Mandatory vs voluntary exercise on non-financial reporting: does a normative/coercive isomorphism facilitate an increase in quality?

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Does a normative/coercive isomorphism facilitate an increase in quality?

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Abstract

Purpose - This paper aims at investigating the quality of Non-Financial Reporting (NFR) in light of Directive no. 2014/95/EU. Specifically, it focuses on the quality of NFR in Italian companies, as required by Legislative Decree no. 254/2016.

Design/methodology/approach - The method used to develop the analysis is mainly qualitative. A content analysis of 184 Non-Financial Reports (NFRs) was conducted on a sample of 92 companies that have been previously involved in the process of NFR on a voluntary basis. Then a longitudinal analysis was carried out in order to assess the quality of the NFR conducted from a voluntary to a mandatory basis.

Findings – This study shows that the quality of NFR does not increase when moving from a voluntary to a mandatory basis, especially for 25 per cent of the companies that publish supplementary sustainability reports and/or plans.

This result demonstrates that preparers may perceive mandatory NFR as a comprehensive best practice to adequately report their social, economic and environmental performance.

Originality/value - The contribution of this research is threefold. Firstly, it contributes to the social and environmental accounting literature that focuses on NFR quality assessment. Secondly, it contributes to the literature that emphasizes the role of mimetic, coercive and normative isomorphism mechanisms on accounting systems and reporting practices. Thirdly, it contributes to the research gaps for academics highlighted by previous literature on mandatory corporate reporting as a consequence of normative requirements, and on the relationship between regulation and mimetic, coercive and normative isomorphic mechanisms within organizations.

1. Introduction

Non-financial Reporting (NFR) has attracted great interest from various key stakeholders, such as the United Nations Global Compact, the Global Reporting Initiative (GRI), the International Integrated Reporting Council (IIRC), the Sustainability Accounting Standards Board (SASB) and the Task Force on Climate-related Financial Disclosure (TFCD), regulators such as the European Commission (EC), and the growing number of investors in the ESG investment segment (Stolowy and Paugam, 2018). Moreover, NFR is becoming a relevant type of disclosure in the corporate environment, causing growth in the amount and extent of NFR by companies that deal with different requests for information from several stakeholders. In this context, Non-Financial Reporting (NFR) has gained prominence at a European level and in various perspectives (legislative, professional and academic).

From the legislative perspective, the issuing of Directive 2014/95/EU has required Member States to enact their respective regulations and move from a voluntary to a mandatory preparation of NFRs.

NFR offers significant benefits to companies in terms of stakeholder engagement and reputation (Stolowy and Paugam, 2018), by enriching accounting and corporate reporting information (Doni et al., 2019). As in other European countries, NFRs of Italian companies have been previously issued on a voluntary basis. The mandatory exercise of NFR for some large Italian companies started in 2017 with the Legislative Decree (LD) no. 254/2016. In particular, the LD obliges large public interest entities, capital market-oriented companies, credit institutions and insurance companies with specific requirements to publish NFR. Therefore, although some companies had already published their NFR prior to the requirements of the LD, other companies carried out NFR for the first time in the 2017 financial year.

From an academic perspective, prior research has pointed out that mandatory NFR could exercise a positive impact on the level of disclosure (Ioannou and Serafeim, 2011). Nevertheless, there is contradictory evidence on the effect of mandatory NFR on reporting quality (Habek and Wolniak, 2016; Lock and Seele, 2016). Some scholars highlight the need for a robust theoretical framework to assess NFR quality (Hahn and Kühnen, 2013) and many academics (Daub, 2007; Bouten et al., 2011; Romolini et al., 2014; Michelon et al., 2015; Habek and Wolniak, 2016; Lock and Seele, 2016) have developed studies on NFR quality by describing the need for further improvements in terms of reporting quality. La Torre et al. (2018, p. 599) identify the mandatory introduction of NFR in Europe as *"an opportunity for academics to investigate and extend knowledge about mandatory corporate reporting"*. In light of the implementation of the EU Directive in the Italian context, the main motivation for this study lies in the need to explore the quality of NFR from a voluntary to a mandatory basis and to address the following research question: Does a normative/coercive isomorphism facilitate an increase in the quality of NFRs?

Our study is grounded on a conceptual model consistent with the institutional isomorphism mechanism in the context of neo-institutional theory (DiMaggio and Powell, 1983). In particular, in our study we aim to extend the following specific research insight provided by Roszkowska-Menkes and Aluchna (2017):

> [*The identification of links between mimetic, coercive and normative isomorphic mechanisms and institutional context (regulatory regime, market coordination, development stage)*] Roszkowska-Menkes and Aluchna (2017, p. 12).

In line with the research objective of our paper, we tailor the institutional isomorphism as follows:

- mandatory adoption of NFRs is forced by a regulatory normative effect, therefore, we associate it to a coercive/normative mechanism;
- voluntary implementation of NFRs could be associated to a mimetic effect.

The above theoretical assumptions support our investigation into NFR quality assessment.

To answer the research question, a content analysis of 184 NFRs has been manually performed on a sample of 92 companies that have been previously involved in the process of NFR on a voluntary basis. Then, a longitudinal analysis was carried out in order to assess the quality of the NFR exercised from a voluntary to a mandatory basis.

Our findings suggest that the quality of NFR does not increase when moving from a voluntary to a mandatory basis, providing a contribution to the literature that emphasizes the role of mimetic, coercive and normative isomorphism mechanisms in accounting and reporting practices (Di Maggio and Powell, 1983; Mizruchi and Fein, 1999; Roszkowska-Menkes and Aluchna, 2017).

This study attempts to contribute to the debate of both scholars and practitioners in an emerging field of research – NFR quality – which needs broad investigation. To the best of our knowledge, this paper is among the first studies aiming to explore the quality of NFR from a voluntary to a mandatory basis. From a theoretical perspective, this research contributes to the literature that focuses on the role of the different dimensions of isomorphism on Sustainability Accounting Systems and Reporting practices adopted by companies. In particular, consistent with an institutional approach to isomorphism (Di Maggio and Powell, 1983; Mizruchi and Fein, 1999), our research paper extends the conceptual model theorized by Roszkowska-Menkes and Aluchna (2017) by providing initial insights into the different effects exercised from normative/coercive vs. mimetic pressures. Moreover, we contribute to the research gaps highlighted by La Torre et al. (2018) on mandatory corporate reporting as consequence of normative requirements, and by Roszkowska-Menkes and Aluchna (2017) regarding the relationship between regulation and mimetic, coercive and normative isomorphic mechanisms within organizations.

The paper is organised as follows. The following section outlines the regulatory context that motivates the research design. Section Three provides the theoretical background and a review of the relevant academic literature on NFR quality. Section Four introduces the research methodology, and Section Five discusses the findings. Finally, Section Six presents conclusions, limitations of the study and suggestions for further research.

2. Regulatory context

With respect to mandatory NFR, other European countries, such as Denmark, Norway, Sweden and the Netherlands have introduced non-financial reporting regulations during the 1990s to require companies to report annually on their environmental performance (Hoffmann et al., 2018). France issued a law that required companies to disclose their environmental and social impact in 2001. Later, the UK passed a similar mandate in 2005 (Hess, 2007). The European Union adopted Directive no. 2014/95/EU on NFR.

The EU Directive for NFR represents a crucial step to improve corporate transparency across Europe. By regulating non-financial and diversity disclosure requirements across Europe, the directive attempts to standardize NFR and formalize transparency requirements (CSR Europe and GRI, 2017). This directive gives country-specific requirements in order to ensure its implementation across the various national practices and accounts for existing national requirements for NFR. More specifically, it allows Member States to impose country-specific requirements on companies regarding the three key aspects of reporting, such as the reporting framework, the disclosure format and the reporting content, and to identify which organizations are obliged to the legislative requirements. The EU Directive also allows Member States to define whether or not NFRs must be verified by an independent assurance service provider and the type and amount of penalties that will be imposed on organizations that do not report satisfactorily. Additionally, the EC encourages Member States to work towards "further improvements to the transparency of undertakings' non-financial information" (Directive no.

2014/95/EU, point 1). This call has been met by several Member States by enhancing the scope of the EU Directive (CSR Europe and GRI, 2017).

In Italy, the corresponding legislative decree was implemented in 2016. In line with this EU directive, Italian law requires that companies provide a brief description of the business model and disclosures of non-financial issues such as environmental, social and employee-related matters, respect for human rights, anti-corruption and bribery (as shown in Table 1). Additionally, following the materiality principle, companies have to disclose non-financial aspects that are relevant for the course of business, business results and the performance of the company. LD No. 254/2016 requires a description of the policies applied that are relative to each topic, including the due diligence processes pursued and their outcomes. In case the reporting company does not pursue a policy with regard to an individual topic, it must explain this clearly, following the "comply or explain" principle (Hoffmann et al., 2018).

Moreover, LD No. 254/2016 also requires a description of key risks, in terms of the reporting entity's operations and its business relationships, products, and services. Each company has to disclose its measures to manage these risks. Regarding the form of publication of NFR, the law (LD No. 254/2016) allows the reporting entity to include its non-financial statement in either the management report or in a separate NFR. Regarding the principles, guidelines, and frameworks for the publication of NFR, the most important are the Global Reporting Initiative (GRI), the International Integrated Reporting Council (IIRC) and the UN Global Compact, which aim to formulate requirements and enhance the reporting quality. The GRI are the guidelines most widely adopted by companies. They were introduced as part of a multi-stakeholder process and first published in 2000, where over time they have been incessantly developed further. If a framework is used for the preparation of NFR, it is compulsory to specify in the report which framework was taken into account. Otherwise, it must be explained why no framework was adopted for NFR.

A critical issue of the Italian LD No. 254/2016 is shown by the lack of specific content requirements. Thus, the scope, depth, quality and level of the disclosure are left open to the organization (Venturelli et al., 2017).

[Insert Table 1]

Table 2 provides the transposition of the EU Directive taking into account the main legislative definitions and requirements. In particular, the process of transposition was the same for some definitions, such as the "Definition of a Large Undertaking", and for some requirements, such as the "Report Topics and Content", the "Safe Harbour Principle" and the "Diversity Reporting Required". On the other hand, as CSR Europe and GRI outlines, the "Definition of a Public Interest Entity", the "Reporting Framework", the "Disclosure Format", the "Auditor's Involvement" and the "Noncompliance Penalties" requirements were adapted (see Appendix A).

Moreover, Table 2 shows the specific aspects required by both the EU Directive and the Italian Legislative Decree for disclosing non-financial areas (Environmental, Social, Employee, Human Rights, Anti-corruption and Bribery).

[Insert Table 2]

3. Literature review and theoretical background

3.1. NFR definition

NFR has attracted significant interest in the academic literature.

Erkens et al. (2015) investigate how NFR is defined and how interest in it has evolved over time in the literature, the main topics covered by NFR research, the principal methodologies adopted by researchers to address research questions about NFR, and the extent to which research studies are country-specific.

> Erkens et al. (2015, p. 25) have defined NFR as:
> *disclosure provided to outsiders of the organization on dimensions of performance other than the traditional assessment of financial performance from the shareholders and debt-holders' viewpoint. This definition includes, but is not limited to, items related to social and environmental accounting, CSR, and intellectual capital disclosed outside the financial statements.*

This definition of NFR contains several interrelated and loosely defined terms including integrated reporting (IR), sustainability reporting (SR) and corporate responsibility reporting (CSR). Their paper indicates that many academic articles do not define NFR, but instead refer to underlying concepts used in research such as social/environmental/human capital or CSR reporting.

Haller et al. (2017) have also found this lack of convergence in the definition of NFR.

Protin et al. (2014) analyse the research publications on NFR, finding that various terms are adopted to define this concept, such as Non-financial Information (NFI), Non-Financial Reporting (NFR), Non-financial Disclosure (NFD) and extra-financial information/ disclosure/reporting.

Huang and Watson (2015) examine CSR research published in 13 accounting journals, by focusing on four topics: (1) the drivers of CSR; (2) the link between CSR and financial performance; (3) the effects of CSR and (4) the roles of CSR disclosure and assurance. Moreover, Dienes et al. (2016) analyse the determinants and the impact of NFR.

Busco et al. (2014) review the fundamental concepts, content elements and guiding principles of a specific form of NFR, Integrated Reporting (IR), focusing on the challenges ahead for IR and on the potential impact of its adoption on the role of management accounting. Dumay et al. (2017) highlight barriers to the implementation of the international integrated reporting framework, concluding that further contributions from academic research are needed. Moreover, De Villiers et al. (2017) provide a literature review and a research agenda on IR and examine research design issues that should be taken into consideration for further research into IR. Lai et al. (2018) show that IR can produce socializing effects for a range of stakeholders, however they notice that investors and the other financial stakeholders remain key and continue to represent the primary recipients of IR. As a result, the study points out how IR can be the driving force towards more holistic forms of accountability.

Doni et al. (2019) explore the quantity and quality of non-financial information (NFI), from voluntarily to mandatory shifting, noticing that previous skills and competencies in NFR provide considerable contribution but also pointing out that "further efforts are expected to improve the quality of non-financial reports" (Doni et al., 2019).

Referring to the accounting and finance literature, Brooks and Oikonomou (2018) study the effects of environmental, social and governance (ESG) disclosures and performance on firm value. Stolowy and Paugam (2018) extend the literature on the academic definitions of NFR through their exploratory study by focusing on NFR practices and actual divergences of terms

by regulators, quasi-regulators and standard-setters. They argue that the definition of NFR is not unique because it is interchangeably referred to as "non-financial information", "non-financial reporting" or a "non-financial statement" (European Union, 2014).
In our paper, we aim to investigate the quality of NFR, i.e. the quality of the reports, including Integrated Reporting (IR), Sustainability Reporting (SR) and Corporate Responsibility Reporting (CSR), that includes social, environmental and economic matters.

3.2. NFR quality

Several studies examine the impact of mandatory reporting on non-financial accounting and reporting systems and corporate profitability (Chen et al., 2018; Ioannou and Serafeim, 2011). In particular, some researchers investigate whether reporting quality varies between mandatory and voluntary reporting. For instance, Lock and Seele (2016) carried out a quantitative content analysis of 237 CSR reports published in 2014 by European firms and they compared the credibility of CSR reporting in countries with and without legislative mandate and found no significant difference. Conversely, Habek and Wolniak (2016) investigated the CSR disclosure quality of 507 firms in the European context and found that firms obliged to a disclosure mandate achieved significantly higher reporting quality scores.
Previous scholars have developed different methods for assessing the quality of NFR even if there are no established and uniform assessment methods of NFR quality. In particular, Beretta and Bozzolan (2008), through their proposed framework, show that a high quality of annual report disclosure is positively associated with accuracy and negatively associated with the dispersion of analysts' earnings forecasts.
Habek and Wolniak (2016) developed a set of indicators related to specific categories of NFRs. Bouten et al. (2011) and Romolini et al. (2014) also investigated the quality of Sustainability Reports through the selection of specific criteria based on the GRI framework, by checking the presence of specific topics in the content of NFRs, that was then analyzed in order to achieve an overall quality assessment. Several researchers have measured the NFR quality through GRI indicators or application level (Moroney et al., 2012; Martínez-Ferrero et al., 2015), finding a positive relationship between the GRI adoption and NFR quality (Perego and Kolk, 2012; De Beelde and Tuybens, 2015) or an unclear effect on NFR quality (O'Dwyer and Owen, 2005; Manetti and Toccafondi, 2012). Boiral (2013) criticizes the adoption of the GRI because companies that decide to follow these guidelines, could neglect how the NFI is disclosed. Michelon et al. (2015) underpin their assessment on the analytical framework, by providing significant evidence regarding the missing link between the adoption of GRI guidelines and a higher quality CSR report. Daub (2007) conducted a comparative quality analysis by taking into account the reports from the financial years 2003 and 2004.
Furthermore, other studies grounded on the Institutional Theory (DiMaggio and Powell, 1983), Legitimacy Theory (Deegan, 2002) and Signaling Theory (Campbell et al., 2003) focus on the challenges, effects and improvements in CSR reporting quality (Fortanier et al., 2011; Dhaliwal et al., 2014; Vigneau et al., 2015). Lock and Seele (2016) base their analysis on theoretical concepts, such as the communicative action theory.
Overall, the literature on the differences between mandatory and voluntary reporting shows contradictory results regarding reporting quality, and recently, the studies on NFR quality point out the necessity for further improvement in terms of reporting quality (Daub, 2007; Habek and Wolniak, 2016; Lock and Seele, 2016; Bouten et al., 2011; Michelon et al., 2015, Manes-Rossi et al., 2018). In addition, researchers and scholars state that there is a need for more robust and widely applicable assessment frameworks to benchmark the quality of NFRs (Hahn and Kühnen, 2013; Morhardt, 2001; Skouloudis et al., 2009).

Our paper aims to contribute to this research stream by investigating the quality of NFRs in light of the recent European Directive 2014/95, and by exploring the role of the normative, coercive and mimetic isomorphic mechanisms on NFR quality.

3.3. The institutional isomorphism

Our study is grounded on a conceptual model consistent with the institutional isomorphism mechanism in the context of the Neo-Institutional Theory (DiMaggio and Powell, 1983).

Arguably, DiMaggio and Powell (1983) question the drivers that increase the similarities between organizational forms and practices. They conclude that isomorphism is the concept, which best forces the process of homogenization among organizations (DiMaggio and Powell, 1983, p. 149). Hawley (1968) describes isomorphism as *"a constraining process that forces one unit in a population to resemble other units that face the same set of environmental conditions"* (DiMaggio and Powell, 1983, p. 149). DiMaggio and Powell illustrate that institutional isomorphism may be implemented through a coercive, mimetic or normative mechanism.

Specifically, according to Scott (1995), the process of emulating organizational structures is driven by legitimacy instead of efficiency (Radaelli, 2000), which explains why organizations tend to be isomorphic in their key-decisions, structures, activities, processes and systems of accounting and reporting, in line with their environment.

Accordingly, the phenomenon of institutional isomorphism occurs because companies tend to be aligned with the other companies, in order to obtain a higher level of legitimacy (Scott, 1987, p. 498).

Taking into account the three mechanisms of isomorphism, we try to conceptualize the effect of the *NFR Regulation* on the *Sustainability Accounting Systems and Reporting practices*, *Non-financial report quality* and *Non-financial-report,* as shown in Figure 1.

Particularly, regulation on NFR, as discussed in the previous section, directly shapes *Sustainability Accounting Systems and Reporting practices*, which consequently allow the issuing of *NFR,* [i.e. in the words of La Torre et al. (2018), "reporting is a process that results in the production of a report according to a reporting model"].

Furthermore, basing on previous literature a key issue to deal with in the issuing process of NFRs is *Non-financial reporting quality*. Reasonably, NFR quality is interconnected with *NFR Regulation* and the environment in which organizations operate.

The whole NFR process may be both directly and indirectly driven by the three effects of *institutional isomorphic mechanisms* (DiMaggio and Powell, 1983; Mizruchi and Fein, 1999).

[Insert Figure 1]

In particular, *coercive* isomorphism is a type of isomorphism generated by pressures from other organizations on which an organization is dependent, and pressure on an organization to conform to the larger society (Mizruchi and Fein, 1999, consistent with DiMaggio and Powell, 1983). Organizations may also become increasingly homogeneous from a *mimetic* process, which consists in an imitation of other best practices in the presence of uncertainty in the environment, such as the introduction of new technologies or ambiguity in the organizational goals.

Finally, the isomorphic process is also determined by *normative* pressures introduced by professionalization. This driver involves two processes: 1) members of professions receive similar education and training, which lead them to similar worldviews, such as the education and training received by accountants, physicians or university professors; 2) members of professions further diffuse ideas among themselves through interaction in professional and trade associations (Mizruchi and Fein, 1999; Radaelli, 2000, consistent with DiMaggio and Powell, 1983).

Roszkowska-Menkes and Aluchna (2017, p. 9), based on the mimetic, coercive and normative mechanisms of the organizational isomorphism, show that the adoption of Corporate Social Responsibility (CSR) could be implemented in different modes: defensive, when CSR is adopted due to political and social pressure (coercive legal isomorphism); charitable, when CSR is mainly adopted due to social pressure aimed at satisfying stakeholders expectations (coercive cultural/normative isomorphism); promotional, when CSR is adopted due to social pressure aimed at maximization of shareholder value (coercive cultural/mimetic isomorphism); strategic, when CSR supports business strategy and is adopted under uncertainty and market pressure (mimetic/normative isomorphism); systemic, when CSR is adopted due to organizational culture pressures (normative isomorphism).

Roszkowska-Menkes and Aluchna (2017, p. 11) point out that their conceptual integration to CSR modes and institutional theory offers a new perspective to understanding why and how companies adopt CSR.

Accordingly, Patten (2002) highlights the pressures exercised on companies by stakeholders belonging to the same industry, showing how companies that operate in "sensitive" industries are facing stronger pressures to disclose and divulge their environmental and social performances.

In line with the research purpose of our paper, we tailor the institutional isomorphic mechanisms as follows:

- mandatory adoption of NFRs is forced by a regulatory normative effect, therefore, it is associated to a coercive/normative mechanism;
- voluntary implementation of NFRs could be associated to a mimetic effect.

4. Research methodology

The process of NFR requires to be issued in conformity with a specific framework that configures the standards for the classification, valuation and presentation of information (Stolowy and Paugam, 2018). As outlined previously, regarding NFR quality, the approach in which it is presented is not homogeneous. Arguably, the aim of this study is to investigate the quality of Non-Financial Reports (NFRs) in light of the recent EU Directive no. 2014/95. Specifically, our research paper focuses on the assessment of NFR quality of the Italian companies obliged to report through LD no. 254/2016.

To achieve this aim, we broadly refer to the definition of NFR in the EU Directive:

> Non-financial [consolidated] statement: "information to the extent necessary for an understanding of the group's development, performance, position and impact of its activity, relating to, as a minimum, environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters including:
> (a) a brief description of the group's business model;
> (b) a description of the policies pursued by the group 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 group'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 group manages those risks;
> (e) non-financial key performance indicators relevant to the particular business".
>
> (Source: European Union 2014, Articles 19a and 29a)

Consequently, NFRs include "all information disclosed outside the financial statements issued by the company" (Robb et al., 2001). An evident feature of this information is that it is

unsuitable for standardization (Stolowy and Paugam, 2018). Even if the law tries to standardize the form of these disclosures, the substance of the disclosure is not easily standardized. Indeed, NFR includes all quantitative and qualitative data on the policy developed, the business operations and the related performance achieved, without a direct connection with financial reporting (Stolowy and Paugam, 2018). More specifically, it could refer to information that falls outside the scope of mainstream financial statements (Stolowy and Paugam, 2018).
In line with the above definition, the NFRs in our investigation are: Sustainability Reports (SR), Corporate Social Responsibility (CSR) Reports, Social Reports (SR), Non-financial Reports (NFR) according to NFR legislation and the non-financial sections of Consolidated and Financial Annual Reports.

4.1 Data collection

We focus our study on the Italian companies that are requested to comply with LD no. 254/2016 and to provide information in accordance with the requirements of the EU Directive with respect to the financial years from January 1st, 2017. According to the list provided by the Italian Supervisory Authority for financial markets (CONSOB), (updated on December 31, 2018), we have considered 207 companies from those listed, including Public Interest Entities (PIEs) and other companies under LD no. 254/2016 as well as the mandatory requirements for preparing NFRs. A cross-checking process was carried out with companies listed on the Italian stock exchange. We manually collect the NFRs of each company through a capillary research from their websites. Once we had selected the complete list of the companies involved, we download their 2017 NFRs directly from their website, and, in a few cases, from the websites of the GRI, IIRC and Italian stock exchange. From a total of 207 companies obligated in 2017 to publish their non-financial reports, we selected 92 companies that had published their NFRs before the effective date of the legislation.
In particular, the selected companies had published a Sustainability Report, Integrated Report, Social Report or CSR Report in 2016, as represented in Table 7.
Therefore, we collected the 2016 NFRs of these 92 companies, excluding the 115 companies that had not published a Sustainability Report, Integrated Report, Social Report or CSR Report in 2016.
Subsequently, we considered two NFRs from each company. Our final sample (Table 3) is composed of 184 NFRs. We also took into consideration additional sustainability documents for each company, where available, such as sustainability reports, presentations and plans, supplementary documents on non-financial performance and local sustainability reports. Hence, the sample was not randomly drawn, but was self-selected. The collection of NFRs took place from July 2018 to February 2019.

[Insert Table 3]

4.2 Research Methods and data analysis

The method used to develop the analysis is mainly qualitative, based on both deductive and inductive approaches (Smith, 2017).
First, we analysed the content of the NFRs selected using NVivo 12. In line with our research purpose, we have stored the 92 reports of 2016 and 92 reports of 2017 financial years respectively in two subfolders. Subsequently, we have analysed comparatively the reports of each company. This first-order analysis has allowing us to familiarize with the overall structure of the reports, and to identify inductively the main features of the reports. To ensure more reliability of the analysis and to avoid biases derived from comparative analyses (Glaser and Strauss, 2017), one co-author has focused on the 2016 NFRs and one co-author on the 2017 NFRs. The report was the unit of analysis. Two first lists of analysis' topics, respectively

related to 2016 and 2017 reports have been developed. Interestingly, initial topics identified by the two co-authors were similar. Therefore, small changes have been undertaken. The third co-author reviewed the list of analysis' topics, making some improvements and refinements, and selecting the topics of analysis in line with the purpose of the paper. Then, we have adopted a deductive approach. Indeed, Bouten et al. (2011), Morhardt et al. (2002) and Romolini et al. (2014) have stated the difficulty of assessing NFR quality. Arguably, the validation process of the topics to investigate the quality of NFR has been undertaken collectively by the three co-authors. Drawing on institutional theoretical lens, we have considered the combination of the following guidelines in the selection process:

(1) IASB principles for assessing the quality of financial reporting. Therefore, we have considered the criteria from the requirements for general report quality that include materiality, credibility and communicative quality. Indeed, according to AICPA (1994), the reports "*must provide more information with a forward-looking perspective, including management plans, opportunities, risks, and measurement uncertainties"* and they should *"focus more on the factors that create longer term value, including non-financial measures indicating how key processes are performing*".

Moreover, we have taken into consideration the enhancing qualitative characteristics, such as Understandability and Comparability.

Consequently, the reports have a key role in determining the level of relevance by disclosing forward-looking information, disclosing information about business opportunities and risks, and providing feedback on how significant transactions have affected entities (Beest et al., 2009).

(2) requirements imposed by EU directives and Italian legislation on NFR summarized in Table 1;

(3) GRI standards and the G4 Principles for defining report quality. In particular, we take into consideration the following principles: comparability, according to which "the organization should select, compile and report information consistently. The reported information should be presented in a manner that enables stakeholders to analyze changes in the organization's performance over time, and that could support analysis relative to other organizations" (G4-2 p.18); accuracy, according to which "the reported information should be sufficiently accurate and detailed for stakeholders to assess the organization's performance" (G4-2 p.18); clarity, according to which "the organization should make information available in a manner that is understandable and accessible to stakeholders using the report" (G4-2 p.18); and reliability, according to which "the organization should gather, record, compile, analyze and disclose information and processes used in the preparation of a report in a way that they can be subject to examination and that establishes the quality and materiality of the information" (G4-2 p.18).

(4) previous research studies on the financial and non-financial disclosure quality assessment.

In line with these guidelines, as shown in Table 4, and on the basis of our first-order inductive analysis, we have selected the following topics to investigate on NFR quality:

(i) denomination of the report;

(ii) collocation of the report;

(iii) citation of SDGs in the report;

(iv) presence of Connection Table (such as GRI framework);

(v) presence of own thematic maps on material topic in the report (i.e. graphical depictions of the materiality analysis in the NFR);

(vi) a long-term focus strategy reference;

(vii) presence of other sustainability documents (sustainability plans/reports, presentations etc.) in the 2017 financial year.

[Insert Table 4]

On the basis of these topics, a second-order analysis of the NFRs content was performed in order to explore the quality of NFR, in line with previous studies on NFR assessment (Matuszak et al., 2017; Stolowy and Paugam, 2018).
Then, we have also performed the content analysis manually, because of the need to deeply evaluate specific aspects of NFR, with the aim of reducing subjectivity issues, part of the coding process in a content analysis (Krippendorff, 1980; 2004; Guthrie et al., 2004). Moreover, a longitudinal analysis (Pettigrew, 1990) was carried out by comparing the results of the content analyses carried out on the 2016 and 2017 NFRs, in order to compare the quality of NFR exercised from a voluntary to a mandatory basis (La Torre et al., 2018). Moreover, descriptive statistics and confidence intervals have been calculated to ensure higher internal validity of our explorative study (Campbell, 1986).

5. Findings

This section presents the findings obtained by assessing NFR quality, and then presents the findings of the longitudinal analysis of the reports published by the companies included in the sample referring to the 2016 and 2017 financial years.
The sample of the 92 companies was obtained was not randomly drawn, but was self-selected. For this reason, a mere comparison between 2016 and 2017 would have been statistically biased.
Instead, introduced a set of weights to allow an unbiased comparison, and we also calculated sampling standard errors of 2016 estimates in order to check whether differences in the comparisons are statistically significant.
The weights have been constructed so that the weighted distribution of the sectors in 2016 is the same as in 2017 (which is based on the entire population of 207 firms). Such weights, calculated for the six sectors with more than eight firms in 2016, and for the residual "other sectors", are reported in Table 5.
The weighting system guarantees unbiased estimates for 2016, although it introduces an increase in the standard errors in such estimates (known as "Kish factor", Kish, 1965). The Kish factor, although quite limited in size, has been taken into account in the estimation of confidence intervals for the main estimates of the present paper (for further details, see Wolter, 1985, p. 12).
The sampled companies were grouped in industry sectors according to Venturelli et al. (2017), who classified 223 Italian companies in nine broad categories: Basic Materials, Consumer Goods, Consumer Services, Health care, Industrial, Oil and Gas, Telecommunications, Banks and Financial Services, and Insurance. In our study, we partially modified the Oil and Gas category with the broader category "Utilities". Thereby, in line with the weighting system developed, we consider the following categories: Banks and Financial Services, Consumer Goods, Consumer Services, Industrials, Insurance, Utilities and the residual category.
Table 5 shows that, even though a higher weight is seen in Consumer Goods companies, Banks and Financial Services companies are predominant in absolute terms both in the 2016 and 2017 financial years. As expected, from the 2016 (Voluntary basis) to 2017 (Mandatory basis) financial years, the number of companies have registered an increase in all categories involved.

[Insert Table 5]

As depicted in Table 6, we have only focused on the sub-population of 92 companies because they also publish their NFRs in the 2016 financial year, forced by mimetic pressures (Roszkowska-Menkes & Aluchna, 2017).

[Insert Table 6]

Then, we investigated the change in the denomination and the results are shown in Tables 7 and 8. In general, we found that 54 per cent of the companies have changed the denomination of the report (see Table 7) between 2016 and 2017. Specifically, 71 companies (around 77 per cent) in the 2016 financial year used the denomination "Sustainability Report". Among them, 38 companies changed the denomination from "Sustainability Report" to NFR. In 2017, only 31 companies maintained the same denomination. After carefully reading the 41 per cent of the reports that registered a change in their denomination, we noticed that companies already adopted the same accounting practice in 2016, therefore, in 2017 no substantial changes were made in the content of the report.

Our interpretation of the change in the report denominations from "Sustainability Report" to NFR is a non-increase in the quality for 41 per cent of the reports, however, it could be interpreted as an application of the requirements imposed by regulation. Through a deep analysis of the structure, sections, and contents of these reports, we observe that this change was not followed by a development and/or change in NFR content. For instance, Appendix B shows that the main mandatory requirements in terms of topics, items and materiality analysis were already presented and discussed in 2016. In line with the conceptual framework developed, we could assume this finding as a coercive/normative isomorphic mechanism.

On one hand, this Sustainability Accounting and Reporting Practice is a direct consequence of the introduction and the implementation of the new norms and/or regulations.

On the other hand, this practice does not, certainly, result in an increase in NFR quality.

Indeed, 41 per cent of the reports analysed follow the same structure and content of the sustainability reports published in the 2016 financial year, simply adding the disclaimer *"This report is issued in accordance with the Italian Legislative Decree 254/2016"* to the 2017 NFRs. In line with the conceptual framework developed, we have identified that the mandatory adoption of NFRs is related to a regulatory normative effect, therefore, we associate it with a coercive/normative mechanism.

[Insert Table 7]

[Insert Table 8]

We have also noticed that NFRs are not only presented as a separate document. In fact, 6 NFRs in 2016 (6.5 per cent), and 17 NFRs in 2017 (18.5 per cent), are included in the Management Report. Moreover, we notice an increase in the NFRs included in the Management Report. Table 9 provides the results and Table 10 presents the Calculation of Confidence Intervals.

[Insert Table 9]

[Insert Table 10]

From the descriptive statistics, it is also necessary to point out that there is a negative percentage variation in the average number of report pages issued by the 92 companies between 2016 and 2017. If this data is compared to the minimum and maximum values distribution, we observe how the decreasing percentage variation in the average number is not accompanied by a decreasing percentage variation in the values distribution. This means that moving from a voluntary to a mandatory basis, on the average, a high proportion of NFRs show a decrease in the number of pages. Overall, there has been a reduction in the amount of content in the reports. In terms of quality, we are not able to state that it has decreased.

However, our interpretation of this significant result does not consist in an increase in quality either. Overall, it is not possible to assess quality from an increase or decrease in the number of pages.

Results are shown in Table 11 and then Table 12 provides the Calculation of Confidence Intervals.

[Insert Table 11]

[Insert Table 12]

Other specific findings are shown in Tables 13, 14 and 15. In particular, these tables illustrate trends related to the Sustainable Development Goals (SDGs) Citation, the use of the GRI Connection Table and the presence of a company's own thematic maps in Material Topics.

Overall, the SDGs Citation and the presence of the Connection Table has increased by 26 per cent and 27 per cent, respectively, with the introduction of the mandatory requirement.

We may argue that both of these results should represent an increase in the quality of NFR. In line with the conceptual model developed, we argue that this effect could be associated to the mimetic isomorphic mechanism.

However, the presence of a company's own thematic maps on Material Topics results in a decrease of 22 per cent. This result is consistent with previous studies (Lai et al., 2017, 2018; Manes-Rossi et al., 2018).

From the data in Table 16, we can affirm that the quality of the reports from 2016 to 2017 has not improved.

[Insert Table 13]

[Insert Table 14]

[Insert Table 15]

Table 16 shows a steady increase in the long-term focus reference (consistent with Aras and Crowther, 2007; 2009) between voluntary and mandatory NFRs.

[Insert Table 16]

Finally, from the analysis of the sub-population we have also found the presence of other sustainability documents in the same year that more clearly disclose specific non-financial aspects, which were poorly reported or absent in the mandatory non-financial reports (see Table 17). This evidence provides interesting arguments, indeed NFR regulation is perceived by the obligated companies as coercive corporate duty to comply with. The simple isomorphic coercive mechanisms do not increase the NFR quality. Arguably, the supplementary documents emphasize the need to provide detailed information on voluntary basis, providing evidence on the mimetic effects on NFR quality. In particular, for the financial year 2017, 25 per cent of the companies also published additional sustainability documents. We assume that, in line with Michelon et al. (2015) and Hoffmann et al. (2018), the NFR quality is higher as stand-alone reports. Also, our findings are consistent with Lai et al. (2016), who suggest that IR, as well as stand-alone CSR reports, is not a "mechanism" of strategic legitimation.
Arguably, non-financial statements include less information because they have to fulfil high standards regarding reporting quality and external assurance (Hoffmann et al., 2018).
Our results are also consistent with Dhaliwal et. al. (2012, p. 723), who find that "the issuance of stand-alone CSR reports is associated with lower analyst forecast error".

[Insert Table 17]

6. Conclusions

The increasing interest in NFR, as well as in CSR, has led the European Union to issue a specific directive in 2014 that requires European entities of public interest, and large companies that meet specific criteria, to provide NFR that meets the information needs of stakeholders. The aim of the directive is to the expand the process of harmonization in the disclosure of financial data, already provided for in accordance with the IFRS by listed companies in all European Countries (Manes-Rossi et al., 2018). Accordingly, since 2017 some Italian companies are obligated to report comprehensive non-financial data in accordance with Legislative Decree no. 254/2016.
However, NFR has been traditionally voluntary in nature, primarily driven by the mimetic isomorphism (Roszkowska-Menkes & Aluchna, 2017). The entry into force of the legislation has generated (1) the "mandatory" and "voluntary" expansion of NFR; (2) the development of new Sustainability Accounting Systems and changes in reporting practices; (3) the increase in normative/coercive and mimetic isomorphic mechanisms. These developments could exercise key effects on NFR quality. For this reason, the social and environmental accounting literature has questioned how this change may influence reporting practice and reporting quality. This question could be answered by comparing NFR before and after NFR regulation. Therefore, our paper investigates the quality of NFR in light of the European Directive. Specifically, we provide an initial, explorative inquiry into the research question: Does a normative/coercive isomorphism facilitate an increase in the quality of NFRs? We have focussed on the assessment

of NFR quality of Italian companies that are obliged by the Legislative Decree on non-financial and diversity information.

In line with previous studies on NFR quality assessment (Matuszak et al., 2017; Venturelli et al., 2017; Stolowy and Paugam, 2018), firstly, we have performed a content analysis of the 207 NFRs collected, which are related to the 2017 financial year. Secondly, a content analysis of the 92 NFRs collected, related to the 2016 financial year was performed. Then, a longitudinal analysis (Pettigrew, 1990) was carried out by comparing the results of the content analyses, which was restricted to the sub-sample of 92 companies, in order to assess the quality of NFR exercised from a voluntary to a mandatory basis (La Torre et al., 2018).

The results of this explorative study offer interesting insights. Mainly, our findings show that the quality of NFR does not increase while moving from a voluntary to a mandatory basis, providing a contribution to the literature that emphasize the role played by mimetic, coercive and normative isomorphism mechanisms on accounting and reporting practices (Di Maggio and Powell, 1983; Mizruchi and Fein, 1999; Roszkowska-Menkes and Aluchna, 2017).

In particular, we have found that the presence of other sustainability documents from the 2017 financial year had disclosed specific non-financial aspects more thoroughly, which were, however, poorly reported or absent in the mandatory NFRs. This result differs from Michelon et al. (2015) who found no relationship between the collocation of the report and NFR quality. In line with Hoffmann et al. (2018), we assume that NFR quality is higher in stand-alone reports than in non-financial statements. Arguably, non-financial statements include less information because they have to fulfil high standards in reporting quality and external assurance (Hoffmann et al., 2018).

NFR offers several advantages, such as a closer link to long-term organizational strategies. Indeed, by integrating accounting measures with NFR, companies could provide indirect and quantitative indicators of their intangible assets and they could more effectively address long-term strategy (Amir, 1996). Our findings show a steady increase in the long-term focus reference (Aras and Crowther, 2007; 2009) between voluntary and mandatory NFRs. Moreover, the presence of thematic maps on material topics (Lai et al., 2017; Manes-Rossi et al., 2018) between 2016 and 2017 decreases by 22 per cent. Another interesting finding is provided by the specific inclusion of NFRs. In particular, from 2016 to 2017 there is an increase in the number of NFRs included in Financial and Consolidated Annual Reports. Additionally, the companies that included NFR in the Financial and Consolidated Annual Report published additional, separate sustainability documents. These findings provide further evidence regarding the role of the normative/coercive isomorphism on NFR practices. As a matter of fact, these companies consider NFR as a legal requirement and they adopt additional reporting documents to better disclose non-financial matters. In line with previous research (Daub, 2007; Habek and Wolniak, 2016; Lock and Seele, 2016; Bouten et al., 2011; Michelon et al., 2015; Romolini et al., 2014), this study shows that there is still room for improvement in NFR quality. We acknowledge that for 115 companies, 2017 was the first financial year of NFR, which represents 56% of our sample. Based on our findings, we can assume that the introduction of a NFR mandate does not increase the overall reporting quality, however, NFR quality could increase over time. This argument is in line with Albertini (2014) and Hoffman et al. (2018), but in contrast to Lock and Seele (2016) who find no relationship between reporting experience and reporting quality.

We contribute to the debate of both scholars and practitioners regarding the emerging research field – the quality of NFR – which needs further investigation. To the best of our knowledge, this paper is among the first studies that aims to explore the quality of NFR during the shift from a voluntary to a mandatory basis. From a theoretical perspective, this research contributes to the literature that focuses on the role of different dimensions of isomorphism in the Sustainability Accounting Systems and Reporting practices adopted by companies in order to meet the requirements of the NFR regulation by issuing their non-financial reports. In particular, consistent with an institutional approach to isomorphism (Di Maggio and Powell, 1983; Mizruchi and Fein, 1999), our research paper extends the conceptual model theorized by Roszkowska-Menkes and Aluchna (2017) by providing insight into the different effects caused by normative/coercive vs. mimetic pressures. Moreover, we contribute to the research gaps in the literature, as highlighted by La Torre et al. (2018) regarding mandatory corporate reporting as consequence of normative requirements, and by Roszkowska-Menkes and Aluchna (2017) on the relationship between regulation and mimetic, coercive and normative isomorphic mechanisms within organizations.

This study first represents a longitudinal analysis of NFR quality, which has some limitations. First, the variables selected to assess NFR quality are not exhaustive. To complement our first assessment, future studies could expand the NFR quality analysis by fully taking into consideration the quality items according to the Sustainability Reporting Guidelines. Second, we explore a sample of all companies obligated by a non-financial and diversity information mandate from a single country: Italy. Future research could use the categories and variables identified in this study and apply them to a sample of companies within other single European countries and/or across different European countries.

Moreover, the article leaves opportunities for further research. Firstly, by using more sophisticated statistical instruments, it would be interesting to investigate whether and how the variables selected for this study, such as the denomination of the report, the collocation of the report and the presence of the connection table are interrelated with each other. Secondly, another avenue for further research could be the conditions of which companies divulge their NFI and publish NFRs, that aims at addressing the information requirements of stakeholders about non-financial topics, superseding the mere reporting requirements set by the regulatory context.

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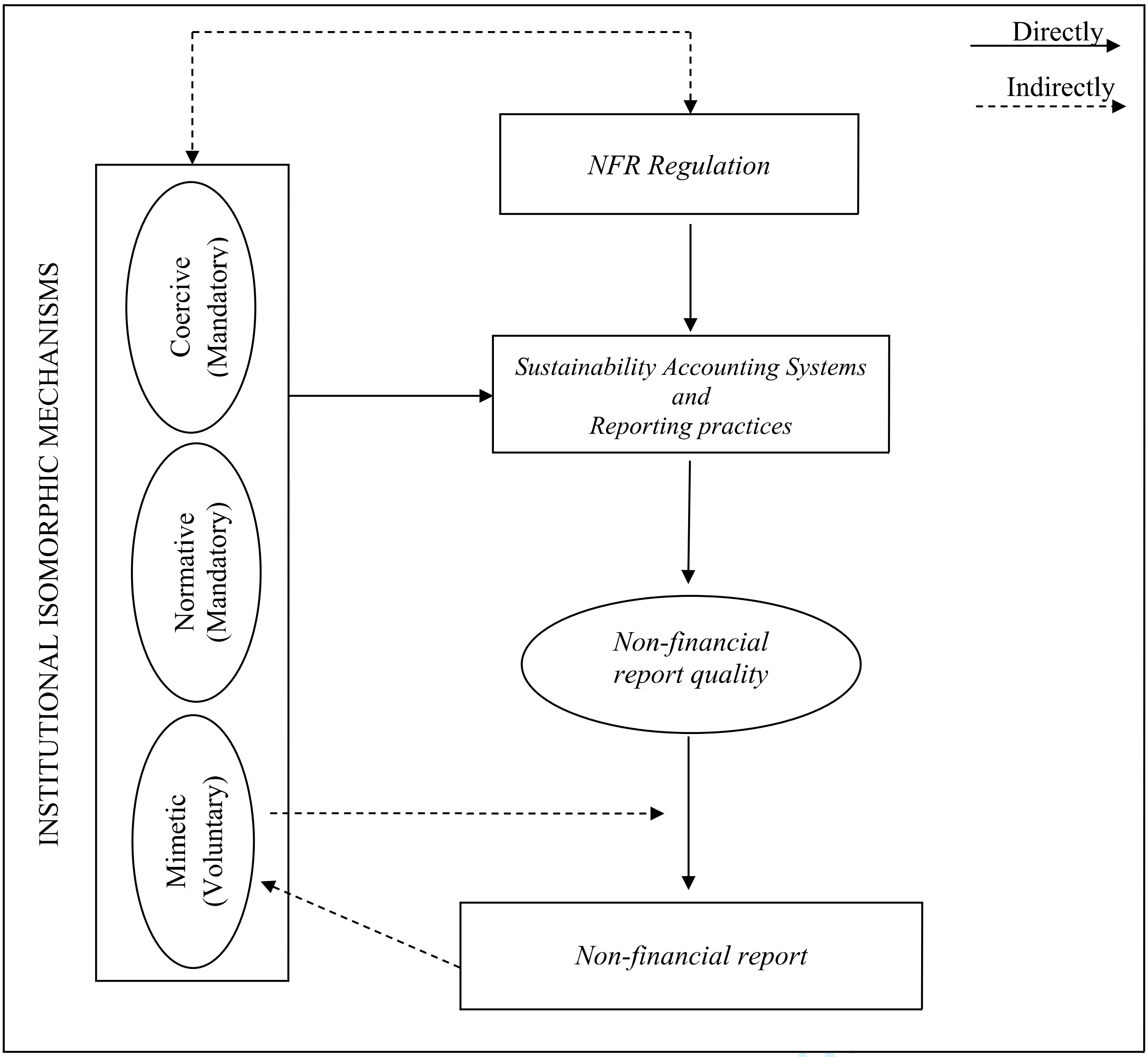
FIGURES

Figure 1. *Conceptual Model*



Source: *authors' elaboration from DiMaggio and Powell (1983), Mizruchi and Fein (1999), Michelon et al. (2015), Roszkowska-Menkes and Aluchna (2017), La Torre et al. (2018).*

TABLES

Table 1. *Requirements for non-financial statements, according to EU Directives and Italian Legislation.*

Non-financial Area to be Disclosed	Specific Aspects required by Directive no. 2014/95/EU and Legislative Decree no. 254/2016
Environmental matters	• Current and foreseeable impact on the environment • Use of renewable and/or non-renewable energy • Greenhouse gas emissions • Water use • Air pollution • Land use • Use of materials
Social matters	• Dialogue with local communities • Actions taken to ensure the protection and the development of those communities
Employee matters	• Actions taken to ensure gender equality • Implementation of fundamental conventions of the International Labour Organisation • Working conditions • Social dialogue • Rights of workers • Rights of Trade unions • Health and safety at work • Diversity of competences • More diversified on Boards
Human rights matters	• Prevention of human rights abuse
Anti-corruption and bribery matters	• Instruments to fight corruption and bribery

Source: authors' elaboration adapted from Sierra-Garcia et al. (2018).

Table 2. *Italian transposition of the EU Directive.*

Legislative Definition and Requirements	Transposition (S=same; A=adapted)
Definition of a Large Undertaking	S
Definition of a Public Interest Entity	A
Report Topics and Content	S
Reporting Framework	A
Disclosure Format	A
Auditor's involvement	A
Noncompliance Penalties	A
Safe Harbour Principle	S
Diversity Reporting Required	S

Source: authors' elaboration adapted from CSR Europe and GRI (2017).

Table 3. *Sample selection compliance with LD no. 254/2016.*

	Sample size
Companies obliged by LD no. 254/2016 included in CONSOB List (updated December 31st, 2018)	207
Companies with no 2016 NFRs (from a total sample of 207 companies)	(115)
Companies with 2016 NFRs (from a total sample of 207 companies)	92
Total 2016 and 2017 NFRs analyzed	184

Table 5. Industries and *the weighting system*

Sector	2017	2016	Weights
Banks and Financial Services	50	21	1.0582
Consumer Goods	38	12	1.4074
Consumer Services	18	9	0.8889
Industrials	44	17	1.1503
Insurance	10	4	1.1111
Utilities	24	20	0.5333
Other	23	9	1.1358
Total	**207**	**92**	

Table 6. *First year of Non-financial reporting (2017)*

First year of Non-financial reporting	Number of Companies	Percentage Proportion
Yes	115	56%
No	92	44%
Total	207	100%

Table 7. *Change of Report Denomination in 2017*

Change of Report Denomination (No First Year of NFR)	Number of Companies	Percentage Proportion
Yes	50	54%
No	42	46%
Total	92	100%

Table 8. *Denomination of the Report – No First Year of NFR vs. Yes First Year of NFR (2017)*

Denomination of the Report			
No - First Year of NFR			Yes - First Year of NFR
Year	2016	2017	2017
Consolidated Annual Report	1	4	14
CSR Report	2	2	0
Financial Annual Report	1	9	17
Integrated Report	5	5	0
Social Report	10	1	0
Sustainability Report	71	31	22
NFR	2	40	62
Total	92	92	115

Table 9. *Collocation of the Report (No First Year of NFR vs. Yes First Year of NFR)*

Collocation of the Report			
	No - First Year of NFR		**Yes - First Year of NFR**
Year	2016	2017	2017
Included in Management Report	6	17	28
Separated Report	86	75	87
Total	92	92	115

Table 10. *Calculation of Confidence Intervals for the variable "Collocation of the Report"*

Collocation of Report (No First Year of NFR)		
Year	2016	2017
Included in Management Report (IR, SR, Consolidated, etc.)	**6.52%**	**17.48%**
95% C.I.	2.76% 10.28%	

Table 11. *Total pages of the reports*

	Total pages of the Report		Percentage Variation
Year	2016	2017	
Average	120.30	95.96	-20%
Min	14	17	21%
Max	374	479	28%
Standard Deviation	63.85	73.74	15%
Median	107	81	-24%

Table 12. *Calculation of Confidence Intervals for the variable "Total pages of the Report"*

Pages of the Report		
Year	2016	2017
Average	**120.30**	**95.96**
95% C.I.	109.07 131,54	

Table 13. *SDGs Citation in the Non-financial report (No First Year of NFR)*

SDGs Citation (No First Year of NFR)		
Year	2016	2017
Number of Yes	34	43
Percentage variation		26%

Table 14. *Presence of Connection Table (No First Year of NFR vs. Yes First Year of NFR)*

Presence of Connection Table		
Year	2016	2017
Number of Yes	67	85
Percentage variation		27%

Table 15. *Presence of own Thematic Maps on Material Topics (No First Year of NFR vs. Yes First Year of NFR)*

Presence of own Thematic Maps on Material Topics			
No First Year of NFR			Yes First of NFR
Year	2016	2017	2017
Number of Yes	69	54	52
Percentage variation		-22%	

Table 16. *Long-term focus strategy reference (No First Year of NFR vs. Yes First Year of NFR)*

Long-term focus strategy reference			
No First Year of NFR			Yes First Year of NFR
Year	2016	2017	2017
Number of Yes	73	76	98
Percentage variation		4%	

Table 17. *Presence of other sustainability documents (No First Year of NFR vs. Yes First Year of NFR)*

Presence of other sustainability documents in the same year				
	No First Year of NFR		Yes First Year of NFR	
	Number of Companies	Percentage Proportion	Number of Companies	Percentage Proportion
Yes	23	25%	6	5%
No	69	75%	109	95%
Total	92	100%	115	100%

APPENDIX A

	Definition from EU Directive	Adapted Definition
Definition of a Public Interest Entity	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.	Public Interest Entities: -Listed companies; -Banks; -Insurance and reinsurance undertakings.
Reporting Framework	-International reporting framework; -EU-based reporting framework; -National reporting framework.	-An international, national or EU based reporting framework, or -A mixed reporting methodology constituted by one or more reporting standards.
Disclosure Format	This information shall be presented in: • The management report, or • A separate report published alongside the management report or within 6 months of the balance sheet date, made available on the undertaking's website and referenced in the management report	This information shall be presented in: • The management report, or • In a separate report, approved by the administrative body and at disposal of the supervisory body and the auditor, within the deadline for the financial statements, published on the company register and alongside the management report
Auditor's involvement	Member States shall ensure that the statutory auditor or audit firm checks whether the consolidated nonfinancial statement has been provided.	Auditor's involvement: presence and content of statement
Non-compliance Penalties	The Directive also allows Member States to define if any penalties will be imposed upon organisations which fail to report adequately	For omission of relevant information, non-compliance, or failure to submit within timeframe, EUR 20.000-150.000 in sanctions will be applied

Source: authors' elaboration adapted from CSR Europe and GRI (2017).

Table 4. *Guidelines and topics selection.*

Selected Topics	(1) IASB principles of assessing the financial reporting quality	(2) Requirements imposed by EU directive and Italian legislation on NFR	(3) GRI standards	(4) Previous research studies
(i) Denomination of the report	*First enhancing qualitative characteristics: Understandability* *Second Enhancing qualitative characteristics: Comparability*	*Directive 2014/95/EU, Article no.6:* "*certain large undertakings should prepare a non-financial statement*". *Italian Legislative Degree no. 254/2016, Article no. 3:* "*dichiarazione individuale di carattere non finanziario*".	*G4-2: Comparability*	*Erkens et al., (2015)*
(ii) Collocation of the report	*First enhancing qualitative characteristics: Understandability* *Second Enhancing qualitative characteristics: Comparability*	*Directive 2014/95/EU, Article no.6:* "*It should be possible for Member States to be exempt from undertakings which are subject to this Directive from the obligation to prepare a non-financial statement when a separate report corresponding to the same financial year and covering the same content is provided*" *Italian Legislative Degree no. 254/2016, Article no. 5:* "*La dichiarazione individuale di carattere non finanziario può: a) essere contenuta nella relazione sulla gestione di cui all'articolo, con una specifica sezione come tale contrassegnata; b) costituire una relazione distinta, fermo restando l'obbligo di essere contrassegnata comunque da analoga dicitura.*"	*G4-2: Comparability*	*Hoffmann et al., (2018)* *Dhaliwal et al., (2012)*
(iii) SDGs Citation			*G4-2: Reliability*	*Betti et al. (2018)*
(iv) Presence of Connection Table	*First enhancing qualitative characteristics: Understandability* *Second Enhancing qualitative characteristics: Comparability*		*G4-2: Comparability*	*Moroney et al., (2012); Martínez-Ferrero et al., (2015)*
(v) Presence of own thematic maps on material topic in the report	*First enhancing qualitative characteristics: Understandability* (*"The annual report is well-organized", "Graphs and tables clarify the information presented".) and readability/communicative quality.*		*G4-2: Clarity*	*Beest et al., (2009)* *Betti et al. (2018)* *Jonas and Blanchet, 2000*
(vi) A long-term focus strategy reference	"*The reports should focus more on the factors that create* ***longer term value****, including non-financial measures indicating how key processes are performed*". AICPA (1994)	*Directive 2014/95/EU, Article no.3:* "*Indeed, disclosure of nonfinancial information is vital for managing change toward a sustainable global economy by combining* ***long-term*** *profitability with social justice and environmental protection.*"	*G4-2: Reliability* "*Strategy and Analysis, Section 2:* "*Prioritization of key sustainability topics, such as risks and opportunities according to their relevance for* ***long term*** *organizational* ***strategy****, competitive position, qualitative, and (if possible) quantitative financial value drivers*".	*Aras and Crowther, (2007; 2009)*
(v) Presence of other sustainability documents	*First enhancing qualitative characteristics: Understandability*		*G4-2: Accuracy*	*Stolowy and Paugam, (2018)*

APPENDIX B

	Presence of NFR Topics					
	Alpha Banks and Financial Services		Beta Consumer Goods		Gamma Utilities	
	2017	2016	2017	2016	2017	2016
1. Environmental matters	√	√	√	√	√	√
2. Social matters	√	√	√	√	√	√
3. Employee matters	√	√	√	√	√	√
4. Respect for human rights	√	√	√	√	√	√
5. Anti-corruption and bribery matters	√	√	√	√	√	√
6. Risks	√	√	√	√	√	√
7. Business model	√	√	√	√	√	√
8. Non-financial key performance indicators	√	√	√	√	√	√
9. Framework chosen	Global Reporting Initiative	International Integrated Reporting Framework.	Global Reporting Initiative	G4 Sustainability Reporting Guidelines	Global Reporting Initiative	Global Reporting Initiative
10.Reference to the concept of materiality and materiality analysis	√	√	√	√	√	√

Source: authors' elaboration