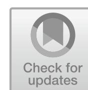
The Management Process Underpinning the Non-financial Reporting: A Case Study of a Listed Italian Company



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1 Introduction

In the current economy, several institutions, organizations, stakeholders, and societies are promoting a new idea of business, based on more ethical, social, and environmental-oriented (Cantino and Cortese 2017; Epstein 2018). Hence, community pressures and stakeholders' expectations have led to a rise in sustainability reporting and standards and guidelines regarding the disclosure of environmental, social, and governance information mainly provided on a voluntary basis (Salvioni and Bosetti 2014).

The preparation of stand-alone corporate non-financial reporting provided by large companies is increased from 70% in 2013 to 73% in 2015, and by the year 2017, about 77% of the companies produced reports regarding environmental, social, and governance (ESG) matters (KPMG 2017).

More recently, regulation has begun to be deemed necessary to address matters regarding the firm's legitimacy, transparency, comparability, and credibility of non-financial reporting procedures (Eccles and Serafeim 2015; Vitolla and Ramio 2018). The European Union has introduced the Directive 2014/95/EU to oblige companies

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in reporting non-financial information. This Directive has aimed to achieve similar levels of transparency across the EU states by allowing high levels of flexibility in taking into account the ESG dimensions and the diversity policies implemented by each company.

In Italy, the corresponding Legislative Decree regarding the disclosure of non-financial and diversity information has been implemented in 2016, and it operates from 1 January 2017.

Despite the growing interest in non-financial information disclosure, studies, examining the reasons for and the activities and managers-related disclosure choices, are still lacking (Bebbington and Larrinaga 2014; Gray 2010; Adams and Larrinaga 2007; Hopwood 2009; Moser and Martin 2012).

In fact, to date, most of the studies mainly focus on analyzing the content and structure of the non-financial reports by neglecting research topics such as the process underlying the realization and the development of non-financial disclosure (NFD). Therefore, this study aims to fill that gap by exploring the process steps that lead to the non-financial information disclosure.

Due to the explorative nature of this research, a qualitative approach, based on a case study (Eisenhardt and Graebner 2007; Miles et al. 2014), is adopted. The research focus is on a listed Italian company operating in the manufacturing sector. Semi-structured interviews (Qu and Dumay 2011) are used to highlight the activities and the stages characterizing the management processes and valorization practices of non-financial information.

Therefore, the research questions are the following: (RQ1) Which actors are involved in the process underpinning the non-financial information disclosure? (RQ2) Which are the phases characterizing the non-financial information disclosure process? And finally, (RQ3) what are the main critical areas meet during the development and the implementation of the non-financial disclosure process?

It is the first step of preliminary research of a more extensive project aiming to investigate the implementation practices of non-financial reporting. Therefore, this paper contributes to extending the literature regarding the non-financial reporting by providing a deeper description of the process characterizing the NFD implementation and the critical areas and the opportunities associated with the developing process of this report, after the European regulations, with a focus on the Italian context.

The paper is structured as follows. In section two, a brief literature review regarding studies on non-financial information reporting is shown. In section three, an overview of the Italian Legislative Decree n. 254/2016, adopted by the Italian Parliament, regarding the disclosure of non-financial and diversity information, is provided. Finally, the research methodology, findings, and conclusion sections are illustrated.

2 Literature Review

In recent years, the world has been profoundly transformed by events related to human, social, environmental, and economic issues which have increased society

distrusts and social and economic inequality. Governments, public and private institutions, enterprises, and communities have highlighted the need to create a new vision of sustainable growth, intending to integrate economic efficiency and social growth (Bebbington et al. 2012; Epstein 2018; Ries et al. 2018).

This change has driven an increased awareness of corporate social responsibility (CSR) issues (Dahlsrud 2008; Del Baldo 2012; Okoye 2009), which has set up the foundation for a new role of business within the society in terms of social, ethical, and environmental orientation (Campbell 2007; Cantino and Cortese 2017; Costa and Torrecchia 2018; Idowu and Del Baldo 2019).

In this context, the need emerges to come over the traditional technical-accounting system in favor of accounting practices able to measure not only economic and financial performance but also the social complexity which typifies companies. As mentioned by Gray et al. (2000), the accounting system should be considered as a multidimensional tool able to take into account "social, political, and ethical" components to entirely satisfy the corporate information needs to face today's business environment. In fact, the traditional accounting system is not able to unveil company's strengths in terms of non-financial aspects such as intangible assets, qualitative key performance indicators (KPIs), and environmental, social, and governance (ESG) parameters (Perrini and Vurro 2010; Del Baldo and Nesheva-Kiosseva 2017; Bontis et al. 2018).

To date, a growing number of organizations are disclosing non-financial information in terms of ESG impacts together with the financial statement in order to create and promote social and economic value (Eccles and Krzus 2010; Cohen et al. 2015; Epstein 2018), to deal with stakeholders' and society needs (Higgins and Larrinaga 2014; Prado-Lorenzo et al. 2009; Sierra-Garcia et al. 2015), and to meet firm's cultural and reputational reasons (Camodeca and Almici 2017). More specifically, these dimensions concern the strategic goals related to environmental protection, social responsibility, treatment of employees, respect for human rights, anti-corruption, and diversity policies on company boards (in terms of age, gender, educational, and professional background).

Therefore, an integration perspective of the economic and financial dimension into the social, environmental, and governance ones allows organizations to provide a more well-informed picture of their corporate performance and better transparency and legitimacy with regard to society (Epstein 2018). This is even more important in listed companies, where the disclosure of non-financial information results to be positively correlated with the equity value of the company and to the growth of shareholder value and engagement (Wang and Li 2016; Godfrey et al. 2009).

Consequently, the adoption of both financial statement and NFD, benefits an entire organization, since it helps to improve the formulation, implementation, and review of business strategy; to strengthen the relationships with stakeholders and society through better communication of the achieved results; to improve the ability to identify and assess risks; and to improve the motivation and the ethical behavior of employees, managers, and stakeholders and thereby promoting organizational culture and learning (Cantino and Cortese 2017; Cho and Patten 2007; Salvioni and Bosetti 2014; Sierra-Garcia et al. 2018; Vitolla and Ramio 2018).

Additionally, authors such as Adams and Mc Nicholas (2007) and Dey (2007), focusing the attention on the effects that social and environmental disclosure may have on a firm, highlighted how non-financial information can produce firm's structural and procedural changes and modify companies' values and norms systems. They find out that companies, adopted social or environmental accounting, are more likely to conducting business operations in a more environmentally and socially responsible way.

Several studies have investigated the internal organizational and contextual factors influencing the adoption of complementary social and environmental reporting to the annual reports (Contrafatto 2011). Specifically, factors such as the role and the skills of organizational board members and employees (Adams and Mc Nicholas 2007; Bebbington et al. 2009), the reference society and governments' regulations (Georgakopoulos and Thomson 2008), corporate' culture (Bebbington et al. 2009), training courses (Baldarelli 2019), and firm's attitude in undertaken initiatives in accordance with competitor's behavior (Contrafatto 2014), stakeholders' requests and finally, organizational resources in terms of time, financial sources, knowledge (O'Dwyer and Unerman 2008) seem to influence the SER implementation and usage.

Over the years, the reporting of non-financial information has been mainly based on a voluntary approach, which has led to the development of many standards and guidelines (De Villiers et al. 2014; Salvioni and Bosetti 2014). However, there is still a "gray" area regarding the reasons promoting and pushing firms voluntarily in undertaking and implementing practices of social and environmental reporting (Contrafatto 2009; Georgakopoulos and Thomson 2008). Historically, the choice to produce and disclose non-financial information is, by Buhr (2002) and O'Dwyer (2002), related to the aims of increased the firm's legitimacy, to provide valuable and useful information, and finally, to satisfy firm's self-interested. Nevertheless, the firm's willingness to spread a favorable organizational culture and effective management of environmental and reputational risk is recognized as the main motivation able to influence a firm's non-financial disclosure (Contrafatto 2009).

Due to the social and economic pressures and the inadequacy of current reporting practices and lack of transparency, the EU Commission is intervened with the Directive 2014/95/EU to promote common rules for the NFD starting from 1 January 2017. More specifically, the EU Directive aims to improve the quality and the comparability of non-financial information and to decrease the lack of completeness, accuracy, and neutrality (Adams 2004), across Europe.

However, there is heterogeneity in the definitions of the underlying concept. The non-financial information disclosure is interchangeably called "non-financial information", "non-financial reporting", or a "non-financial statement" (European Union 2014), and these labels refer to the ability to report and explain to firm's stakeholders and the qualitative and quantitative aspects regarding ESG performance.

Additionally, according to Erkens et al. (2015), which reviewed about 53 accounting and non-accounting journals during the period 2009–2013, NFR mainly refers to a wide range of topics such as social and environmental disclosure, intellectual capital, integrated reporting, or CSR. As highlighted by Haller et al. (2017), there is not a shared meaning or a general definition of non-financial information. However,

CSR represents the leading topic within the NFI literature in terms of the number of articles published during the timeframe 2009–2013 (Erkens et al. 2015).

Other studies focus on the mandatory and voluntary requirements influencing non-financial reporting. For instance, Wang et al. (2016), focusing on listed companies producing voluntary disclosure, find out a positive relationship between the quality of the NFI reporting and the companies' equity value. Additionally, the importance of voluntary disclosure of activities regarding economic, social, and environmental sustainability can generate confidence among stakeholders and the community (Carroll and Shabana 2010; Godfray et al. 2009).

However, several studies show that the voluntary reporting of non-financial information has been driven by manager's willingness to improve corporate reputation and legitimacy (Neville et al. 2005; Prado-Lorenzo et al. 2009; Sierra-García et al. 2015) with the aim to manage the stakeholders' perceptions following by negative changes regarding ESG issues (Cho and Patten 2007; Deegan 2002; Siano et al. 2017). In fact, the rise of reporting regarding ESG issues, based on a voluntary approach, with partial or total absence of regulatory provisions, can lead to the manager's tendency to disclose only the information able to persuade their stakeholders in an opportunistic perspective (Siano et al. 2017; Stacchezzini et al. 2016). Finally, one of the few contributions regarding the voluntary process characterizing the non-financial information disclosure is given by Comodeca and Almici (2017). The authors, with a focus on Italian listed companies, highlight the main role of integrated reporting in representing a starting point for a company's change. First and foremost, the transition starts with a new way of thinking about the enterprise understood as an integrated entity and not a stand-alone one. Second, the Decree stimulates to move from an implicit sustainability approach to an explicit one by stimulating the firm's vision to ESG issues. Finally, it fosters a new firm's role within society, such as a firm aiming to create economic and social value.

Numerous authors (Crowford and Williams 2010; Deegan 2002; Hąbek and Wolniak 2016; Ioannou and Serafeim 2017) state that the mandatory requirement leads to increase the quality and the number of the non-financial reports and to incentivize manager's behavior in disclosing firm's performance regarding both tangible and intangible dimensions.

Conversely, studies (Venturelli et al. 2018; Crawford and Williams 2010) based on the content of the mandatory and voluntary disclosures and focusing on listed companies, find out that countries that have adopted an ex-ante regulation seem to have a higher quality of disclosure than countries that have adopted the non-financial disclosure only after the introduction of the EU Directive 2014/95. In other words, the introduction of the mandatory regulation does not have the same positive influence on quality disclosure, especially about Italian and UK firms (Mio and Venturelli 2013).

Moreover, other studies show that the imposition of specific rules to disclose NFI might originate standardization and benchmarking practices (Brown et al. 2009; Hess 2007) or it could increase the number of reports but without being accompanied by qualitative improvements (Bebbington et al. 2012; Chauvey et al. 2015).

Therefore, the regulation alone cannot guarantee better levels of quality and reliability of reporting practices, but the assurance processes help to avoid the disclosure of adulterated non-financial information.

In particular, some authors (Coram et al. 2009; Fonseca 2010) sustain that the process of assurance can help the firm's managers in avoiding the negative stakeholders and investors perceptions' coming from greenwashing processes and in strengthening the retention processes of the shareholder. Moreover, the effects of an effective assurance process are considered positive as the positive effects on stakeholders, provided by the financial statements certification processes (Hay and Davis 2004; Moroney et al. 2012). Finally, the assurance process represents a valuable tool for managers to understand the level of compliance achieved (Bagnoli and Watts 2017).

Nevertheless, numerous EU countries (such as Italy, Spain, France, Portugal, Finland, Sweden, and Denmark) state that regulation is preferable to the voluntary disclosure, promoting many initiatives to promote a compulsory approach to the disclosure of non-financial information (Hibbitt and Collison 2004; Albareda et al. 2007).

Notwithstanding the growing interest in non-financial information disclosure, studies examining the internal organizational processes are still lacking (Adams and Larrinaga 2007; Bebbington and Larrinaga 2014; Camodeca and Almici 2017; Gray 2010; Hopwood 2009; Contrafatto 2014).

Following the same line of research, Contrafatto (2014) by focusing on a case study regarding an Italian multinational company operating in the energy sector sums up the steps through which social and environmental reporting (SER) has been institutionalized. In particular, the author identifies three phases involved in the development of the firm's SER. The first one concerns the ability to constructing a common meaning system around the idea of social and environmental responsibility by highlighting the critical role of human capital in making the social and environmental issues widespread among enterprises. The second phase is related to the "practices" aspect in terms of rules and routines to adopt to implement the SER as a "natural" consequences coming out from "what goes on inside organizations" (Bebbington et al. 2009). Finally, the last phase concerns the initiatives and the adoption of intra-organizational managerial structures and procedures that are undertaken to sustain SER practices.

Nevertheless, there is a need to increase studies regarding how companies' non-financial reporting is influenced by the code of ethics, the management of the company, and the stakeholders' relationships (Romolini et al. 2014). This is even more important if considering that such elements set up the foundation of a corporate approach to NFI issues.

Hence, this study, in order to provide a better understandings of organizational processes that lead to the non-financial information disclosure, aims to investigate: (i) the company's actors involved in the non-financial information disclosure process; (ii) the process phases characterizing the development and the implementation of the NFD; and finally, (iii) the main critical areas met during the development and the implementation of the NFD.

3 An Overview on the Italian Legislative Decree n. 254/2016

The non-financial information disclosure provided by Italian companies is due to the Legislative Decree n. 254/2016, adopted by the Italian Parliament, enacting Directive 2014/95/EU regarding the disclosure of non-financial and diversity information. It has set up the foundation for a comprehensive disclosure of the company, highlighting the importance of promoting a new perspective of doing business that is furthering social, environmental, and economic development (European Union 2014). Notably, the Decree applies to large public interest entities (PIEs), such as listed companies, banks, and insurance companies, which meet the following criteria. First, an average number of employees for the year of 500 units and a balance sheet total of more than €20 million or a net turnover of more than €40 million, are required (European Union 2014; Venturelli et al. 2018).

With regard to the "non-financial information" (European Union 2014), the Directive states that the report should include "information to the extent necessary for an understanding of the development, performance, position, and impact of corporate activity, relating to, as a minimum, environmental, social and employee matters, respect for human rights, and anti-corruption and bribery matters".

Notably, these issues should, at least, include a brief description of the undertaking business model, a description of the policies, the outcome of those policies, the principal risks related to those matters, and finally, non-financial key performance indicators relevant to the particular business (European Union 2014).

Additionally, the NFD has to pay particular attention to information about the energy consumption (whether renewable or not), the use of water, the emissions of greenhouse gases and pollutant emissions into the atmosphere, policies to ensure gender equality, and finally, actions aimed at struggling both active and passive corruptions.

About the "diversity information", the Directive recommends "a description of the diversity policy applied in relation to the undertaking's administrative, management and supervisory bodies with regard to aspects such as, for instance, age, gender, or educational and professional backgrounds, the objectives of that diversity policy, how it has been implemented, and the results in the reporting period. If no such policy is applied, the statement shall contain an explanation as to why this is the case" (European Union 2014).

Furthermore, the non-financial information needs to respect some principles such as relevance, clarity, and comparability (Article 3 of Legislative Decree n. 254/16). The selection of relevant information must be based on the principle of materiality. Each information should guarantee an understanding of business activity in terms of performance, outcomes, and impact. Moreover, each enterprise should provide a reasoned explanation for not pursuing policies concerning ESG issues. Finally, the non-financial report should allow comparing the information with current and previous years.

According to regulatory standards, companies have significant flexibility to disclose relevant information. Organizations could employ international, European, or

national guidelines for the statements. The choice should reflect the set of performance indicators used to measure the organizational objectives and activities (Venturelli et al. 2018; La Torre et al. 2018a) to stimulate a corporate-integrated thinking (Adams 2017; Camilleri 2018) and to implement a multidimensional performance measuring system that takes into account tangible and intangible resources. The companies have to indicate which guidelines have applied to produce the report.

Some of these frameworks have been developed by the Global Reporting Initiative (GRI), the International Integrated Reporting Framework (IIRC), the United Nations of Global Compact (UNGC), the Organization for Economic Co-operation and Development (OECD), and the Sustainability Accounting Standards Boards (SASB), among others (Brown et al. 2009; Waddock 2008; Baldarelli et al. 2017). These frameworks differ from a flexibility point of view since some of them provide detailed methodologies to disclose non-financial information. Instead, others only offer a reporting path based on principles to respect. Furthermore, some are oriented to a wide range of stakeholders; while, others mainly focus on financial stakeholders and to highlight the firm's sustainability or value creation processes (Waddock 2008). However, the main difference is related to the principle of materiality and on the choice of non-financial information to be disclosed (La Torre et al. 2018a). The Italian Law allows publishing the non-financial statement as a part of the annual management report or as a separate report accessible from the firm's Web site.

4 Methodology

4.1 Research Method, Case Selection, Data Collection, and Analysis

The empirical research is based on the qualitative analysis of an in-depth case study. This methodology is recommended to understand complex phenomena (Eisenhardt 1989; Wolcott 1994; Cooper and Morgan 2008), such as that of the present study. Moreover, a qualitative field case study methodology was used in analyzing corporate social responsibility reporting (Laine et al. 2017) and social and environmental reporting (Contrafatto 2014). Finally, as suggested by Yin (1994), a single case study can be useful for exploratory purposes, if it is used as a "prelude case" or pilot case. In this sense, the present study can be considered the first phase of a broader exploratory survey, which may subsequently be realized, starting with the information gathered by the current investigation.

The case study was selected with the logic of a predetermined criterion of importance (Patton 1990); it represents an information-rich case whose study allows a better understanding of the questions under examination.

The selected case is a listed Italian Group (from now on called the Group) operating in the manufacturing sector, specifically in the business to business type of industry. Overall, it works in more than 100 countries all around the world. There

are several reasons why this specific firm is well suited to the exploratory purpose of the research. First, though it was a well-established business, before 2017 (when the law 254/2016 came into force), the firm had never voluntarily made an NFD, addressing the social and environmental impact of its activities. Second, the process of collecting and assembling social and environmental data and information does not merely involve the headquarters but also extends to the various subsidiaries located in different countries. Thus, it is about a very challenging process, making this case a relevant setting for investigation. Such organizational complexity lends itself to the purposes of this study by placing the emphasis squarely on the question of the coordination of the operational activities needed for the NFD. Third, as stressed by recognized qualitative researchers (Bérdad and Gendron 2004 Laine et al. 2017; Major et al. 2018), firm's readiness to be examined was a significant factor in its being selected for the case study.

Data collection began in September 2018 and ended on February 2019. Before starting primary data gathering, secondary data were collected (such as consolidated financial statement 2017, sustainability report 2017, corporate journal, Web site, and online news) to familiarize with the business features and its NFD. These multiple sources of data were gathered so as to provide an effective triangulation, confirm emergent results, and avoid inconsistencies in the data (Miles and Huberman 1994) during the next step of data analysis. However, the key data source was represented by in-depth, semi-structured, and face-to-face interviews. Guided by a checklist, interviews were carried out in the company headquarters by four of the authors and involved the team entrusted with the entire process of reporting the NFD: the chief executive auditor and other team members. Since the present study is a pilot case, in this phase, it was deemed appropriate to interview only those directly involved in the entire process of reporting the NFD. The questions were aimed at collecting information regarding the following three sections: background of actors involved, aimed at assembling a professional profile for each team member (training, work experience, etc.); implementation process of NFD, to understand and analyze the different phases characterizing the NFD process; critical areas, in order to identify and understand the various problems which emerged during the development and implementation of the NFD process. During the meeting, the interviewees gave the authors supplementary documents regarding the business and the process of NFD.

The interviews, lasting about an hour, were recorded with the consent of the interviewees and subsequently transcribed verbatim for the subsequent process of analysis.

According to the method of qualitative research, the data analysis followed an iterative approach. Firstly, each researcher read the interview transcription independently and taking into account also the secondary data collected, so developing an individual case study summary before consultation with colleagues. Subsequently, all the authors pooled their thoughts in a series of brainstorming sessions and discussed the range of interpretations suggested by the findings. Attention was devoted to the actors mentioned by the interviewees as subjects involved in the process of non-financial reporting, the identification of different phases that characterized the process, and the criticalities encountered during the process. The constant alternation

of individual and collective analysis enabled the research team to arrive at a collegial interpretation enriched by the insights of the different members.

In the findings paragraph, the organizational process underpinning the non-financial reporting is described by providing a detailed narrative of the dynamics through which the non-financial information was developed and implemented. In the narrative, reported quotations from interviews and secondary sources had been translated from Italian to English by the authors.

4.2 The Research Context

The Group is located in Central Italy and has operated for more than 40 years. It has grown gradually during this time, also thanks to a process of internationalization, leading, at the beginning of the millennium, to its being listed on the Italian Stock Exchange in the Star segment.

Today, the Group operates through different plants and businesses worldwide, working in various related business sectors of industry. The broad range of activities produces a significant economic, environmental, and social impact on multiple stakeholders. Specifically, the production processes typical of the industrial sector pose a series of questions concerning environmental impacts, such as those relating to energy consumption, materials, the disposal and processing of waste, and the management of water resources.

Furthermore, given the organizational complexity, with some thousands of employees, it places human resources management high on the organizational agenda: staff training, security in the workplace, incentive projects, and staff remuneration. Additionally, the company's close ties with the surrounding area emerge as relevant, taking an active role in social, cultural, artistic, and sporting activities. Thanks to its effort in promoting and supporting several initiatives in the local context and abroad, the business is widely recognized as a pillar by the social and economic communities. Despite this, the company did not develop any voluntary CSR reporting before 2017. The firm has been pushed to collect and communicate non-financial data and information by the law to fulfill the regulatory obligation introduced by the Legislative Decree n. 254/2016, adopted by the Italian Parliament, enacting Directive 2014/95/EU.

5 Findings

As mentioned above, the business, which was the focus for the case study, had never implemented an NFD before Law 254/2016 came into force. Although a well-structured and well-organized business, the Group found itself in the position of having, in a short space of time, to fulfill its legal obligations in a way that required

the careful planning and implementation of numerous procedures preliminary to the reporting of the NFD. It was not the easiest of starts:

> The preparation of the Group's first Sustainability Report was the result of an incredibly intense project, on which the team worked almost full-time for over six months. It was like assembling a huge puzzle whose pieces were scattered all over the company departments. (Chief Audit Executive, Corporate Journal/2018)

Responsibility for coordinating and carrying out the various procedures connected to the implementation of the NFD was assigned to the internal audit area. The team was made up of specialist professionals who had all been trained in areas closely linked to the world of auditing and management control and had an average working experience of four years with the firm. Furthermore, the team worked in close contact with the marketing and communication department, which was able to bring a mixture of know-how and skills to the task and with an outside consultant who supported the development of NFD right from the outset.

The process of implementing the NFD involved, directly and indirectly, not only all the corporate areas at headquarters but also those of the entire Group's more than 30 subsidiaries.

The initial steps were taken amid considerable uncertainty, especially as regards content and form. It was immediately apparent that the process would be complex and far-reaching, largely due to the number, diversity, and geographical distance separating the individuals who needed to be involved, as well as the sheer quantity of data to be collected, managed, and processed at both the headquarters and Group level.

Aware of these complexities, the team deemed it advisable to engage a consulting firm to support it in carrying out the work. Together, they decided on the methodology to adopt and settled for the GRI standards. At the same time, the team was trained so as to learn the methodology selected and gain a full understanding of the rationale which would govern their work. Once the necessary skills had been acquired, the process of sharing with the whole Group got underway. Crucial to this stage was the "finance meeting" at which the team met all the CFOs from the subsidiaries and briefed them on the various questions:

> The finance meeting proved decisive. It's an appointment that the Group has scheduled in recent years, organized by the Finance area, held every two years in Italy, to which the CFOs of all subsidiaries attended […]. On that occasion, we had half a day to brief all the CFOs on the legislation, sustainability and related matters […] and it was a real piece of luck since it was essential to communicate with them seeing we already knew that we would have to involve all the Group's foreign branches at a time when the CFOs were all concentrating on reporting the financial statement. (Chief Audit Executive)

The next step was to create a benchmark to identify the companies with experience of NFD, in the same sector, and other fields, to learn the best practices and adapt them to the specific characteristics of the business. Thanks to this analysis, it was possible firstly to carry out a mapping of stakeholders, such as: trade associations, shareholders and investors, customers, financial community, employees and their

families, suppliers and trade partners, sector-specific media and magazines, public administration, government entities, universities and research centers, and local communities.

After mapping the stakeholders, it was time to identify the critical sustainability issues for the Group employing a materiality analysis based on analyzing the context of reference, the leading competitors, further companies operating in the sector, and documents of various kinds relating to the business:

> The next step was the materiality analysis which meant deciding on the topics to be included in the sustainability report [...] because, unlike the "finance" statement which has a structure laid down in the Civil Code, this needs to be constructed from scratch because there is no set format [...] The GRI standard indeed provides a number of issues, but it only gives the scantiest indication of what you have to report and then it's up to you to flesh it out with relevant data and give it a form and structure which is linear and logical. That is why, once we had identified the issues, we involved the department heads managers who, for various reasons, might have had experience of these matters and hence be a source of useful information [...] (Chief Audit Executive)

The matrix of materiality was developed, taking into account two dimensions: the importance of the material issues for the Group and for its stakeholders. This assessment was carried out through an abbreviated form of stakeholder engagement since the time available for implementing the NFD was extremely limited:

> [...] The first year we carried out a form of stakeholder engagement with our managers, telling them: think things through as if you were an outsider, be critical – obviously, because in September it was impossible to organize stakeholder engagement with all the interested parties [...], but this year we're doing it again and involving all the stakeholders. (Chief Audit Executive)

The prioritization stage takes into account the economic, environmental, social and compliance impact, positive and negative, generated by the Group, as well as the expectations of the principal stakeholders and their requirements in terms of decision making:

> Issues relating to the environment, human rights or the management of human resources, relations with the local area as well as the future of technology, are all aspects already present in the day-to-day running of the company. What's new is that the Sustainability Report has brought these issues to the attention of stakeholders in an organic fashion, highlighting specific aspects, related risks, prospects, and future strategies that the Group has chosen or is beginning to consider. (Chief Audit Executive, Corporate Journal/2018)

This procedure, submitted to the company's Control and Risk Committee for approval, enabled the business to identify the materiality matrix where the relevance of the ESG issues both for the Group and for the stakeholders emerges. Then, according to the matrix of materiality, data and information were collected from various departments and subsidiaries. Several problems/critical areas emerged at this stage are mainly to do with collecting and linking up information.

The first was due to the inherent complexity of the process, which required the involvement of the whole organization that, in this specific case, comprised more than 30 legal entities:

> Involving the people by getting them to actively participate proved one of the biggest difficulties of the whole process (Chief Audit Executive, Corporate Journal/2018)

The second problem area was the difficulty of finding a language which would enable the various corporate departments to exchange information (i.e., research and development, human resources, service, technical, quality control, safety, sales, accounting, and administration):

> […] we interviewed some areas which use a technical language that is highly specific, and it was difficult to communicate and synthesize information. (Chief Audit Executive)

> […] sometimes they hand you a bulleted list, and you have to interpret and develop it (Team member)

> […] other times, they give you a screed, and in both cases, it was difficult to produce a synthesis that wasn't either too sparse or too detailed. (Team member)

The third was the difficulty of collecting and summarizing both quantitative and qualitative information in a logical, homogeneous, and organic manner:

> […] The first year, collecting data was a major problem: everyone delivered information which had been processed in different ways […] because the means of calculating differed from one country to another, or else one country had a different system from another, so the data weren't all homogeneous. (Team member)

The fourth problem area was the need to collect quantitative data that were objective and reliable. More specifically, the difficulty arose from the need to show that all the data in the report were supported by documentary evidence:

> […] You need to account for practically everything, which means having the data for waste, electricity for the current year and the previous one, […] and with some of the companies being small, it's complicated enough to get hold of the bills. (Team member)

> […] The data need to be revised, so we can't only trust what the various subsidiaries supply us. We must have concrete evidence for all this data […], and this is a further complication because it means you have to check out every single figure. (Team member)

Once the methodological procedure had been completed and the data collected and processed, the internal audit department drafts the NFD with the assistance of the marketing department and the consulting company. The role of the marketing department was especially important. It was at once apparent that the sort of communication attempted in the NFD was different from the communication of economic and financial reports, in terms of both content and graphics. The marketing director, in agreement with top management, felt that it was appropriate to give the sustainability report a new layout. The significance of the report was not merely economic but also environmental and social and hence demanded changes to the layout (in terms of color, design, format) that would reflect its content. The restyling was intending to ensure effective communication with stakeholders.

> […] sustainability needed to be communicated in a different way from the canonical financial report […]a very different form of communication which takes the individual as its subject. (Chief Audit Executive)

The final draft of the NFD was submitted to Control and Risk Committee for examination and then to the Board of Directors for approval, together with the consolidated financial statement. The report then followed the legal procedure governing publication and filing.

The NFD was shared with the internal stakeholders, adopting various forms of communication including multimedia boards, posters, and giant blow-ups in public areas, social media (Facebook, Twitter, Instagram, and Linkedin), dedicated newsletters shared on the company's intranet, paper documentation available in designated areas, etc. In this sense, stakeholder engagement was perceived as an important opportunity to encounter the stakeholders to explain and share information regarding the economic, social, and environmental impact of the company's activities. A further means of dissemination took the form of a new section to the Group's official journal, called "corporate journal," and founded years ago with the aim of reporting on the corporate world for the benefit of internal and external stakeholders. The new section, explicitly devoted to the NFD and entitled "sustainability", contains a series of information about the NFD, the main findings, and the role and meaning of sustainability in terms of the Group's strategic vision.

The process of preparing the first NFD generated several positive effects on the business. Firstly, it triggered a learning process, which has resulted in a fuller awareness of some issues highlighted in the report. The NFD has proved to be a source of new knowledge for the Group. Data were emerged concerning the company's activities, which had never been analyzed before. The NFD has demonstrated its value in highlighting the contribution of the various corporate management areas such as production (i.e., reducing environmental impact, improving safety in the workplace, attending to the quality and safety of the products), human resource management (career structure, training policies), and besides the financial aspects:

> Starting from a blank page, we created an image of the group hitherto largely unknown to most people, talking about the Group from various angles, often different from the normal ones based mostly on economic and financial information. The main aim of the regulations that have made it mandatory for some companies, including the Group, to publish non-financial information and the consequent Sustainability Report, is to put the companies in front of a mirror so that they can see themselves from a new perspective. (Chief Audit Executive, Corporate Journal/2018)

In particular, as regards the management of human resources, two features emerged, which even took the management by surprise. The first was the low level of staff turnover, with many in the company's employed for over ten years. The second was the staff training schemes which amounted to about 100 thousand hours per year:

> […] Evidence that the Group is a good place to work, people around taking photos, the "best employee" is an award we make every year […] what better proof to show those outside that people come here to work and stay? (Chief Audit Executive)

And again:

> We were staggered to learn that the Group timetables 100 thousand hours a year for training. Everyone who read about that, from top management downwards, was stunned at the amount. (Chief Audit Executive)

Another aspect, which had never previously been pointed out in any other company report, was the Group's close ties with the territory in which it operates. They are relationships that affect, on the one hand, the supply chain—so much so that a good 80% of supplies come from local firms—and on the other, the local community—many social, cultural, and sporting activities are regularly sponsored by the Group.

Secondly, the implementation of the first NFD, as part of a policy of continuous improvement, seems to have triggered a process of change involving the Group's corporate activities right across the board.

The first of the changes—considered the cornerstone of the whole process—has produced the improvement of data collection among the subsidiaries through a standardized, shared, and centralized computer system serving as a common repository for all the Group's subsidiaries that have enabled the Group to optimize the communication and data collection process, now standardized and homogeneous, with the result that it is easier to manage the timing of a process that overlaps with the reporting of the consolidated statement. For example, the Human Resources office has implemented an ad hoc function within the information system capable of accurately registering staff training hours.

Furthermore, it emerges that in the wake of the publication of the first NFD, corporate management was stimulated to examine data that had never previously been considered. Management's involvement to monitor data and carry out an in-depth study has led to the introduction of a series of new procedures:

> […] The sustainability report has inspired other small procedures. Some of the data were further analyzed […], that hadn't happened before because they were concealed elements that hadn't emerged elsewhere. For example, corporate management has requested an analysis of service supplier costs […] by category, an aspect that had never been analyzed before now. (Team member)

Thirdly, another highlighted change concerns the organizational structure of the internal audit area. 2018 saw the introduction of the "compliance specialist," an internal resource responsible for monitoring and guaranteeing correct procedures and making sure that legally binding regulations are strictly adhered to. The Chief Audit Executive maintains that this new role was decisive in ensuring the smooth running of the entire NFD implementation process.

Finally, two new documents stem from the publication of the first NFD: sustainability policy and NFD implementation procedure. The first undertakes to explain the fundamental principles underlying the Group's approach to sustainability. The second sets out to describe the procedures leading to the processing, approval, and publication of the NFD to ensuring that the process, accurately monitored and precisely timed, can be repeated in the future.

6 Discussion and Conclusions

This paper investigates how a listed Italian company has developed its non-financial reporting following the Italian Legislative Decree n. 254/2016, answering the calls

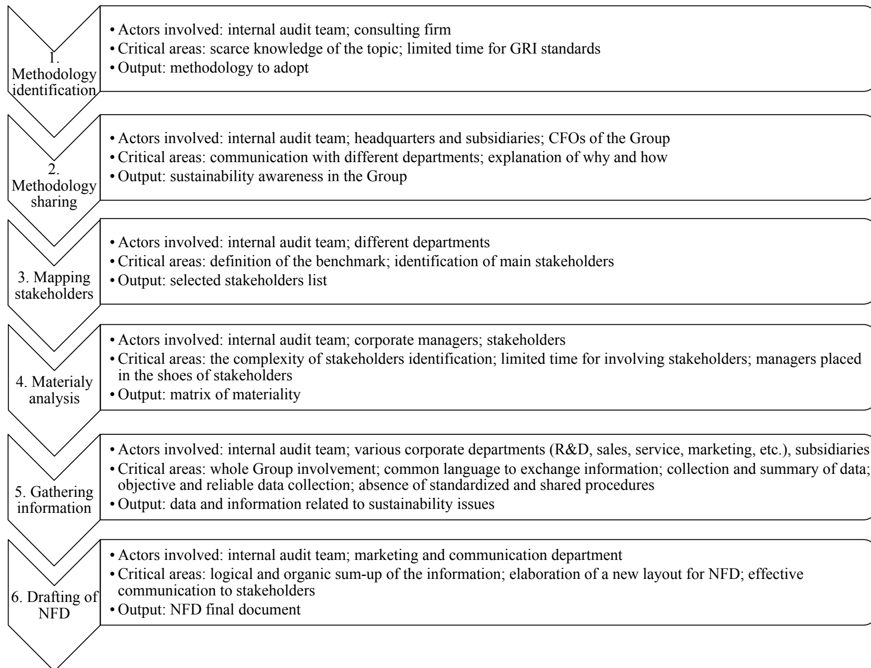

Fig. 1 Non-financial information disclosure process

of several scholars for further research into the internal organizational processes that lead to the reporting of the NFD (Adams and Larrinaga 2007; Hopwood 2009; Gray 2010; Bebbington and Larrinaga 2014).

Findings from interviews with both the Chief Executive Auditor and other team members and the analysis of complementary documents allowed us to answer the research questions.

Figure 1 illustrates the main results of the analysis: the phases of the process, the key actors, and critical issues. Figure 1 also shows the individual phases' outcomes progressively achieved during the process.

The complexity of the whole process is evident, and it was a great challenge for the company to accomplish it in very few months. The connections and interactions among a wide range of actors were crucial in reaching the goal. Thus, referring to the RQ1, a variety of subjects involved in different periods and places and with diverse roles and logics emerged. A heterogeneous network of local and global actors was constructed, starting from the team located at headquarters, extending to different departments and the various subsidiaries located in different countries. The network also included an external subject that is the consulting firm. Connections and interactions among actors were aimed to fulfill a twofold purpose. On the one hand, it was necessary involving internal actors to collect data essential to the non-financial information disclosure. On the other hand, the inclusion of a consulting firm

and co-operation with the marketing and communication department was crucial to steer the process, acquiring knowledge and competences about what NFD is and how NFD can be developed and communicated to stakeholders. Even if the stakeholders' engagement in developing the first NFD was indirect because of the limited time available, the experience gained allowed the business to decide how stakeholders should be involved in the future.

Concerning the RQ2, sequential phases are synthesized in Fig. 1. The process that led to the first NFD had the purpose of not only producing the required report but also introducing into the company, a new methodology and numerous procedures preliminary to the reporting of the NFD.

The first two phases of the process were therefore designed to put in place the process itself, by identifying the methodology to adopt (methodology identification) and then sharing it with the internal interlocutors so as to ensure a common vision regarding how and why the NFD would be produced (methodology sharing). These phases may, therefore, be considered as distinctive of the first NFD process and will probably not be repeated for subsequent annual reports. The four later phases are the ones that led to the concrete application of the methodology and the publication of the first report. These phases were aimed at addressing the essential points required of the NFD: mapping stakeholders, materiality analysis, prioritization of sustainability issues, and finally reporting the NFD document. Unlike the initial two, these four later phases will be repeated in subsequent years and improved to create standardized procedures for data collection.

Concerning RQ3, findings show that several critical issues arose. Unlike the economic-financial disclosure, which followed well-established procedures, there were no consolidated internal procedures and guidelines for producing the NFD.

Additionally, there were only a few months to the statutory deadline. Every phase of the process pointed up one or more critical issues (Fig. 1), some of which were easily resolvable while others were less. The support of the consultancy firm and the benchmarking analysis were decisive in easily overcoming the difficulties stemming from the lack of specific skills and know-how and ensuring that the process got underway successfully. The problem areas were those connected with the gathering, processing, and summarizing of data. The truly major hurdle to overcome was the need to involve the whole organization in obtaining reliable data in the absence both of shared and standardized procedures for data collection and of a common language for the exchange of information. On the other hand, these difficulties proved an incentive to create new processes and new standardized procedures to enable better, more efficient data collection.

Indeed, even though it was not among our research questions, findings showed several positive effects resulting from the process. The need to fulfill the legal requirements increased awareness of the business and of how the company relates to its main stakeholders. It also favored the start of a process of change involving the whole Group in terms of new procedures and organizational improvements. In other words, the company was able to turn a challenge into an opportunity.

This study contributes to the non-financial information disclosure literature, providing insights both on a theoretical and practical level.

From a theoretical point of view, our paper enriches existing knowledge about the mandatory adoption of the NFD by providing field-based case study evidence collected from a listed Italian company. Previous research has investigated several issues related to mandatory NFD, such as the quality, the number of the non-financial reports (Crowford and Williams 2010; Deegan 2002; Hąbek and Wolniak 2016; Ioannou and Serafeim 2017), and the content of the mandatory disclosures of listed companies (Venturelli et al. 2018; Crawford and Williams 2010). This paper is one of the first attempts to perform a qualitative analysis of the internal organizational processes that lead to NFD by presenting an emblematic case of how a firm that had never voluntarily made an NFD, addressing social and environmental issues following the introduction of the Italian regulatory standard n. 254/2016. This qualitative study moves forward the current knowledge shedding light on the management process underpinning the mandatory non-financial reporting in terms of actors involved, phases of the process, and criticalities encountered. Empirical evidence allowed us to point out the complexity of the process by which new accounting practices to support NFD are constructed and implemented, the wide range of local/global and internal/external subjects involved, and how the company tried to overcome difficulties due to the lack of previous experiences on NFD. Our findings also show that, even if the reason behind the introduction of NFD was merely due to the Italian governments' regulations, its development and implementation can generate a better top management's mindfulness about the company, the commitment toward its stakeholders (e.g., employees, suppliers), and the corporate social responsibility toward the territory and local communities.

From a practical point of view, our study provides useful insights into the difficulties and positive outcomes of the mandatory adoption of the NFD by firms. Collecting data within complex organizations is always a difficult process even when NFD is voluntarily adopted (Camodeca and Almici 2017; Laine et al. 2017). However, voluntary implementation is based on the partial or total absence of regulatory requirements and allows managers to choose what to disclose and how sometimes adopting opportunistic approaches toward stakeholders (Siano et al. 2017; Stacchezzini et al. 2016). Conversely, the mandatory adoption is designed to guarantee a neutral approach to stakeholders, requiring specific data that have to be produced and communicated in a manner that is reliable and complete. Furthermore, the analyzed case supports the belief that the mandatory adoption of the NFD is not merely a question of a firm's performing its legal duty. Clever companies may be able to transform an obligation into an opportunity, paving the way for beneficial change. From this perspective, the Italian Decree should also stimulate firms never engaged in ESG issues to acquire more awareness about how an organization demonstrates sustainability and creates economic, social, and environmental value.

It should be recognized that the research presents some limitations. The main is attributable to the analysis of only one case. It may be considered a pilot case, and it is hoped that it will be followed by further empirical studies focusing on the internal organizational processes that lead to the reporting of the NFD in order to make useful comparisons. For instance, following the same line of research of Contrafatto (2014), the dynamics through which NFD will evolve, from its first introduction

to the phase of institutionalization, could be investigated. Furthermore, it would be valuable to extend the analysis involving multiple case studies in a similar context to identify similarities or differences between cases. Specifically, we focused our analysis on an Italian company that did not develop any kind of voluntary CSR reporting before the regulatory obligation introduced by the Legislative Decree n. 254/2016. Thus, it could be interesting to analyze several companies that had never developed any voluntary non-financial reporting before the regulatory obligation in order to ascertain patterns of convergence or divergences between cases. Moreover, future research could investigate companies, which had traditionally longer standing expertise in voluntary CSR aiming to understand whether and how the entry into force of the new legislation changed their organizational process underpinning the non-financial reporting.

Additionally, multiple case studies comparing companies characterized by these different approaches to non-financial reporting could be beneficial to gain more comprehensive knowledge on dynamics, changes, and effects produced by the regulatory obligation on non-financial disclosure. Furthermore, longitudinal research should investigate if the introduction of a regulatory obligation may (or not) have positive effects on companies and producing changes in terms of organizations' behaviors and corporate social responsibility. Finally, further research may also investigate the companies' practices in different countries to highlight how different normative may influence the management process underpinning non-financial reporting.

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