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Integrated Thinking, Corporate Local Identity and Disclosure Choices of Italian Companies

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Abstract

The internationalization of markets, the increased awareness of socio-environmental issues and of the holistic approach to value creation, as well as the pressure of the financial crisis, have made increasingly clear the role that companies play in maintaining a sustainable environment. In this perspective, the development of integrated management systems allows the definition of long-term strategies that are inclusive of goals aimed to balance individuals', corporations' and communities' interests. This paper presents the results of an exploratory analysis on integrated reporting choices made by a sample of Italian entities, as there is evidence of a positive relation between integrated reporting practices and the integration of sustainability issues in corporate strategies. Our hypothesis is that the strong link and the closeness of companies to local communities leads entities to look at sustainability as a basic objective of their strategies, thus influencing the adoption of integrated reporting and management practices.

Keywords: Integrated reporting, integrated thinking, corporate local identity

1. INTRODUCTION AND LITERATURE REVIEW

Firms' ESG[1] reporting has increased over the last decades, in response to the stakeholders' need for corporate sustainability disclosure. The lack of shared and generally accepted standards for the preparation of voluntary reports has led to a variety of metrics and frameworks, thus affecting the information comparability and decision usefulness (Bebbington et al., 2008; Perrini and Tencati, 2006). Moreover investors have started to acknowledge that the firms' process of value creation includes at the same time financial and social-environmental returns. This circumstance reveals the inadequacy of corporate disclosure in facing the effects of the financial crisis and the stakeholders' need for accountability, as both financial and ESG reports fail to provide information that blends together financial and socio-environmental performance, thus better supporting the investors' decision making and the assessment of firms' overall sustainability (Emerson, 2003).

To this end corporate disclosure needs to be addressed to a holistic approach that integrates financial, social and environmental values as key factors of corporate strategy in order to pursue an appropriate balance of short and medium-long term objectives (Emerson, 2003; Iohannou and Serafeim, 2011; IIRC, 2013). Hence, to be effective corporate disclosure should present firms' performance in an integrated report that systemically blends together mandatory and voluntary information in order to describe the interrelations between financial and socio-environmental key resources and returns (Jorgensen et al., 2004).The IIRC (2013) defines integrated

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reporting (IR) as "a process that results in a communication… about how an organization's strategy, governance , performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long term", thus resulting in more than the mere juxtaposition of annual and sustainability reports.

Moreover, there is evidence that IR practices lead companies to embed socio-environmental sustainability in their strategies and operations, thus promoting an integrated thinking (IT) approach to the companies' management (Daub e Stiller, 2007; Iohannou e Serafeim, 2011). Given the positive relation between IR and IT, several studies investigate both internal and external factors affecting companies' integrated reporting choices. At the internal level evidence shows a positive correlation between IR and board composition, corporate dimensions and profitability, financial reporting quality (Frias-Aceituno et al., 2014; Cuadrado-Ballesteros et al., 2015). At the external level authors find that companies from a country with high national CSR, high trade union density and high tertiary education as well as high secular-rational values are more likely to publish integrated reports (Berg and Jensen, 2012). As IR promotes the integration of sustainability issues in corporate strategy, extant literature also investigates whether the presentation of integrated reports does affect the management process, finding that companies presenting integrated reports are more likely to include socio-environmental key resources in their decision process and to incrementally change their procedures and structures (Higgins and Stubbs, 2014).

2. HYPOTHESIS DEVELOPMENT AND RESEARCH DESIGN

2.1 Hypothesis development

According to social contracts and legitimacy theory, companies disclose ESG information to "present a socially responsible image so that they can legitimise their behaviours to their stakeholders groups" (Castelo Branco and Lima Rodriguez, 2006), as companies are supposed to have activities aligned with and fulfilling society's expectations. As in Italy several companies – even multinational ones – strictly interact with local communities pertaining to their originating and operating geographical area, their key stakeholders groups can also include those from local society. Particularly, according to legitimacy theory, companies strongly rooted in their local environment and community may act under the pressure of local shareholders, thus voluntarily adopting high levels of disclosure in order to fulfil their need for information on corporate sustainability.

Because of their closeness to the company, stakeholders may in fact show a greater level of awareness of the information asymmetry and exert a high level of pressure on the management, influencing its integrated reporting choices in order to mitigate the stakeholder perception of their corporate disclosure inconsistency. Moreover, since the companies' disclosure is the product of management's decision and it induces the integration of ESG items in the corporate overall strategy, we look at IR as an expression of a more integrated management approach taken by companies with strong local identity, when compared with ones with weak local identity. The paper then investigates the following assumptions:

H1: Entities with a strong local identity present a reporting more integrated than entities with weak local identity;
H2: Entities with a strong local identity present a managerial approach more integrated than entities with weak local identity.

2.2 Sample Selection

Corporate identity indicates the way in which an organizations' identity is revealed through behaviour, governance structures, communications, as well as through symbolism to internal and external stakeholders (Van Riel and Balmer, 1997). According to Ashforth (1998) corporate identity has to be embedded in shared relationships at local level and stakeholders play a more relevant role in corporate identity definition when this identity is characterized by locality, i.e. by the proximity and the mutual interaction with the local community.
Melewar (2003) identifies seven main dimensions for corporate identity definition: i.e. corporate communication, corporate design, corporate culture, corporate behaviour, corporate structure, industry identity and corporate strategy. In our work we focus on corporate structures, identifying specific organizational and governance elements that identify companies with local identity, as companies' name, board composition, branches and subsidiaries distribution can be regarded as structural elements whom actual connotation defines if a company has a strong or a weak local identity.

Accordingly, the sample has been selected defining a first set of 10 entities marked by local identity and pertaining to three different industries. Moreover, a set of 10 entities characterized by the same size and pertaining to the same industries, but with no local identity, has been defined. In order to distinguish the entities with local identity from the ones with no local identity, we defined a set of five variables as a proxy for local identity. To this extent, we referred to the extant literature supporting the existence of a link between organizational and governance features and corporate identity. Each variable was operationally defined in such a way that it can be expressed in the form of nominal index (yes/no) [2]. Table 1 presents the 20 sampled entities:

Table 1. Companies included in the multiple case study.

	Food Industry	**Public utilities**	**Bancking Sector**
	Barilla SpA	A2A SpA	Gruppo Carige
Local entities	Inalca SpA	Acea SpA	Gruppo Bancario Cariparma - Crédit Agricole
	Luigi Lavazza SpA	Hera SpA	Gruppo Bancario Banca Popolare di Vicenza
	Parmalat SpA	Enel SpA	Gruppo Unione di Banche Italiane
Non- local entities	Perfetti van Melle SpA	Italgen SpA	Gruppo Banca Popolare dell'Emilia Romagna
	Ferrero SpA	Iren SpA	Gruppo Bipiemme - Banca Popolare di Milano

2.3 Research Methodology

Consistently with the first research hypothesis, we conduct a multiple case study analysis in order to compare IR choices of entities with local identity and entities with no local identity (Yin, 2003). To this purpose we content analysed entities' 2011 and 2013 annual reports, identifying the non-financial information contained therein and assessing the degree of its integration with financial information. The ESG disclosure analysis has been developed according to the prior CSR literature, referring to the sub-themes related to social, environmental and governance information; the degree of disclosure integration of annual reports was analysed using the IIRC's framework items (IIRC, 2013) as a proxy for integrated reporting practices.

We then developed a scorecard based on the proportional frequency of units of analysis (word and sentences for each information category), attributing scores from 0, in case of absence of the information, to 2 in the case of completeness and thoroughness of the same (Campbell, 2006; Robb et al., 2001; Zarzesky, 1996). This allows us to compare the sampled business groups and to test the differences between entities with strong local identity and entities with weak local identity, also assessing the reporting quality.

In order to test our second hypothesis, we proposed an online survey to the CSR managers (Spence e Crawford, 2009) of the multiple case study entities, so to verify their degree of IT and whether they perceive their companies as local ones. The structure of the survey, presented in Table, is thus organized in five sections, as shown below:

- identity records;
- voluntary and integrated disclosure choices;
- local identity perception.

The questions are mainly close-ended questions in which respondents were asked to indicate their agreement or opinion on OCI usefulness using a 5 point Likert-scale. They were also allowed to clarify or expand in the responses given.

3. RESULTS

Referring to our first hypothesis, the results of content analysis partially suggest a positive relation between local identity and IR choices. Table 2 shows that the entities with local identity on average include more frequently sustainability information in their financial reports, also filling more space with such disclosure items than the ones with no local identity. Additionally, local entities provide more integrated financial and non-financial information than the non-local one do. Although differences are found with respect to the business sector, sampled entities with local identity generally show a higher degree of IR and of non-financial information disclosure than the non-local ones. At the same time, ESG disclosure presented by local entities is mostly qualitative, aimed at highlighting the policies adopted by management, given that the presentation of socio-environmental KPI's is presented by only three companies (Inalca, Ferrero, Hera).

[2] While two out of the five variables have been used to classify all groups, regardless of the industry, the other threewere industry-specific variables. The first two variables are the company name and the ownership structure. The variables specific to the food industry are production sites, geographical distribution of the subsidiaries and the composition of the board of directors. The variables specific to the public utilities industry are the headquarters location, the geographical distribution of subsidiaries and the composition of the board of directors. The variables specific to the banking sector are the location of branches, the local connotation of investors and the geographical concentration of the group.

Moreover, the multiple case study shows two significant exceptions to our hypothesis, in line with the assumptions of theoretical replication (Yin, 2003), i.e. Enel Produzione and UBI. Referring to the first, because it is a subsidiary of Enel Group, its disclosure practices are influenced by the group's disclosure policy as the holding places a strong focus on the theme of sustainable production of energy, formerly being a state-owned monopoly. Also, the size of the group is not homogeneous with the sample units one. In the case of UBI Banca, the results are of particular interest, since the group's subsidiaries were individually marked by a strong local identity, previous to the beginning of the merger process in 2007.

Table 2. Content analysis findings.

Sector	**Food**						**Public Utilities**								**Bank**					
Local Identity	**Local**			**Non local**			**Local**			**Non local**					**Local**			**Non local**		
Firms	**Barilla**	**Lavazza**	**Inalca**	**Parmalat**	**Perfetti**	**Ferrero**	**Hera**	**Iren**	**A2A**	**Acea**	**Italgen**	**Enel Produzione**	**Enel Distribuzione**	**Enel Servizio Elettrico**	**Cariparma**	**BPV**	**Carige**	**UBI Banca**	**BPER**	**BPM**
Total IIRC framework congruence	28	52	65	27	37	38	73	43	60	60	13	41	43	33	61	59	57	53	49	39
Total Annual reports ESG information disclosure	13	9	13	9	6	6	17	13	13	12	3	10	9	6	12	10	10	10	9	9
Total scoring	41	61	78	36	43	44	90	56	73	72	16	51	52	39	73	69	67	63	58	48

With respect to our second hypothesis, results are not consistent. In fact, Table 3 shows evidences of a positive relation between local identity and both the inclusion of ESG variables in company performance evaluation and corporate reporting processes. As those items are a proxy of the degree of inclusion of ESG key resources in corporate strategies, local entities' scores suggest the integration of socio-environmental issues in the corporate management.

Table 3. Online survey findings.

Section 1 - Company performance evaluation	**Local entities**	**Non-local entities**
Company performance is valued also considering for non-financial resources	4.3	3.7
Company disclosure also accounts for non-financial variables	4.8	3.7
Company performance is assessed also considering environmental resources	4.2	3.7
Company performance is assessed also considering social resources	4.5	3.7
Total	**4.5**	**3.7**
Section 2 - Company ESG disclosure choices	**Local entities**	**Non-local entities**
Company disclosure contents are defined by company's management	3.5	4.3
Company voluntary disclosure contents is influenced by external stakeholders	3.7	3.7
Company voluntary disclosure contents is influenced by internal stakeholders	3.5	3.3
Company voluntary disclosure contents is influenced by top management choices	4.2	4.3
Some of company's stakeholders are members of the directory board	2.8	3.3
Total	**3.5**	**3.8**
Section 3 - Reporting process	**Local entities**	**Non-local entities**
Non-financial KPI's are ex-ante included in company strategic plans	3.3	2.7
Top management is involved in collecting information to be included in corporate disclosure	4.7	4.0
Employees management are involved in collecting information to be included in corporate disclosure	4.8	4.3
The collection of information to be included in corporate disclosure is formalized	4.3	3.3
Top management reviews and approves the contents of corporate disclosure	4.7	4.7
Total	**4.4**	**3.8**
Section 4 - Local identity	**Local entities**	**Non-local entities**
The entity is embedded in a specific originating geographical area	4.0	4.7
Corporate shares are owned by investors pertain to that originating geographical area	2.8	3.7
Members of the board of directors pertain to that originating geographical area	2.8	4.0
Corporate subsidiaries pertain to that originating area	3.0	3.0
Company's branches dislocation is consistent with corporate choice to be emended in the originating geographical area	2.0	1.7
The entity has incrementally expanded its operating geographical area	4.5	4.7
The entity's strategy include the analysis of local stakeholders' needs	4.2	4.0
Total	**3.3**	**3.7**

On the other hand, responses given to section 2 do not confirm the effects of local identity on ESG reporting choices. Moreover, the online survey results show that companies' perception of their local identity is not consistent with the results of our sample selection process.

4. CONCLUSIONS

The internationalization of financial markets, the heightened sensitivity of communities to environmental and social issues, the progressive acquisition of awareness of the multidimensionality of the value creation of companies, the pressure of financial crises, have helped to reveal the role of firms in overcoming the dichotomy traditionally attributed to the concept of performance, highlighting the central role in the creation of a sustainable environment. Public and private organizations, academics and financial operators have raised attention to the opportunity for enterprises to implement integrated management practices, in order to define comprehensive and long-term plans and strategies that could balance individual, corporate and collective interests.

Our work, as a part of a larger research project, has been oriented to an exploratory analysis of the degree of influence exerted by the local identity of entities on the degree of integrated reporting and integrated thinking. We assume that the closeness with the local community leads the management to consider the priority objective of sustainability and, consequently, to report their actions in a more diffuse and integrated way. The research results suggest that a strong local identity effectively influences the management's integrated reporting practices. In fact, both literal and theoretical replications highlight that the IR is to some extent strengthened by the strong local identity of entities, conceived as the closeness to the local community and environment. On the contrary, the responses to the online survey are not consistent, showing that local identity does not leads the inclusion ESG resources and key stakeholders in medium and long term strategies. Moreover, companies' perception of their local identity does not always correspond to variables objectively denoting a strict relationship with local communities.

Our work adds on the antecedents of non-financial voluntary disclosure and of reporting integration practices, suggesting that pressure exerted by local stakeholder could effectively impact on corporate management and reporting practices. As this is an exploratory study, our findings help narrowing the research topic, being not susceptible to generalization. This places the need for, on one hand, further developments of the case studies through interviews and questionnaires addressed to the top management of the sampled entities, and on the other, an enlargement of the sample in order to achieve a broader view of the phenomenon. Nevertheless, the results provide an early indication of the national context with regard to trends in the broader market scenario, contributing in this way to the existing literature on the subject.

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