 2011). This way, costs could be compared to outcomes time by time, allowing managers to detect inefficiencies and improvement opportunities. Accurate cost information, indeed, is fundamental for identifying best services, requirements for improved cost allocation and consistency to reimbursement tariff (Capettini et al. 1998). Traditional cost systems consider the hospital setting as the cost objective (El Alaoui and Lindefors 2016). Such an approach, first of all, engenders the absence of a cost measure that affects the whole cycle of care. Then, it encourages arbitrary allocation of overheads at the patient level. Lastly, it is jeopardised by the high variance of prices relating to supply

Table 7.1 Most adopted economic evaluation approaches

| Method | Description | Outcome measure |
|-----------------------------|--|------------------------------|
| Cost–benefit analysis | Comparison between costs and monetary incremental consequences of an intervention | Patient’s willingness to pay |
| Cost-effectiveness analysis | Comparison between costs and qualitative and quantitative health-related benefits. | QALY ICER |
| Cost-minimisation analysis | Comparison of costs against identical outcomes | None |

Source: Authors’ elaboration

chain (Kaplan et al. 2014). Due to diversification strategies, complexity and variability of internal arrangements, traditional cost accounting systems could lead to misleading cost information. Erroneous cost appraisals severely undermine operative and planning activities both in short and in the long term. As a consequence, accountants cannot evaluate the appropriateness of investment decisions and health interventions. Unjustified over(under)use of treatments cannot be recognised, as well as overhead costs allocations could be misevaluated (Chan 1993).

The introduction of Value-Based Healthcare logics has fostered the implementation of the cost accounting systems based on the activity (i.e. Activity Based Costing (ABC); Time-Driven ABC). They guarantee a more precise cost measurement, moving from cost drivers based on volumes to cost drivers representing by needful activities for delivering the service. Focusing on the efficiency of each activity performed (Ippolito et al. 2016), the ABC approach supports the pursuit of the value creation objective. Under this method, starting from the mapping of the specific healthcare path, costs could be decreased through the elimination of non-value-added activities (Turney 1991). Focusing only on value-added activities, in turn, is fundamental to enhance the value for the patient. Consequently, providers are able to lower their cost sustainably, maintaining or improving outcomes still pursuing value increasing goals.

Due to complexity and expensiveness of the ABC method, demonstrated by several experiences into different fields (Kaplan and Anderson 2007; Kaplan and Porter 2011; Tse and Gong 2009), its usage is not pervasive. With the aim to foster the adoption of ABC paradigm, Kaplan and Anderson (2007) introduced the Time-Driven ABC, as a less expensive and more precise approach, ever based on activities. Besides better measuring costs, it has been widely implemented also as a method to trace costs of treatments in order to make comparisons to reimbursement tariff or to develop value-based reimbursement strategy. Time-Driven ABC involves two phases. The first one dealt with the recognition of all resources employed within the provision of a specific health service. The second phase is devoted to allocating overheads costs according to activities performed and their duration. In the end, it provides patient-level cost information. To be applied, it requires data around: (1) the cost of each resource used in the process, and (2) the time spent to perform each activity (Kaplan and Anderson 2007). In 2011, after the former adoptions, Kaplan and Porter suggested the following seven steps that have to be followed in implementing Time-Driven ABC:

1. Select a specific medical condition;
2. Define the care delivery value chain;
3. Develop process maps of each activity in patient care delivery;
4. Obtain time estimates for each process;
5. Estimate cost of supplying patient care resources;
6. Estimate the capacity of each resource, and calculate the capacity cost rate;
7. Calculate the total cost per patient.

Additional experiences have heightened the understanding of this methodology and created the conditions to improve guidelines for its implementation. Therefore,

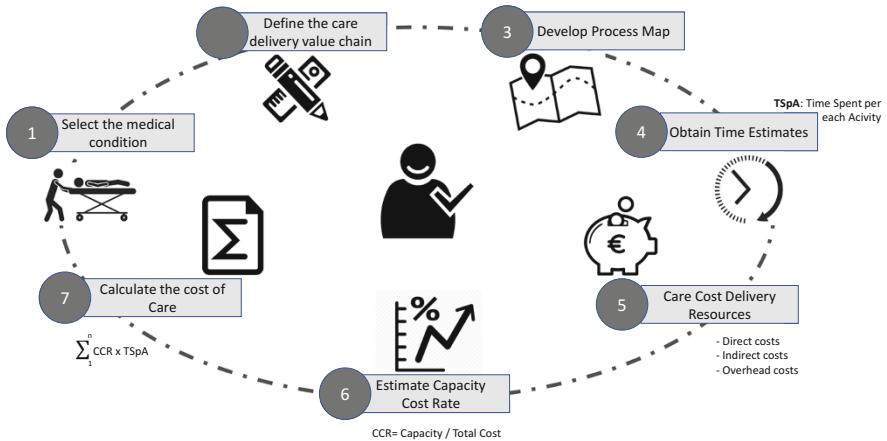


Fig. 7.3 Time-Driven ABC development steps. Source: Authors’ elaboration inspired by Keel et al. (2017)

the seven steps have been updated (Keel et al. 2017). Figure 7.3 explains how to apply Time-Driven ABC in healthcare.

Over the years, it has been applied to several medical disciplines. However, its main benefits have been revealed in surgery specialities due to the high level of standardisation of procedures. Relevant experiences were also conducted with regard to the management of chronic diseases.

Following Öker and Özyapici (2013), the allocation of indirect cost through TDABC allows determining the resources’ idle capacity (Tanis and Özyapici 2012). Carrying out a case study on different healthcare services, the authors highlighted how Time-Driven contributed to increasing available information for hospital management in comparison to other cost accounting systems. This allows continuous improvement of healthcare processes (Demeere et al. 2009; Marshall et al. 2012), redesigning initiatives (McLaughlin et al. 2014) consistently to the necessity of balancing the various dimension of health value—quality, efficiency and affordability—to guarantee the continuum of care.

7.5 Accounting as a Common Language to Foster Sustainable Value

Healthcare sustainability represents a severe challenge worldwide. Ageing of the population, the development of costly disruptive innovation and the growing demand for services are among the main factors that undermine processes appointed at delivering care. Besides, the dissemination of co-production logics is making the patient more involved within the care journey and more exacting regarding the service that he would receive. Therefore, addressing the issue of sustainability

does not affect only the economic field. It requires to face several matters relating to the quality of care. Management of healthcare innovation, in particular, is engendering plenty of questions around the appropriateness of clinical and investment choices. Executing decisions that are not tailored to the context and sustainable for the organisation could determine unjustified over(under)use of treatments, restriction in accessing to care and resources wastes.

In order to identify a theoretical framework that could promote the sustainability of healthcare from a long-term perspective, recent years have been characterised by the development of Value-Based Healthcare. Accordingly, the pursuit of enhanced value for the patient is largely considered as the overarching goal within each health system (Porter and Teisberg 2006). Such an understanding shifts the attention towards processes carried out throughout the entire cycle of care and the quality of the service delivered. Indeed, the value of healthcare is not measured by the variety or the volume of services delivered (Kaplan and Porter 2011). The sole drivers of value are outcomes and costs. Decision-making processes that do not deal simultaneously with outcome and cost could originate false “savings” and/or false “improvement”, limiting the effectiveness of care (Porter 2010). Figure 7.4 synthesises this concept within a value matrix

The development of the Value-Based paradigm in health demonstrated the limitations of earlier assessment methods. The comparison between the number of resources employed and expected outcomes, in terms of benefit (*cost-benefit analysis*), efficacy (*cost-minimisation analysis*) and effectiveness (*cost-effectiveness*), neglects significant aspects affecting the patient experience. These approaches, in fact, are aimed chiefly at evaluating the convenience to invest (Drummond et al. 2015). Moreover, the focus on structures rather than of care procedures does not allow to identify rooms for reallocation of resources for increasing the use of capacity. Therefore, they lead to incremental, ineffective and sometimes counter-productive cost-containment strategies (Porter 2010). Cost measurement approaches based on activities could overcome these limitations (Kaplan and Anderson 2007).

Fig. 7.4 The value matrix.
Source: Authors’
elaboration

| | LOW OUTCOMES | HIGH OUTCOMES |
|-----------|--------------|----------------|
| HIGH COST | UNECONOMICAL | EFFECTIVE |
| LOW COST | EFFICIENT | COST-EFFECTIVE |

Adopting a holistic perspective, Value-Based Healthcare may represent a support to face various challenges. Evidence-based methodologies from the outcome side and activity-based systems from cost side increase rationality of decision-making processes and appropriateness in cost allocations, focusing only on value-added activities. However, due to the limited knowledge of value drivers and the absence of an organisational framework, there is not a strategy behind the dissemination of this approach.

As illustrated by Fig. 7.5, a strategy for optimising the ratio between outcomes and costs could be based on management principles aimed to orientate organisations towards enhanced organisational efficacy and effectiveness. This way, the structure (Kaplan and Norton 2001), the technology (Nasi 2013) and the organisation (Bellé 2015) are all involved in creating more value for the patient.

The principle of economic productivity, in particular, has to stand for the guiding principle to implement the Value-Based Healthcare paradigm and to operate in the lens of sustainability. Within the public sector, economic productivity means to operate both to achieve strategic organisational objectives and to satisfy citizens' expectations, employing resources as the best (Onida 1971). It is consistent with Value-Based logics and contemplates the adoption of different criteria to face the complexity of managerial action, which has to balance different needs (Cavalieri and Ferraris 2010).

Therefore, the debate should move from health economics to health accounting. Differently from economics, accounting focuses on processes within the perspective of going concern. Current challenges that health systems have to face are not relating only to resource allocation decisions. Although researches mainly fit into the medical field, fundamental gaps are organisational instead of clinical (Mariani et al. 2016). The paucity of management-related studies leads to the so-called “knowing-doing gap” (Pfeffer and Sutton 2000).

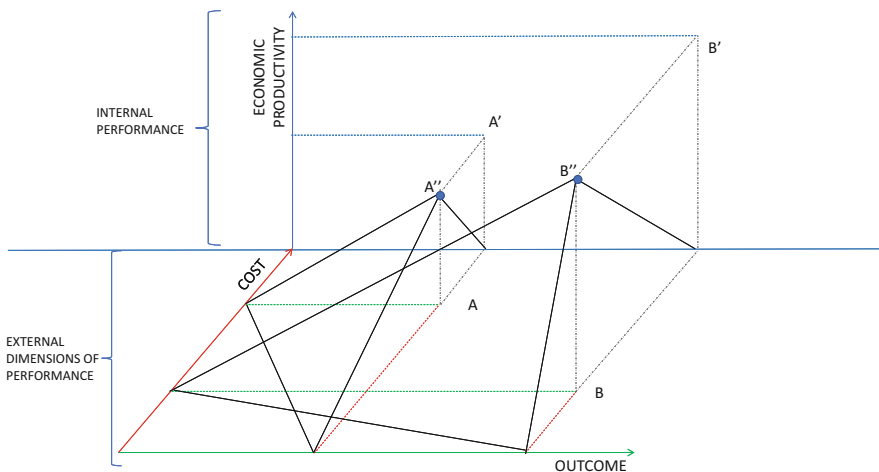


Fig. 7.5 The leverage of economic productivity. Source: Authors' elaboration

Higher heed to managerial issues requires the understanding of the various operations over the value chain as well as a profound knowledge of the organisation itself. To that end, performance management systems may assist managers in identifying key aspects of the performance, encouraging strategic thinking (Silva and Ferreira 2010). Coherently, experiences of implementations of management accounting tools to foster sustainability provide several insights into their usefulness for operating towards value creation and sustainable development. Promoting a comprehensive approach in the management and measurement, these tools allow measuring both the organisational performance and the outcome. Whereas a strand of literature dealing with the adoption of performance management systems to orient behaviours (Fottler et al. 2006; Helm et al. 2007; Aryankhesal et al. 2013; Miller et al. 2013; Smith 2015), plenty of studies analysed the role of management control systems to improve outcome. The assessment concerns either the outcome from the organisation perspective (Chang et al. 2008; Luo et al. 2012; van der Voort and Kerpershoek 2010) or the outcome from patient standpoint (Werner et al. 2008; Lorden et al. 2008; Ryan and Doran 2012).

In order to successfully introduce accounting instruments into clinical practice, there is a need for participation of the entire staff involved in delivering healthcare. Aside from facilitating the change management, the engagement of the various participants contributes to boost their awareness of the operations performed and their implications. In addition, it enforces communication and collaboration, stimulating the development of best practices. Better managing the core processes indirectly allow improving supporting activities, such as reporting of outcome and cost data. Higher transparency and accountability reduce uncertainty and make health providers closer to the external environment. Therefore, the ultimate effect of accounting-based practices may be improved outcomes and decreased costs.

Accounting disciplines may also enrich the Value-Based Healthcare knowledge, individualising value improvement opportunities at the local level (Kaplan et al. 2014). Main contributions, in particular, concern with the estimation of consequences—both outcomes and costs—of new treatments for a medical condition as well as the exploration of implications on the organisation of value-based reimbursement mechanism (Kaplan and Witkowski 2014).

7.6 Final Remarks

This overview of Value-Based Healthcare highlighted how this paradigm might improve current practices in the health sector. Shifting the attention on medical condition rather than on structure allows both scholars and practitioners to focus on the analysis of processes for delivering care. Such a perspective creates large rooms for further improvements and development of best practices. In pursuing these objectives, accounting may represent a shared language to orient the management of health organisations. Accordingly, well-defined process maps and management accounting systems are valid tools to cope with the absence of an organisational framework to deliver Value-Based Healthcare initiatives. Indeed, they lead to an

in-depth understanding of how the organisation operates towards the value creation and the achievement of strategic objectives. This way, managers could better measure outcomes—both for the organisation and for the patient—and costs as well as easily identify activities, behaviours and technologies that more contribute to enhance value for the patient.

By analysing the main aspects relating to the outcome and cost, this chapter provides useful insights for future experimental implementations of Value-Based Healthcare. Besides, the exploration of open questions allows developing a research agenda for the future. Scholars may identify most relevant gaps that have to be filled by further researches. In particular, experiments of management approaches based on the value should be carried out in local health systems to disentangle issues that could undermine the effectiveness of the paradigm.

The provision of healthcare processes aimed to enhance the value for the patient is fundamental to act in the lens of sustainability. As the relationship between outcomes and costs defines the value, economic productivity is its primary leverage. According to the SDG 8.2, in high-value-added and labour-intensive sectors—such as healthcare—economic productivity must be increased through diversification and innovation in order to promote economic development in a long-term perspective. Therefore, there is a need for better healthcare innovation management practices. If developed, technological advancement could be more sustainable entailing higher access to care and well-being of the population, consistently to the SDG 3. In addition, it represents the basis for the attainment of the SDG 9.1, developing high-quality, affordable and resilient infrastructures to foster fair and responsible growth of economies. As for last but not least goal, improved and more conscious approaches in managing health organisations set up more participatory work environments. Consequently, decision-making processes may be more responsive, inclusive and representative, in coherence with the SDG 16.7. Collaboration, in turn, raises the transparency, reducing room for corruption events (SDG 16.5).

Figure 7.6 concludes this chapter, showing the application of the Value-Based Healthcare model in the attainment of sustainable development goals.

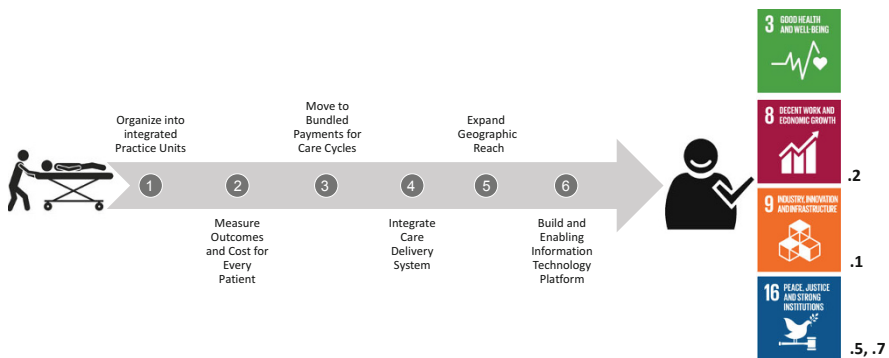


Fig. 7.6 Value-based healthcare towards sustainable development goals. Source: Authors' elaboration

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Chapter 8

Public Sector Accounting and the Sustainability of Public Finance Among Accounting Bases, Harmonization, and Flexibility Concerns



Alessandro Giosi

Abstract Since the introduction of the European Semester, the endorsement of the “Six Pack” and the Directive 85/2011 (European Council Secretariat, Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States), harmonization and mutual influences among Government Accounting (GA), Government Finance Statistics (GFS), and IPSAS have been addressed continuously at the European level. The main issue seems to be “if and how” the IPSAS may integrate the GFS’ various purposes, within the entire financial reporting process. After focusing on the role played by accrual accounting in the public sector and the financial accountability needs in the European context, this chapter presents an argument centered on a systematic relationship among different accounting systems, in the light of the current European legislation. It highlights, from a qualitative standpoint, the impact of that relationship on users and their information needs. A breakdown into the revenue recognition practice, as an explanatory approach on the subject, is provided. The results raised the cue to bring out an unavoidable and structural trade-off, recognizable between the harmonization among different accounting systems and the flexibility within each of them. As such, this is discussed as a purposeful starting point, useful to figure out future improvements of the public sector accounting rules across Europe. At the end, progresses by this side could help European Union countries in effectively contributing to the achievement of some sub-targets and indicators included in the Sustainable Development Goal (SDG) 17—Partnership for the Goals—promoted by the United Nations (UN) in 2015.

Keywords EPSAS · Government accounting · Harmonization · IPSAS · National accounting · SDG 17

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8.1 Introduction

Two different passages from the EU's Directive 85/2011 opening considerations, as one of the outcomes of the Six Pack (2011) to face the dramatic economic and financial crisis that has recently affected the European Union, state: “[Member State governments and government sub-sectors maintain public accounting systems which include elements such as bookkeeping, internal control, financial reporting, and auditing. Those systems should be distinguished from statistical data which relate to the outcomes of government finances based on statistical methodologies, and from forecasts or budgeting actions which relate to future government finances]. . . [The availability and quality of ESA 95 data is crucial to ensure the proper functioning of the Union's fiscal surveillance framework. ESA 95 relies on information provided on an accrual basis. However, these accrual fiscal statistics rely on the previous compilation of cash data, or their equivalent].” Nonetheless, accounting coordination across Europe remains lacking. This evidence stimulates the interest of scholars and practitioners to make efforts aimed at looking for reliable and quick solutions.

This chapter contributes to the public accounting literature, by advocating a convergence between micro (government accounting) and macro (national accounting) accounting rules focusing the attention on the revenue recognition. Hence, the following research questions are tackled:

- *RQ1: What picture emerges when we combine different accounting frameworks?*
- *RQ2: Is it possible to put in action an actual harmonization among them toward a sustainable development?*

To answer these questions, a qualitative research approach is followed (Kuhn 1962; Partington 2002; Popper 2002) to support an argument based on the following reminder:

First, we examine the academic and institutional debate regarding the financial accountability needs at the micro (within public administrations or within a State) and macro level (in the context of the European Economic and Monetary Union) and the usefulness of accrual accounting in the public sector. Next, we set up an analytical lens based on two qualitative variables: the information needs and the dimension of the reporting entity. They are used to analyze—in terms of revenue recognition—the different accounting framework considered in this study. Then, the findings coming from the analysis are discussed. The chapter concludes with some final reflections, pointing out future lines of research on the theme.

8.2 Public Sector Accounting in the Accountability Process

8.2.1 *Financial Accountability and Europe Needs*

Since its first appearance in the EU, the concern over the public finance and economic governance among Member States has been a primary objective, in order to ensure the effectiveness of the public policies. Accordingly, in 1992, the Stability and Growth Pact (SGP) was born from the Maastricht treaty, signed by the Member States. In particular, several procedures exist (see Council Regulation 1466/97), with the aim of helping the States to minimize the likelihood of default, by controlling deficit and debt levels in relation to GDP, toward desirable healthy budgetary policies.

The set of these rules are identified by the Multilateral Surveillance (MS). To this end, the main financial performance indicators must be disclosed by each Member States in the Stability and Convergence Program (SCP), submitted to the European Commission yearly.

Under the MS, the SCP has gradually assumed increasing importance. In fact, a forward-looking vision of the SGP procedures should consider a mutual and integrated evolution, which depends on the complex structure of the public statistic governance, which helps to define fiscal policies. Furthermore, both the SCP and EDP procedures seem to carry out the need of harmonizing all the European fiscal frameworks, (representing the specific institutional frameworks for a given country) that determine the development of fiscal policies at the national level. However, even if the harmonization of accounting frameworks could help this process, the risk of losing crucial information in the financial accountability process seems to remain very high. Moreover, a rigorous understanding of the word “harmonization” seems to be necessary: it means compliance with international standards (Ryan et al. 2007). This should not be confused with terms such as “convergence” and “adoption” that refer, in turn, to active involvements within the developing process of a given standard setting, rather than to its use (Ryan et al. 2007).

Therefore, the Member States are encouraged to integrate their national legislation into the EU regulation: the main aim is to comply, at the national level, with the obligations of the budgetary discipline of membership and with the adoption of the procedures for medium- and long-term budget (European Commission 2011).

It means that the quality, timeliness, and reliability of fiscal statistics, largely derived from the government accounting data, are playing a central role at both the national and European level. These requirements, in fact, represent not only a key variable for the Excessive Debt Procedure (EDP) but also for credible and sustainable policies across the European Union. This highlights the importance of an integration and codification of the government accounting systems that should be aligned with those definitions and concepts, as commonly used at a supranational level and stated within the *Europe 2020* program.

Definitely, different financial accountability needs arise. To satisfy them, different accounting rules actually exist.

Public accountants and the International Economic Institutions (International Monetary Fund, World Bank, Organization of Economic Cooperation and Development, European Central Bank, and European Commission) are currently involved in the challenge of harmonization.

In this sense, the IPSASB (International Public Sector Accounting Standard Board) is intended to provide—by an accrual standpoint—a unique set of accounting rules for the preparation of the financial statement. The publication namely “Reporting on the Long-Term Sustainability of an Entity’s Finances” released in 2013 by the International Public Sector Accounting Standard Board (IPSASB) highlights the relationship among IPSAS, GFSs, and ESA, in order to overcome—as much as possible—all the existing differences. The most relevant issues addressed refer to the objectives of the financial reporting, the concept of reporting entity, recognition, measurement, and presentation criteria of the financial reporting process. Hence, drawing from the IPSASB’s conversation, we can shift the focus on users and information needs. This approach seems to be compliant with the most recent academic debate on accrual accounting and GFSs (Barton 2011; Kober et al. 2013; Jorge et al. 2014, 2016, 2018; Dabbicco 2015, 2018; Caruana 2016; Dabbicco and D’Amore 2016; Dasi et al. 2016, 2018) and, furthermore, it is clearly adopted within the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (IPSASB 2014).

8.2.2 The Debate Around the Accrual Accounting

In Europe, accrual accounting issues have assumed greater importance since the introduction of the European Semester, where the auditing role of the European Commission has been notably reinforced (Montesinos and Vela 2000; Kober et al. 2010; Christensen and Parker 2010; Biondi 2014; Brusca and Martinez 2016; Heald 2017; Sforza and Cimini 2017; Mader et al. 2018).

However, since 1991, the need for an appropriate conceptual accrual-based framework (Mayston 1992; Rutherford 1992) has been debated and it is still far from being achieved (Laughlin 2008), even if the IPSASB in 2014 has finally introduced its own framework. More in general, accrual accounting can be interpreted under the reform of the financial management. This implies the consideration of several aspects, such as procedures, organization, policy, and culture (Guthrie et al. 2003). Several scholars have studied the transition toward accrual accounting in public organizations from different points of view, both technical and empirical (Bromwich and Lapsley 1997; Guthrie 1998; Brostrom 1998; Lickierman 2000; Burns and Lee 2004; Paulsson 2006; Monsen 2008). In such studies, pure cash and full accrual logics represent two extremes on a spectrum of possible accounting and financial reporting bases. Between them, numerous variations—over time—have been put into practice (Anessi Pessina et al. 2007, 2008), for several administrative purposes.

Other scholars, instead, have underlined how countries adopting accrual accounting show different adaptations or degrees of implementation (Pina and Torres 2003): it depends on the legality compliance assigned to budgetary functions, on the lack of organizational changes and on the citizens' demand for higher responsiveness (Pina et al. 2009). Moreover, the implementation of an accrual framework requires a long learning period (Christiaens and Rommel 2008).

It is often argued, also, that full accrual accounting enhances transparency, both internally and externally, by driving greater organizational performance through improved resource allocation (Goldman and Brashares 1991): in these terms, it has been emphasized that the phenomenon of creative accounting could be limited by the adoption of internationally acceptable accounting standards (Vinnari and Näsi 2008).

Nonetheless, the ongoing debate on accrual accounting points out both the positive and negative aspects of its implementation (Jones 1998; Carlin 2005; Lapsley et al. 2009), the main argument relies on the application of accrual accounting needs to the appropriate context (Newberry 2002; Barton 2007), whereas New Public Management (NPM) provides private operative tools for public managers and policy makers (Humphrey et al. 1993; Gray and Jenkins 1993; Christensen 2003).

Some authors underline the risk of matching expectations of the financial market, when the information system is based only on accrual accounting data (Dutta and Reichelstein 2005). This highlights a lack of external informative skills and limits the use of the financial statement as a mere regulatory tool for internal governance. Even if it seems an antagonist position, it seems clear that accrual accounting cannot be seen aseptically, with respect to its context (Lande and Rocher 2011).

Moving to the inner logics that enliven accrual accounting in the public sector, we consider the seminal work of Guthrie (1998) that relates to four leading categories of accounting disclosure: (1) accrual budgeting, (2) accrual management system, (3) whole of government reporting, and (4) accrual financial reporting.

Given this depiction of the accrual system, the superiority of the full accrual accounting basis cannot be totally assumed (Blondal 2003a, b; Scheers et al. 2005). In fact, an accounting basis should be mainly derived from the information needs to be satisfied. Hence, even if the migration from cash to full accrual gives additional information useful both for internal and external purposes (Goldman and Brashares 1991; Lapsley and Wright 2004), the risk to produce excessive, useless, or untimely information could remain high. This is the reason why, in spite of their declared objectives, the existing accounting frameworks (micro and macro) need a deep investigation aimed at highlighting their differences and similarities.

Figure 8.1 resumes the four categories identified by Guthrie (1998), and the main items that are detected during the migration from a pure cash basis of accounting to the full accrual.

From a theoretical standpoint, the attempt to investigate all the existing accounting frameworks in the public sector seems to be very tangled. An interpretive key should be provided by drawing from the concept of the so-called "critical event." The latter is the moment to which the revenue is earned. According to Myers (1959): "(...) profit is earned at the moment of making the most critical decision or of

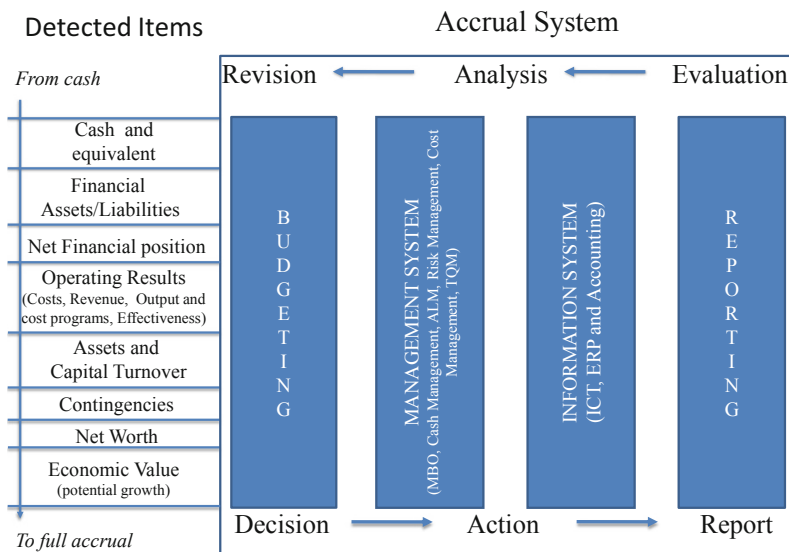


Fig. 8.1 The migration from pure cash basis to full accrual accounting. Source: Author’s elaboration

performing the most difficult task in the cycle of a complete transaction,” and Sprouse and Moonitz (1962) add that “(. . .) revenues should be identified with the period during which major economic activities necessary to the creation and disposition of goods and services have been accomplished provided objective measurements of the results of those activities are available.”

Hence, for the purpose of this chapter, the best way to investigate under an institutional approach the existing accounting framework for the public sector seems to be an in-depth analysis on the critical events that are used for the revenue recognition.

8.3 Micro- and Macroeconomic Accounting Frameworks

In this section, we analyze the seven different accounting frameworks that are mainly used in the public context, divided into two groups: national accounting rules (macroeconomic level) and government accounting rules (microeconomic level).

As regards the national accounting rules, we consider:

1. The System of National Accounts (SNA 1993, 2008), which is an international guideline on the compilation of the national accounts, published jointly by the World Bank (WB), United Nations (UN), the International Monetary Fund

(IMF), and the Organization for Economic Cooperation and Development (OECD).

2. The European System of Accounts (ESA 2010; Eurostat 1996, 2010), which is the national accounts' manual for Europe, largely derived and consistent with the SNA 93, but with some additional elements for the EU context.
3. The ESA 2010 Manual on government deficit and debt (Eurostat 2014), which consists of useful guidelines used to determine the magnitude of the two main fiscal rules (deficit-to-GDP and debt-to-GDP ratios) adopted in the Maastricht Treaty, for the control and sustainability of the public finance.
4. The European Central Bank's (European Central Bank 2010) and International Monetary Fund's (International Monetary Fund 2001, 2012) government finance statistics manuals (ECB's GFS and IMF's GFS), which provide economic and accounting principles for compiling statistics (and guidelines) related to fiscal analysis. They refer to the general government sector and public corporations.

Thanks to their framework, these manuals are suitable for all countries. However, while the IMF's GFS defines general government sector statistics and the related accounts to support fiscal analysis, the ECB's GFS is designed to help European National Central Banks in the preparation and transmission of GFS' data to the ECB for several purposes, such as to support monetary policy analysis, to prepare periodic reports for the European Commission, and to follow developments under the EU's EDP and under the SGP.

As regards the government accounting rules, we consider:

1. Single-country government accounting standards, which are often not codified in a unique guideline but, rather, are included in different laws or other official government documents.
2. International Public Sector Accounting Standards (IPSAS) developed by the IPSASB, which is a standing committee of the International Federation of Accountants (IFAC).

Actually, few countries have adopted IPSAS in the preparation of their financial statements, but many countries have transformed most of their accounting policies and rules as IPSAS compliant (European Commission 2013).

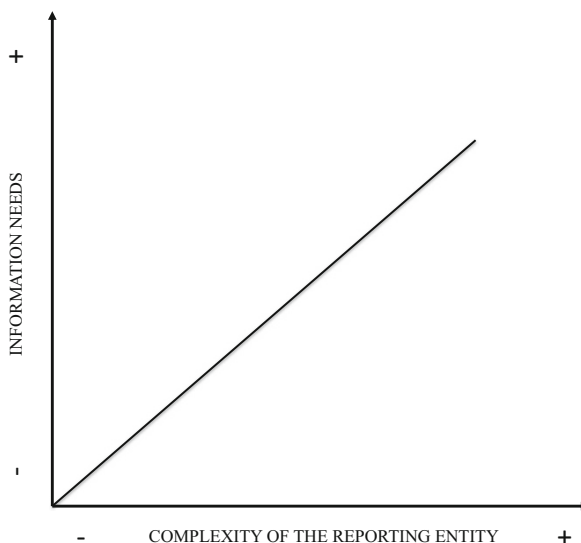
Despite the differences underlined (Barton 2011; Lapsley et al. 2009), the question of public financial sustainability and the role of financial market have given evidence that NA accounting has relevance not only in terms of macroeconomic aggregate and public policy (Cohen and Karatzimas 2016; Dabbicco 2015; Caruana 2016; Dabbicco and D'Amore 2016) but also in assessing countries' fiscal stance (Giosi et al. 2015; Dabbicco 2018).

8.4 The Research Lens Used

An attempt to match numerous different frameworks needs a strong and clear interpretive lens, which is based on variables that are useful to understand the financial reporting process in the public sector. Chapters 1 and 4 of the conceptual framework for General Purpose Financial Reporting by Public Sector Entities (GPFR) (IPSASB 2014) outlines the users of the information provided and their relative needs along with the reporting entity. This framework reveals a positive relationship between the complexity of the reporting entity (in terms of dimension, resources managed and stakeholder) and the quality and quantity of the information needs (expressed by users of the GPFR) (Fig. 8.2).

Under the IPSASB framework (Sect. 2.4), the primary users of *GPFRs* are service recipients and their representatives as well as resource providers and their representatives. This simple and fair approach seems to be suitable for all the types of accounting framework. In particular, Sect. 4.7 states that “[The greater the resources that a public sector entity raises, manages and/or has the capacity to deploy, the greater the liabilities it incurs and the greater the economic or social impact of its activities, the more likely it is that there will exist service recipients or resource providers who are dependent on GPFRs for information about it for accountability and decision making purposes]” (IPSASB 2014). According to this approach, the more information are requested, the more their intrinsic usefulness should be. This theoretical perspective was used to analyze the different accounting frameworks.

Fig. 8.2 Information needs and complexity: An interpretive approach.
Source: Author’s elaboration



8.5 Findings: A Breakdown into the Accounting Frameworks

Among the frameworks analyzed, the definition of “revenue” varies along with recognition criteria. The time at which revenues should be recognized within a certain reporting entity is one possible starting point and perhaps the most important.

In particular, revenues that come from the so-called “non-exchange transactions” are particular to the public sector, where it is crucial to determine several of the most relevant fiscal stances (such as gross saving, net borrowing/lending, and the deficit-to-GDP ratio) and their influence on the change in government debt over a given period. From a technical standpoint, the following differences should be also considered:

1. The cash basis recognition approach is used differently for different kind of revenues;
2. The recognition of flows, within a flow/stock perspective of the disclosure analyzed, that refers to the reporting entity’s operations with other (public or private) entities and to their effects on the balance sheet (asset or liabilities).

In general, similarities and differences among different revenue recognition criteria can be summarized from an accounting standpoint, in terms of *critical event*. It can vary depending on the time that is considered for the related accounting registration: the time of sale or rendering of service, as well as during production or at its completion. The moment chosen as critical influences the meaning of the accrual accounting principle and its relative application. Moreover, the concept of critical event should be also distinguished depending on what the manuals and documents analyzed use to declare within their general guidelines, from the criteria they actually apply in recognizing every financial reporting item.

Among the frameworks analyzed, only the IMF’s GFS follows a unique critical event approach, defined under cash basis logic, so, when the production is sold. The other frameworks identify the critical event mainly when the production is complete, but there are many exceptions. That is why, analyzing each rule concerning the recognition criteria used, many differences emerge. The following sections summarize the most relevant findings emerging from our analysis.

8.5.1 Revenue in the IMF GFS Manual

There is a broad taxonomy of revenues that follows the same coverage, timing, and valuation criteria of the SNA 93, with different classifications for related items. In the IMF manual, we can find:

- Six categories of taxes with 28 different sources;
- Two categories of social contributions with seven different sources;

- Grants made by three sources (mutually classified in current or capital items);
- Five categories of other revenues made by 11 sources.

In the GFS, revenues are related to an increase in net worth, depending on current transactions that are accounted in the Statement of Government Operations. The manual suggests to record revenues when the claim of receiving the given type of revenue appears. In particular, taxes are recorded only by tax assessments and tax declarations, regardless of when the event being taxed occurs.

An overview of the manual reveals as the full accrual accounting principle is not completely followed when dealing with the revenue recognition. This means that exceptions may be found, at least in terms of time of recording rather than cash recognition of revenues. Moreover, it seems that the leading criterion to account tax revenues, stated in the manual, is not completely followed. Specifically, analyzing all the sources of revenue, some kinds of tax on income, profits, and capital gains allow for practical deviation, and other regular payments of income taxes follow actual cash basis logic. These revenues are recorded when a related cash inflow can be recognized. The same is for the registration of some types of grants where, in many cases, a specific claim on the donor does not exist; thus, grants are attributed to the time at which the cash payment is made. Dividends may also waive the full accrual logic: if a prior declaration does not exist, then recognition is made on a cash basis principle.

Furthermore, the manual states that expected revenues are not accounted (and thus have no impact on current revenues), since there is no practical way of demonstrating their future occurrence; this seems also coherent with the symmetrical treatment of contingencies, which are usually mentioned in GFS only as memorandum items. Nevertheless, an assessment principle for recording revenues exists, and it follows the logic of practical demonstrations given, for instance, by tax declarations; some items are treated based on presumed events, which gives rise to unconditional claims for the government. This is also the case for taxes on property and notional or presumed rental income as the main determinant of this kind of taxation. However, these recording activities seem to waive the application of full accrual accounting principles, as declared at the beginning of the manual.

Finally, when items that accrue continuously over a period, such as interests, are yet not paid, particular treatments are provided: for instance, interests are usually added to the related asset until the payment will take place or without representing a revenue transaction in the period when they accrue.

8.5.2 Revenue in the ECB GFS Manual

Under the ECB GFS, the taxonomy of revenue is not so broad. In particular, there is only a distinction between current revenues and capital revenues. Current revenues are divided into four categories: direct taxes, indirect taxes, social contributions, and other current revenue (such as other subsidies on production, property, income, non-life insurance claims, international cooperation, and miscellaneous current

transfers). Capital revenues are divided into three categories: capital transfers, investment grants, and other capital transfers. Revenues are recorded mainly with the same criteria provided by ESA95. However, in this case, the application of the full accrual accounting principle is partial. According to the Council Regulation 2516/2000, taxes should be recorded when they accrue, not when the cash is received, but the amount recorded should not include amounts unlikely to be collected. The main differences compared to the IMF are as follows:

1. In general, IMF collects more information than ECB, which affects both the quantity and quality of information on expense and revenue.
2. IMF measures sales when goods are sold, but ECB records them when they are produced.

Overall, IMF excludes contributions to employee pension schemes but includes current and capital transfers (which are taken into account after determination of gross savings in the ECB) and, above all, the sales of goods from stock.

8.5.3 Revenue in the ESA95 and ESA95-EDP Manuals

The ESA 95 is based on the detection of economic and financial flows resulting from the operations that the economy, considered as a whole, puts in place during a given period. This affects the stock of national wealth. To this end, the flows can be classified into economic (real) flows and financial flows. These flows reflect, therefore, the creation, transformation, exchange, transfer, or extinction of economic value. Flows may arise from:

1. Transactions, i.e., an interaction between institutional units or similar, as in the case of taxes
2. Other changes in assets or liabilities, referring to changes in volume or price that are recognized directly in exchange for a change of net assets

The revenue items mainly treated and recognized by ESA95-EDP procedures are:

1. Taxes on production and import
2. Taxes and duties on import, excluding VAT
3. Direct taxes
4. Tax amnesties
5. Tax credits and tax refunds
6. Social contributions

The system records flows on an accrual basis at the beginning, when a transaction generates net financial assets, regardless of when monetary transactions are settled-up (non-exchange transaction). A special emphasis devoted on the time of registration, for each type of operation. The system focused on specific aspects of the time mismatch between cash and accrual registrations.

In order to allow the recognition of taxes and social contributions that could be difficult to collect, many times the accrual principle is not followed at all. This is useful to identify artful maneuvers aimed at improving the deficit, mainly based on bad loans. In fact, ex ante minor values are assigned to claims as direct reduction of income or recorded as a capital transfer. Alternatively, it is possible to estimate taxes based on cash flow recording at the time of events that gave rise to the tax debt. This alternative, however, can lead to periodic revision of the estimates of taxes.

Furthermore, also in this framework, the timing to record tax revenues involves assessment made by declarations. For the EDP purposes, only tax rolls are assessed by cash; recording activities for interests follow the ESA95 framework. However, the main feature of the revenue recognition seems to be related (mostly for taxes) to time adjustment calculations, which are needed for a more correct estimation of data.

8.5.4 Revenue in the IPSAS Framework

Under the IPSAS framework, there are two principles for revenue recognition:

1. IPSAS 9 revenue from exchange transactions and
2. IPSAS 23 revenues from non-exchange transaction.

While the former is an IPSAS mostly borrowed from the corresponding International Accounting Standard 18 revenue recognition applied to private firms, the latter is a specific public sector standard issued to take into account the dimension and relevance of the main positive economic flow for public administration: taxes and transfers.

According to IPSAS 9, revenues are recognized when it is probable that economic benefits or potential services will flow to the entity and the amount of the revenue can be reliably measured. When revenue results from rendering of services, reference is made to the stage of completion of the transaction at the reporting date. In practice, recognition is made on a straight-line basis over the specified timeframe. There are different rules for different types of revenue. In particular:

1. For what concerns the sale of goods, recognition is fixed when the significant risks and rewards have been transferred to the purchaser.
2. For interest, a time-proportion based approach is used that takes into account the effective yield on the asset.
3. Royalties are recognized as they were earned in accordance with the substance of the relevant agreement.
4. Dividends are recognized when the shareholder's or the entity's right to receive payment is established.

According to IPSAS 23, non-exchange transactions are transactions that receive an asset or extinguish a liability without giving approximately equal value in exchange to the other party.

An asset acquired through a non-exchange transaction is initially measured by its fair value, as at the date of acquisition. In these cases, revenues should be measured by amounts related to an increase in net assets recognized by the entity. An entity should be recognized as an asset in respect to taxes when the taxable event occurs and the asset recognition criteria are met. The wide existence of lags between the time of recognition and the real cash inflow determines a consistent use of IPSAS 3: “accounting policies, changes in accounting estimates and errors.” It seems suitable to make adjustments for the carrying amount of assets and liabilities when the real inflow, behind the recognized taxes, becomes note.

8.6 Discussion: Which Framework Dominates?

The emerging picture reveals that, in most cases, the application of accrual accounting principle to national accounting rules is more formal than substantive. Hence, we often noticed that the more mandatory an accounting framework is, the less the full accrual principle is applied. This is realized applying different critical events in line with the coverage, uses, and political impacts that a framework has on public accounts domestically and at European level. Moreover, there is a different significance of the cash basis logic adopted, depending on how the frameworks recognize revenues (see Table 8.1).

When the decision to open an EDP procedure against a given country is underway, the European Commission needs to undertake the decision on the basis of effective data supported by past events, which will not have the ability to modify the public finance of the country in the future. This is totally ensured only if data provided are consistent to the cash basis principle. On the other hand, during the budgeting phase aimed at figuring out numbers in line with the SGP, the role of dynamic obligations and their weight on future levels of public debt are more and more taken into account. Thus, each country adopts policies designed to allocate more revenue to debt reduction, in order to consider debt as the leading parameter to control future policies. Under these lenses, more or less aware aggressive revenue recognition could emerge.

However, the efforts and the resources required to move from cash to an accrual basis should not be underestimated. Furthermore, as noted, some authors have highlighted that accrual accounting will not solve the well-known financial control issues. If public accounts are not effective under a cash accounting system, then it is likely to be even less effective under an accrual one. Indeed, there are risks in switching from cash to accrual accounting, and the costs and benefits of the change are not well understood (Hepworth 2003).

The Directive (EU) N° 85/2011 highlights the importance of establishing reliable accounting systems that allow the necessary information for ESA, to be made available for each Member State’s sub-sector. This implies that Member States should adjust accounting practices among their sub-sectors, in order to ensure a certain degree of uniformity within their central accounting systems.

Table 8.1 Summary of findings

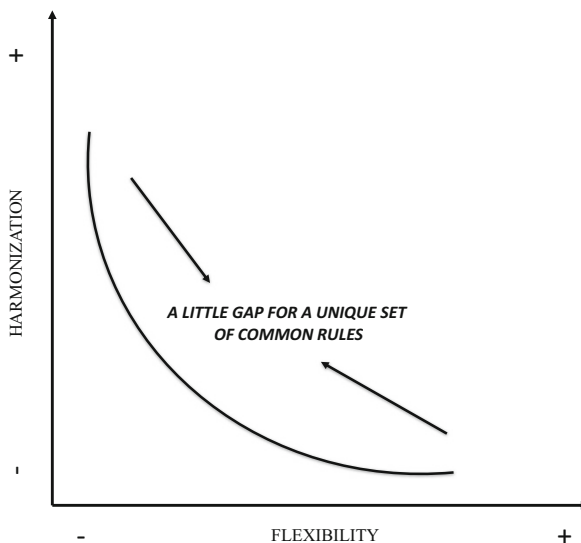
| | |
|-------------------------------|--|
| <i>IMF's GFS</i> | DECLARED CRITICAL EVENT: <i>Sale</i> |
| | MAIN FEATURES ON REVENUES: – The manual suggests to record revenues at the time when the <i>claim</i> to receive the revenue appears. Exceptions may be found, at least, in terms of <i>time of recording</i> and <i>cash recognition</i> of revenues, i.e., <i>tax on income, profits, and capital gains</i> follow an actual cash basis logic and are recorded when a related cash inflow emerges. Expected revenues are not accounted. |
| | APPLIED CRITICAL EVENT: <i>Cash Basis</i> |
| <i>ECB's GFS</i> | DECLARED CRITICAL EVENT: <i>Production complete</i> |
| | MAIN FEATURES ON REVENUES: – taxes should be recorded when they accrue and not when cash is received, but the amount recorded should not include amounts unlikely to be collected. It implies a <i>partial</i> application of full accrual principles with a following recourse to cash logics. |
| | APPLIED CRITICAL EVENT: <i>Production complete & [Cash Basis]</i> |
| <i>ESA 10 and ESA 10 -EDP</i> | DECLARED CRITICAL EVENT: <i>Production complete</i> |
| | MAIN FEATURES ON REVENUES: – the systems record flows on an accrual basis, regardless when setting a monetary transaction. Nonetheless, cash data are used in case of <i>uncertainty</i> (i.e., <i>tax rolls</i>), related to the low reliability of some accrual information processing about certain items. The systems are focused on specific aspects of <i>timing mismatch</i> , between cash and accrual records. |
| | APPLIED CRITICAL EVENT: <i>Production complete & [Cash Basis]</i> |
| <i>IPSAS</i> | DECLARED CRITICAL EVENT: <i>Production complete and Sale</i> |
| | MAIN FEATURES ON REVENUES: – According to <i>IPSAS 9</i> , revenues are recognized when it is probable that <i>economic benefits</i> or <i>potential services</i> will flow to the entity considered. Some items (i.e., <i>interests</i>) use a <i>time-proportion based</i> recording activity. Furthermore, the principle suggests <i>adjustments</i> when a <i>real cash inflow</i> , behind the recognized taxes, becomes known. |
| | APPLIED CRITICAL EVENT: <i>Production complete and [Cash Basis]</i> |

Source: Author' elaboration

Accordingly, the application of ESA95's accrual rules for ESA-EDP notifications requires a full accrual logic, starting from an integrated consideration of financial information, which usually based its recording rationale on legal accrual and cash basis accounting principles.

Due to different levels of complexity among macro- and microaccounting frameworks, different disclosure mechanisms exist. Hence, it cannot be defined a unique approach suitable for all of reporting user needs. In particular, both academics and practitioners should endeavor at proposing a set of accounting rules that, on one hand, fosters an effective harmonization, and, on the other hand, allows to comply with the specific requirements of each accounting framework (Pendlebury and Karbhari 1998; Connoly and Hyndman 2006; Arnaboldi and Lapsley 2009; European Commission 2013). This way, it may be promoted as a comprehensive information process, consistent to the various users' needs.

Fig. 8.3 Trade-off between harmonization and flexibility. Source: Author's elaboration



There continues to be endemic technical conflicts within the desirable harmonization, and this stance is verified by the undertaken analysis of revenue recognitions. Finding a unique first best solution aimed at assessing all the discrepancies among different accounting systems, for different financial purposes, is not the only reasonable option. When a need to merge different rules for different purposes emerges, a trade-off between the objective of harmonization and the flexibility of rules arises. The relationship between harmonization and flexibility might be justified to the extent that macro- and microaccounting frameworks do not treat accounting events in the same way. It is demonstrable because of the existence of inherent differences beyond institutional purposes that, only at a first glance, may look similar.

As an interpretive picture of this issue, Fig. 8.3 suggests that scholars and practitioners should not even consider harmonization among IPSAS and other micro and macro accounting rules, without considering the impact on the flexibility.

By deciding what we want to measure, a given accounting rule that fits better than others will emerge. This implies that a real convergence should regard waivers coming from both harmonization and flexibility needs. Hence, this may mean developing new accounting disclosure fronts based on institutional and technical compromises that are not usually adopted in the current practice. From this perspective, we wonder if the actors involved in designing the economic governance across Europe (Member States, European Commission, European Parliament, other economic institutions, and the IPSASB) might catalyze this process.

8.7 Conclusion, Future Developments, and Limitations

An effective system of governance aimed at catalyzing the process of harmonization within the European public accounting sector may be interpreted, at least, from both an institutional and a technical standpoints. The former should regard a concerted intervention among Member States, focused on harmonized dynamics of public choices at a macro level, and management accountability logics at a micro level, as advocated by the European Commission. In contrast, the latter should refer to a common definition of accounting rules that, to date, is not pursued in a common way. Given the variability among different accounting frameworks in Europe, the trade-off between harmonization and flexibility seems to be structural, even if we focused only on revenue recognition. In other words, different accounting frameworks lead to different disclosures, even when the purposes for their existence seem to be quite similar. For what concerns European Union, the solution of European Public Sector Accounting Standards is running the risk to repeat same errors occurred in the past. In our opinion, there is a need to make one step behind by considering the existing trade-off between flexibility and harmonization. Hence, from the institutional and technical standpoints, avenues for future research emerge, namely:

1. A test of the actual relationship among European fiscal needs and accrual accounting, especially during the financial crisis, as the one we recently suffered, in order to understand how accrual accounting might be useful to implement and control fiscal policies, and the sustainability of public finance.
2. A balanced recourse to “tailor-made” public accounting standards, for each Member State, in compliance with the other European institutional levels.
3. Continuing round tables between statisticians and accountants aimed at pulling out consistent rules useful for different purposes. This avenue seems to be started on 2011, but today it needs to be pursued with more efforts.

The main limitation of this research regards the focus on the revenue recognition, which was preferred with respect to other relevant items that—however—affect the financial disclosure in the public sector. Even from the same conceptual standpoint future studies may drill down on other items, allowing scholars and practitioners to enhance the debate on the financial accountability and the related needs across Europe, by nurturing the conceptual thoughts raised within this work.

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Chapter 9

The State of the Art of Green Public Procurement in Europe: Documental Analysis of European Practices



Irene Litardi, Gloria Fiorani, and Daniele Alimonti

Abstract The aim of this chapter is to study what is the state of art of the Green Public Procurement in the light of the newest tendencies promoted by the United Nation in the Agenda 2030. The objective is mapping the principal practices and their environmental impact. After an introduction on the topic, we define a theoretical framework regarding the Green Public Procurement. Using a qualitative research methodology such as documental analysis, we review and evaluate electronic documents collected by the European Commission on its website. This list includes the most prominent Green Public Procurement practices, divided in 129 PDF documents (update in August 2016) and separated for each sector. The authors draw a map of the initiative put in place by European public administrations and provide a critical reading of the cases examined based on pertinent theories and models, in particular, the Triple Bottom Line approach. and 29 PDF documents (update in August 2016) and separated for each sector. The researchers present a map of public administrations initiatives and their critical reading on the basis of the main theories and models considered, in particular, the Triple Bottom Line approach.

Keywords Green public procurement · European Union · Public Administration · Agenda 2030 · Documental analysis · Sustainable development goals

9.1 Introduction

This chapter departs from a broader study (Litardi et al. 2019) regarding the use of Green Public Procurement (GPP) in the European Union and it aims to highlight the connection between this type of tender process and sustainable development in the

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light of the newest tendencies set by the United Nations. Through the analysis of a pool of best practices implemented by a wide range of European Member States, this study discusses under which conditions the GPP can enable governments to reach the Sustainable Development Goals as set in the Agenda 2030.

The conceptual framework from which this work takes its roots sees GPP as potential leverage to orient public purchasing and the markets towards greater sustainability (Li and Geiser 2005). In 2014, public procurement represented 16% of the GDP, three percentage points lower than the earlier figures (European Commission 2014a, b, c). The OECD estimates in approximately 12% of the GDP the size of public procurement, confirming how crucial public purchasing is for Member States, in particular, as a driving force for the economy and as a support to the governments when pointing their policies towards economic, social, and environmental objectives. Following this fashion, public authorities can boost research in more efficient technologies on eco-product and services that give to the producers real incentives to pursue innovative solutions (Rüdenauer et al. 2007).

To reach the main objective of this study, we analyze what is the current development of the Green Public Procurement in Europe. Specifically, we inspect a sample of best practices selected by the European Union in order to outline the recurrent elements of success and to understand their environmental impact and mapping the current trends. The findings are drawn by analyzing documents collected and published on the European Commission website regarding 129 public administrations practices with an international focus, using the methodology illustrated in Sect. 9.3.

The evidence coming from this chapter represents just a first step when observing and reflecting on this issue. These insights are useful to widen the debate and for generating further thoughts on the actual procurement initiatives. Indeed, while the relevance of Green Public Procurement has grown significantly over the past years (Sect. 9.2), there has not yet been a macro-vision of practices implemented at the same pace as the EU regulation. The intention is, therefore, to contribute to filling this gap.

The results, shown in the fourth section, reflect a commitment mainly coming from local public administrations to implement GPP strategies in public tenders; also the economic and environmental impacts are more evident at this administrative level. The last section of this chapter includes conclusions and discussion of the findings (Sect. 9.5), as well as some considerations on the selection criteria of the practices adopted by the European Union.

9.2 Green Public Procurement: A Theoretical Background

Sustainable development is an important global achievement to bring under control economic, environmental, and societal crises in many countries. One of the main strategies to follow in order to develop smart, sustainable, and integrated growth is through a reduction of greenhouse gas emissions by at least 20% compared to 1990

levels or by 30%, increase the share of renewable energy sources in our final energy consumption by 20% and a 20% increase in energy efficiency (European Commission 2010). In this setting, Green Public Procurement is considered to be an appropriate and effective tool when seeking the reduction of negative impacts on the environment (Shakya 2017). Practically, it consists in the integration by the public administration of environmental standards into all stages of the purchasing process (European Commission 2008a, b). As described by US EPA in 1995, it is the possibility to choose “those products and services that have a lesser or reduced effect on human health and the environment than other products and services used for the same purpose.” From a comprehensive point of view, adopting green public procurement means taking into consideration environmental impacts in the whole life cycle of goods and services, from raw material extraction to waste disposal (Bouwer et al. 2006). Also, being one of the main instruments adopted to implement strategies for sustainable development, it can act as a strong stimulus for eco-innovation especially in the case public authorities are able to implement green criteria in public tender in terms of environmentally friendly products and services (Iraldo et al. 2007; Li and Geiser 2005) and can contribute to foster innovation. Testa et al. (2016) investigated local public authorities finding that the awareness of the institution to the value added by implementing GPP practices results in better performance. The same study also concludes that European, national and local supportive initiatives can help small institutions to overcome problems and difficulties in the implementation of green tender processes.

The Green Public Procurement approach was developed in Europe starting from the early 1990s (Table 9.1), and emphasized during the meeting in Rio de Janeiro (1992), which resulted in the creation of the Agenda 21, that includes indications to be followed in the course of the twenty-first century by each State. The compendium stresses, in particular, the importance of reviewing the purchasing policies of agencies and departments in order to improve, if possible, the environmental implications of public procurement (UNCED 1992). At the beginning of 2015, the General Assembly moved its steps for the creation of a post-2015 development agenda. The negotiation culminated at the UN Sustainable Development Summit with the 2030 Agenda for Sustainable Development, and a renewed paradigm that includes 17 SDGs (Sustainable Development Goals) at its base. This Agenda is the most important international strategy on sustainability and it is subscribed from 193 UN member countries during COP 21 (Paris Agreement on Climate Change in December 2015). GPP is nominated in SDGs 12 “Ensure sustainable consumption and production patterns,” in a specific target: nr. 12.7 focused to promote public procurement practices that are sustainable, in accordance with national policies and priorities; nr.12.7.1 the importance of implementation of sustainable public procurement policies and action plans by the countries.

In the tool kit of the policy makers when developing policies that affect environmental sustainability, there is the GPP, a tool that has had a remarkable development, both at legal (Swanson et al. 2005; Walker and Brammer 2009) and theoretical level (Marron 1997; Lundberg and Marklund 2013) to finally become a pillar that could enhance environmental planning in Europe (Tukker et al. 2008).

Table 9.1 Relevant policies on Green Public Procurement

| Year | Policy | Description |
|-------------|----------------------|--|
| 1992 | Agenda 21 | Compendium of directions to be followed in the twenty-first century by each State on Sustainable Development “think globally, act locally.” |
| 1996 | COM(96) 583 | Green Paper on public procurement, which introduced the environmental and social requirements at the level of National and Communitarian competitions. |
| 2001a, b | COM(2001) 31 | Sixth Environment Action Program of the European Community defines the Integrated Product Policy. |
| | COM(2001) 274 | It describes the entire procurement process, identifying the contracts included in the directives and highlighting the possibilities offered by existing rules to structure the various stages of a procurement tender, starting with the definition of its subject to the execution and completion of the same. |
| 2003 | COM(2003) 302 | National Action Plan on GPP and Integration of environmental criteria on procurement procedures. |
| 2004a, b | Directive 2004/17/EC | Directives 17 and 18 of 2004 support further certain decisions of the European Court of Justice, filling some gaps in legislation and providing the legal support on GPP. Both Directives, guiding the Member States currently, respectively, govern the procedures of “Public procurement in water, energy, transport and postal services” and “Public procurement in work, supply and services.” |
| | Directive 2004/18/EC | |
| 2008a, b | COM(2008) 397 | “Public procurement for a better environment,” GPP definition. |
| | COM(2008) 400 | Action plan “Sustainable Consumption and Production” and “Sustainable Industrial Policy,” the Communication is concerned with the implementation of a several measures aimed to improve the energy and environmental performance of the products throughout their life cycle and to stimulate the demand and the consumption of better-quality products, creating a “virtuous circle.” |
| 2009 | COM(2009) 400 | Redefinition European long-term objectives with a prospective to achieving sustainability. |
| 2010 | COM(2010) 2020 | Europe 2020 (inclusive, smart, and sustainable); European Map 2050 that requires the transition to a low carbon economy by 2050: –25% in 2020, –40% in 2030, –60% in 2040, and –80% in 2050. |
| 2011a | COM(2011) 896 | Enforcing the support to the future strategies and European Union norms. |
| 2014a, b, c | Directive 2014/23/EU | Simplify the structure of the purchase contract and include requirement fostering social and environmental responsibility (Sustainable Public Procurement). |
| | Directive 2014/24/EU | |
| | Directive 2014/25/EU | |
| 2015 | Agenda 2030 | Strategic program for people, planet, and prosperity signed in September 2015 by the governments of the 193 UN member countries. It encompasses |

(continued)

Table 9.1 (continued)

| Year | Policy | Description |
|------|---|--|
| | | 17 Objectives for Sustainable Development—Sustainable Development Goals (SDGs), in a major program of action for a total of 169 “target” or goals. |
| 2017 | Public Procurement for a Circular Economy | European policy framework and practical guidance to those involved in public procurement decisions. |

Source: Authors’ elaboration

Table 9.2 Relevant policies on Green Public Procurement

| Benefits | Challenges |
|---|---|
| Environmental | |
| <ul style="list-style-type: none"> – Allows public authorities to achieve environmental objectives – Example for private consumers – Increases awareness to environmental issues | <ul style="list-style-type: none"> – Lack of training – Limited established environmental criteria for products and services |
| Social and health | |
| <ul style="list-style-type: none"> – Improve the quality of life – Support for high standards of environmental performance for products and services | <ul style="list-style-type: none"> – Lack of cooperation between authorities |
| Economic | |
| <ul style="list-style-type: none"> – Provides incentives for industry to innovate – Reduce prices for environmental technologies – Allows to save money and resources when considering the life cycle cost | <ul style="list-style-type: none"> – Perception of higher costs associated with green products – Need for systematic implementation and integration into management systems |
| Politicians | |
| <ul style="list-style-type: none"> – Effective way to promote the public sector commitment to environment protection and sustainable consumption and production | <ul style="list-style-type: none"> – Lack of legal expertise in the application of environmental criteria – Lack of political support |

Source: Authors’ elaboration from European Commission (2014a, b, c)

With the purpose of reducing their impact on the ecosystem, public authorities intensified the search of useful solutions, increased the awareness of the public opinion to the environment, have forced governments to pay attention, increase effort, and deliver more resources towards sustainable development (Bolton 2008). Green Public Procurement results in a good tool to tie the environmental sustainability to public spending, without many difficulties and barriers to its applications (Table 9.2).

Closer to the scope of this work is the recent publication by the European Union on circular economy, a system that is able to minimize waste and making the most of resources. In this light, circular public procurement can represent an extension to green public procurement that is even more oriented towards the transition of public authorities to a circular economy. The European Action Plan for the circular economy stresses the importance of integrating the criteria of a circular economy within GPP. By adopting these more comprehensive practices, public purchasing can effectively contribute to reaching the sustainable development defined in the Agenda 2030 by the United Nations. In particular, the objective number twelve

“Ensure sustainable consumption and production patterns” directly includes the specific objective of promoting sustainable procurement in line with national policies and priorities.

9.3 Research Method

After having defined a theoretical framework of Green Public Procurement, the researchers use a qualitative research methodology as documental analysis for reviewing and evaluating electronic documents (Bowen 2009). During the research, the Public Administration in the “examples of GPP in practice to illustrate how European public authorities have successfully launched ‘green’ tenders, and provide guidance for others who wish to do the same” (European Commission 2010), identified by the European Commission starting with 2010 (accessed on September 2014, from the authors) were considered. This list includes the most prominent Green Public Procurement practices, divided into 129 PDF documents (update in August 2016) and separated for each sector, in terms of the following parameters:

- the objective of procurement, i.e., an explanation of the motives of the public administration to implement a sustainable tender process and the summary of the aims to be pursued;
- the background, a recap of the GPP activities already completed by the public administrations involved;
- the criterion used, a set of information on the environmental criteria adopted as well as supplementary information about the tender;
- the results, i.e., a description of the outcome of the procedure;
- the environmental impact, an assessment of the results obtained from the end actions developed;
- the lessons learned, a collection of relevant aspects on which to set future strategies. Also the identification of mistakes to avoid in the future procedures.

The information included in the abovementioned sections of the documents has been structured, summarized, and analyzed in order to produce a map of initiatives promoted by public administrations and also to propose their critical reading by linking the evidence with the main relevant theories and models. According to the theory of the Triple Bottom Line (Elkington 1997), we also considered as part of the analysis the geographical origin of the cases, the timeframe of implementation and government level of implementation, the criterion used, the economic and environmental factors connected with this theory. In particular, the authors have reorganized the parameters into seven specific categories through the information analyzed in the documents (Labuschagne 2003), which helps to have a mapping of the practices, such as: (a) the starting date of the procurement process; (b) the country to which the procedure refer; (c) the degree of complexity of the administrative structure, categorized as local, regional/provincial, and national; (d) the tender sector (each containing the criteria to be used); (e) the award criterion (most economically

advantageous offer; lowest price or other methods); (f) the economic and environmental impacts both in quantitative (when the information is a numerical data) and qualitative (when the information is descriptive) terms; (g) type procedures used (Appendix 1). The study is not a selection from the authors of best practices. In fact, the authors analyzed all the documents selected by the European Commission in its website, updated to August 2016 (EU defined these cases as good practices).

The content analyzed was gathered in different section, for instance, the economic information was found in section “Lesson Learned” or “Results,” the information about the year of implementation, the country, and the complexity of the administrative structure were found in the section “Objective of Procurement,” the information of environmental impact was found in the section “Results” and “environmental impact,” and the award criterion was found in the section “Criterion used.”

When gathering objective data, the authors coded the information in data 1 if the information is present in the document (see Appendix 1). For the environmental and economic impact, the information was coded in positive (if the impact is a positive result), negative (if the impact is a negative result), or none (if there is no information about the impact). The results were given by the authors on the basis of the conceptual framework mentioned in the theoretical background (Sect. 9.2). They are considered useful in the research process for the interpretation and the identification of possible avenues for improvement by the European Commission in better identifying these practices. The research was developed on the basis of shared paths and recurring comparisons. During the analysis, intermediate steps were scheduled to allow the researchers necessary time to debate and consider any divergence of opinion in order to agree on a common approach. The results, which emerged from this research, (as summarized below) were therefore comprehensively compared and jointly discussed.

During the analysis of the documents, useful for mapping GPP practices, the authors did not find any explanation about the criteria used by the European Commission to select the best practices. The European Commission, in fact, presents the procurement activities by highlighting the “excellence” of each procedure in the application of environmental criteria promoted in EU without providing aggregate information or evaluation judgments. Due to this reason, it has not been possible for the authors to draw conclusions on the progress of green procurement policies in each country. Through the documental analysis methodology explained above, it has been possible to identify if any overlap existed between the regulatory processes of the European Commission and the Public Administrations initiatives, the most active geographical areas, the main government level involved and finally, the set of environmental criteria adopted and the most used award criterion.

The set of parameters presented above and identified by the researchers, designed using as a reference the cases examined, aims to be part of a broader research agenda that points towards the understanding of GPP, its evolution and practical implementation. The model is suitable to be applied to more generic samples and not necessarily limited to European cases.

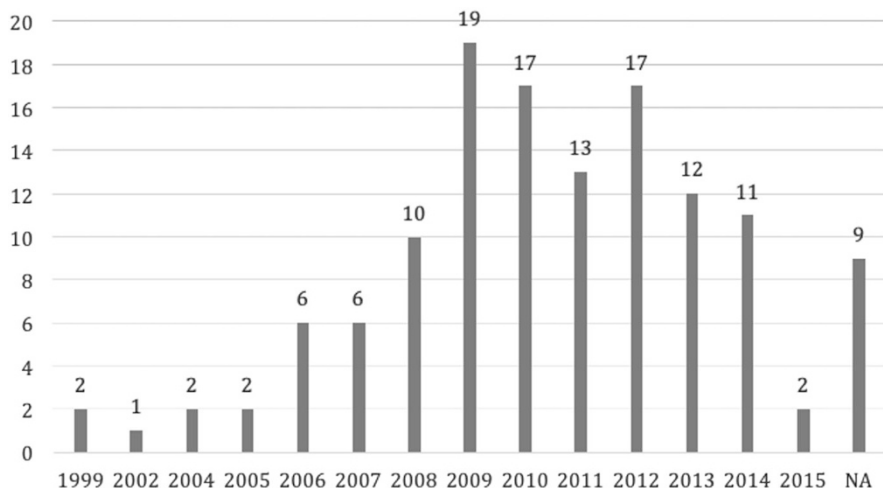


Fig. 9.1 Year of implementation. Source: Authors' elaboration

9.4 Research Results of Documental Analysis

This paragraph resumes the results of the analysis of 129 documents, each corresponding to one GPP practice, regarding the areas of analysis: (a) year of implementation; (b) geographic origin; (c) complexity of the administrative structure; (d) criterion of award; (e) sector of public tender; (f) environmental and economic impact; (g) type of procedure used.

(a) Year of Implementation

The year of implementation for all cases covers the period 1999–2016, with a peak in 2009 and 2010 (28%) (Fig. 9.1), which coincides with the European enactment period of the most important regulatory actions and policy in terms of GPP, including: COM(2008) 397 “Sustainable consumption and production” and “Sustainable industrial policy,” COM(2008) 400 “Public procurement for a better environment,” COM(2009) 400 “Mainstreaming the sustainable development into EU policies: 2009 Review of the EU Strategy for Sustainable Development,” COM (2010) 2020 “A strategy for smart, sustainable and inclusive growth.”

(b) Geographic Origin

Specifically, it is worth noting that five practices are from Eastern European Countries (Bulgaria, Hungary, and Romania), 45 are from Northern European Countries (Denmark, Estonia, Finland, Ireland, Iceland, Lithuania, Latvia, Norway, Sweden, and the UK), 41 are from Southern European Countries (Cyprus, Croatia, Greece, Italy, Malta, Portugal, Slovenia, and Spain), 38 of Western European Countries (Austria, Belgium, French, Germany, Netherlands and Switzerland), but 55 cases on 129 are from the Green-7 (PricewaterhouseCoopers, 2009): Austria, Denmark, Finland, Germany, Netherlands, Sweden, and the UK (Table 9.3). Some countries do not have prepared any strategy

Table 9.3 Geographic origin of the cases analyzed

| Countries | Numbers of cases for each country |
|---|-----------------------------------|
| Spain | 17 |
| UK | 14 |
| Italy | 11 |
| Germany | 10 |
| France | 8 |
| Austria, Finland | 7 |
| Sweden, Netherlands | 6 |
| Denmark, Ireland | 5 |
| Norway, Portugal, Slovenia, Switzerland, Malta, Belgium | 3 |
| Estonia, Hungary, Bulgaria, Croatia | 2 |
| Romania, Iceland, Lithuania, Cyprus, Luxembourg, Greece, Latvia | 1 |
| Total | 129 |

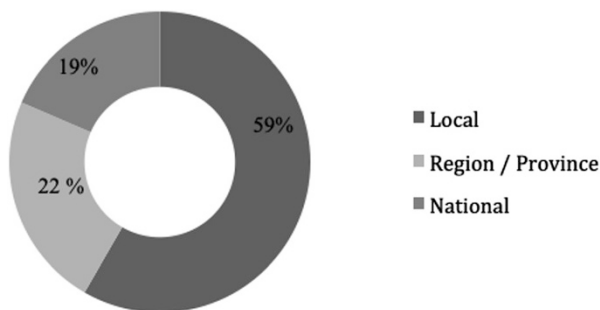
Source: Authors’ elaboration

regarding the green public procurement in line with a National Action Plan promoted by European Commission, such as Estonia (with an alternative program), Greece, Romania, and Hungary, the plan formulated in 2006–2007 was not adopted. Iceland, Norway, and Switzerland are not part of EU28 and do not have a duty to implement the Communications nor those concerning National Action Plan (Litardi et al. 2019). However, Norway and Switzerland have their environmental policies.

(c) Complexity of the Administrative Structure

The levels of government mostly engaged in GPP activities are the local one. Some indicators underline the preponderant engagement of the local government (municipalities, universities, schools, museums, and other organizations or local authorities), which often supported by political level, are engaged in environmental causes since early 2000s or, more rarely, from the 1990s, as in the case of the city of Esbjerg, Kolding (Denmark), and Stockholm (Sweden), in particular, stand out as pioneers in GPP policies implementation, as per 1994 and 2003 plans. Less than a quarter of the practices come from the regional/provincial level; several cases highlights the engagement of regional commissions of Spain, Belgium, and Italian, such as the Department of the Environment and Territorial Policy of the Basque Government (IHOBE), the Regional Agency for Environmental Protection of Tuscany (ARPAT), the Lombardy Central Regional Agency of Purchases and Valle d’Aosta Region (the last active on environmental issues since the mid-2000s) and some County Councils in the United Kingdom (Gloucestershire, Cornwall, and East Ayrshire). The lowest percentage is represented by the national public administration, such as ministries and commissions, which introduce environmental criteria with the final aim of encouraging its application to lower government levels and facilitate its introduction within the procurement tenders (Fig. 9.2).

Fig. 9.2 Administrative level of the case studies.
Source: Authors' elaboration



(d) Criterion of Award

Within the scheme, yield information is also related to the award of the criteria used during the offer. In most cases it has been adopted the most economically advantageous offer based award mechanism (MEAT), which is supposed to simultaneously evaluate the price and other qualities and technical aspects, including the environmental dimension. Overall, 50% of the cases examined refer to the MEAT, 12% of the cases refer to the lowest price, and finally, 8% of the cases are examples of the PA using alternative methods that not necessarily relate to the previous ones. Among the total number, in 30% of the cases, any information on this indicator was missing.

The most economically advantageous tender has allowed various public bodies through a fair approach weighing the score, to reach a good compromise between price and quality. In fact, this method rewards, in procurement terms, those competitive actors who propose valid environmental policies but weak economic terms in their proposals. The most economically advantageous tender use (MEAT) helps to ensure that the essential requirements for the award procedure, such as the connection between the award criterion and the subject of the contract, a limited choice for customers of PA, prior notification of the award criteria in the tender documents, the distinction between selection and award criteria, and finally, respect of European law (European Commission 2011a, b, c, d).

(e) Sector of Public Tender

Among the 129 cases of procurement, the key priority sectors identified are construction, copying and graphic paper and Transport. These are policy areas that have needed a multidimensional approach as the construction of buildings that requires raw materials procurement, material management dismantling, and installation. A total of 75% of all tender procedures is mono-sector and the remaining 25% has a multi-sectoral approach. The European Commission emphasizes the need to distinguish between two categories “core” and “comprehensive” criteria. The former focusing on a specific area of the product and the performance of GPP; while the latter criteria take in consideration various features or higher levels of environmental performance, with consequent higher costs.

Fig. 9.3 The economic impact in the cases examined. Source: Authors' elaboration

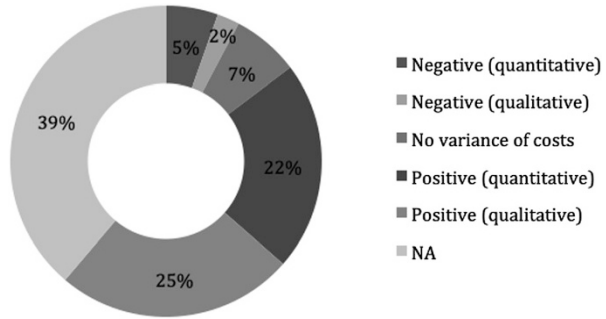
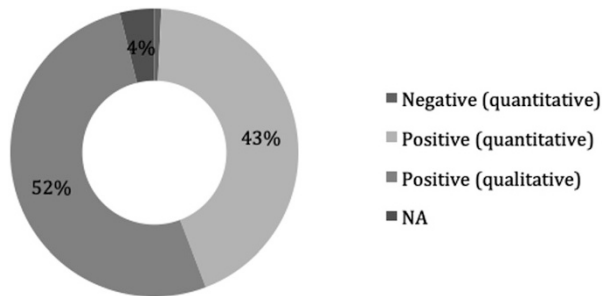


Fig. 9.4 The environmental impact in the cases examined. Source: Authors' elaboration



(f) Environmental and Economic Impact

Almost all cases (102 out of 129) present a result in a positive contribution in terms of environmental impact, an aspect that constitutes the central element of the papers published by the European Commission (Fig. 9.3). In particular, 46 cases include quantitative details in terms of CO₂ emission reductions (in tons), greenhouse gases (GHG), electricity consumption (in kWh), and water savings (in liters).

In the other 56 cases, there is a description of the environmental benefits in relation to the actions promoted by the European Commission on Environmental Impact. One case presents negative outcome (a German case study), due to the inclusion of both new and old emission of CO₂ in the final counting.

In terms of economic impact, 50 cases out of 129 do not present any information on financial results. In the remaining 60 cases, 28 present a reduction in costs (quantified in euro) or in a percentage reduction, compared to previously concluded contracts by using traditional procedures (Fig. 9.4). The amount of euro saved by the public administrations that put in place GPP strategies is not directly verifiable. In a large number of cases, quantitative information is not specified.

(g) Type of Procedures Used

The analysis of the cases coming from European public administrations, remark a preference for open tendering procedures (30) followed by narrow ones (3) in full respect of healthy competition (Fig. 9.5). Every firm can participate only if the

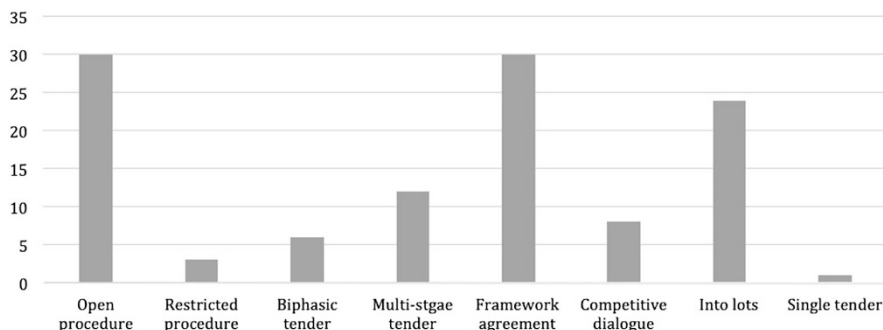


Fig. 9.5 Type procedures used. Source: Authors' elaboration

minimum requirements to access are met; the technical qualifications, certifications environmental, technical and financial capabilities, experience in the field gained by having signed contracts in the past, and there are not reported red flags. The maximum participation in the procurement process falls within the will to receive and transmit all the information in a multidimensional approach that embraces many stakeholders. In fact, in many areas, it is important the role of seminars and meetings in order to explain the characteristics of the tender, transparency, and importance of dialog.

9.5 Final Remarks

The research evidences a high level of attention on Green Public Procurement regulatory by the European Commission and dissemination of green purchasing by public authorities in the European area. The findings underline that GPP is used by public administration as an effective tool for saving energy and promoting technological innovation (for example, new model of computer monitors, which saves energy), but it is not possible to understand if this is a good leverage to rationalize public spending in the Member States.

In line with the context of documental analysis, research findings also mark the specific trajectories of green development practices and the connection with some SDGs (see Table 9.4). In some initiatives, depending on the complexity and the economic volume of the contract, the promoters have used characteristic features of GPP, such as the joint procurement, adopted mainly by local governments (small dimension), with the aim to get favorable condition in the tender; the division into sections of smaller technical complexity and cost, therefore, allowing the participation of small and medium enterprises not to restrict competition; finally, the provision of a pre-commercial phase, useful to investigate the market, the products or

Table 9.4 Connection between SDGs, targets, and the results of the documental analysis

| SDGs | Targets | Results of practices |
|---|--|---|
| 7- Ensure access to affordable, reliable, sustainable, and modern energy for all. | 7.2 (By 2030, increase substantially the share of renewable energy in the global energy mix); 7.2.1 (Renewable energy share in the total final energy consumption); 7.3 (By 2030, double the global rate of improvement in energy efficiency); 7.3.1 (Energy intensity measured in terms of primary energy and GDP). | f) Environmental impact: reduction of CO ₂ emissions, greenhouse gas, electricity use, and water saving in terms of energy. e) Sector of public tender: copying and graphic paper. The GPP in this sector is connected with the reduction of CO ₂ emissions. |
| 8- Promote sustained, inclusive and sustainable economic growth, full and productive employment, and decent work for all. | 8.2 (Achieve higher levels of economic productivity through diversification, technological upgrading and innovation, including through a focus on high-value added and labor-intensive sectors) | d) Criteria award: “joint procurement” used in some practices, is an innovation. |
| 9- Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation. | 9.1 (Develop quality, reliable, sustainable, and resilient infrastructure, including regional and transborder infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all). | e) Sector of public tender: use of sustainable materials in constructions sector for public building. |
| 12- Ensure sustainable consumption and production patterns. | 12.C (Rationalize inefficient fossil fuel subsidies that encourage wasteful consumption by removing market distortions, in accordance with national circumstances, including by restructuring taxation and phasing out those harmful subsidies, where they exist, to reflect their environmental impacts, taking fully into account the specific needs and conditions of developing countries and minimizing the possible adverse impacts on their development in a manner that protects the poor and the affected communities). | e) Sector of public tender: transport. |
| 13- Take urgent action to combat climate change and its impacts. | 13.2 (Integrate climate change measures into national policies, strategies, and planning) | b) Geographic origin: all the practices are from EU members States, and they integrate in their public procurement tender the Environmental |

(continued)

Table 9.4 (continued)

| SDGs | Targets | Results of practices |
|--|--|---|
| | | Minimum Criteria of GPP, and in general the members States applied the EU regulation (see Table 9.1) |
| 15- Protect, restore, and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss. | 15.3 (By 2030, combat desertification, restore degraded land and soil, including land affected by desertification, drought and floods, and strive to achieve a land degradation-neutral world) | e) Sector of public tender: copying and graphic paper. Reduce the paper and, at the same time, reduce the tree felling, one of the causes of desertification. |

Source: Author's elaboration

services to be included in the tender, and to assess the needs to be met through the purchasing process. It is not clear, within the sample of the cases analyzed, which degree of attention has been given to social impacts resulting from the purchasing practices, which, however, is a more recent feature taken into consideration by the European Commission (24 and 25 Directives of 2014). With the directives on public procurement, the European Parliament is trying to simplify the structure of purchase contracts and to integrate social and environmental responsibility requirements. One of the objectives of the directive is to guide the public authorities towards specific social goals at a national and international level. The recent developments raise, therefore, the level of attention on the social dimension within procurement and its subsequent transition towards Sustainable Public Procurement (SPP), a broader concept of GPP, which also embraces the governments' attempt to strike the right balance between the three pillars of sustainable development (economic, social, and environmental) in all phases of the procurement purchase of goods, services, and works, (Triple Bottom Line approach), with the objective to integrate competitiveness and sustainability within the supply chain, along with the attention through the process, to human and workers' rights.

Within the practices analyzed, it was possible to identify some features that characterize Green Public Procurement. Firstly, there is the use of criteria and eco-brands, based on the Life Cost Assessment that assures the inclusion of environmental aspects in the tendering products throughout the entire life cycle, from the extraction to the end life of the product. Secondly, with respect to the competition, while applying the public procurement directives, the PA is given free options to promote environmental protection, through the introduction of specific techniques in the tender documents. Despite this may result in a barrier to participate in the bidding

process, with the consequence of reducing competition, it constitutes an innovative stimulus for competitors. Examples of these options are the minimum environmental criteria and the eco-brands, particularly considered in the initiatives analyzed. Coupled with the first one, is the adoption of the Life Cycle Costing, applied in some of the case projects examined with the aim of achieving a reduction of costs and the evaluation phase of the prices of the offers received.

For future research, the authors intend to create a standardized form for the European Commission to collect the practices. A standard collection of more detailed information is finalized to facilitate the provision of a database of information accessible to public administrations active in this field. By collecting systematic data, based on a simple scheme similar to the current study, alongside with other new useful dimensions to enrich the analysis (including social impacts), it would be possible to track more accurately the trajectory of the European public procurement, together with more detailed mapping (Litardi et al. 2019). Finally, this would encourage the benchmarking and bench-learning among the already active public administrations or those interested to be involved in such practices.

Appendix 1. Scheme for the Analysis of Documents on Green Public Procurement Initiatives

| | | | | | | | | | | | | | | | | | |
|--------------------------------|---------------------|----------------------|----------------------------|---|---------------------------------|----------------------|----------|-------------------------|--------------------------------------|-------------------------------------|---------------------------------|-------------------------|----------|----------------------|-----------------------|----------|--|
| a) Year of implementation | | b) Geographic origin | | c) Complexity of the administrative structure | | | | | | | | | | | | | |
| N. Case | Year | Country | Local government | Regional/provincial government | National government | | | | | | | | | | | | |
| d) Criterion award | | | | | | | | | | | | | | | | | |
| MEAT | | | Other criteria | | | | | Comments | | | | | | | | | |
| e) Sector of public tender | | | | | | | | | | | | | | | | | |
| Cleaning and products services | Office IT equipment | Construction | Food and Catering services | Textile | Gardening products and services | The firm in question | Hardware | Waste and Power (CHP) | Roads construction and traffic signs | Street lighting and traffic signals | Waste Water treatment structure | Industrial oil products | Services | Equipment of imaging | Printing and services | Others | |
| f) Type procedures used | | | | | | | | g) Type procedures used | | | | | | | | | |
| Procedures | | | | | | | | Description | | | | | | | | Comments | |

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