Maria Serena Chiucchi - Paola Demartini (eds.)

QUALITATIVE RESEARCH IN INTANGIBLES, INTELLECTUAL CAPITAL AND INTEGRATED REPORTING PRACTICES

OPPORTUNITIES, CRITICALITIES AND FUTURE PERSPECTIVES

4 CORPORATE GOVERNANCE
E SCENARI DI SETTORE DELLE IMPRESE

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Università degli Studi Roma Tre
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Corporate governance e scenari di settore delle imprese

4

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Presentation of the Book Series

Corporate Governance e Scenari di Settore delle Imprese. Emerging Issues

Monographs and Essays Section

Corporate Governance is a theme of interdisciplinary research. It is a contemporary issue but is continuously evolving.

The objective of the Corporate Governance Series is to offer students, professionals and scholars the opportunity to reflect on and discuss emerging issues. In particular, we focus on the Italian context also read in comparative terms with respect to other countries.

The monographs and essays section publishes research presented to the Scientific Community during conferences and/or are subjected to peer review.

Foreword

Sidrea International Workshop Proceedings on Qualitative Research in Intangibles, Intellectual Capital and Integrated Reporting Practices. Opportunities, Criticalities and Future Perspectives

Over the last few decades, research on measuring, managing, and reporting intangibles and intellectual capital (IIC) has developed into the core of the scholarly debate. Despite the interest shown in developing theory, the benefits attributed to measuring, managing and reporting IIC are not fully recognised in practice, thus leading to a call for more rigorous and performative research (Mouritsen, 2006; Dumay, 2012; Guthrie *et al.*, 2012). Adopting a performative approach implies studying the measurement, management and reporting of IIC 'in action', inside and among organizations, to understand how knowledge resources such as people, processes and relationships are mobilised and activated to create value.

Qualitative methods, such as case studies, interviews and observations are particularly suited to the investigation of IIC in action because they allow researchers to study the complex dynamics within companies and among organizations. Additionally, researchers can also help implement IIC practices by using interventionist research, which uses case studies and qualitative methods to investigate IIC *in situ* and help fill the gap between theory and practice (Dumay & Baard, 2017). Thus, IIC research that looks both inside and outside the organization continues to develop new insights into how organizations create value.

The Dipartimento di Studi Aziendali, University of Roma TRE and the Dipartimento di Management, Università Politecnica delle Marche, with the support of the Società Italiana dei Docenti di Ragioneria e di Economia Aziendale (SIDREA) are pleased to have organised the SIDREA

International Workshop (SIW): *Qualitative Research in Intangibles, Intellectual Capital and Integrated Reporting Practices: Opportunities, Criticalities and Future Perspectives*, held in Rome on July 11, 2018.

This workshop continues the Università Politecnica delle Marche - Università Roma TRE SIW tradition that began studying Intangibles, Intellectual Capital and Integrated Reporting in 2014.

This SIW Proceedings book aims to explore the opportunities, criticalities and future perspectives offered by qualitative methods with specific reference to the research on Intangibles, Intellectual Capital and Integrated Reporting.

Participants of the SIW interacted with Italian and foreign faculty members and had the opportunity to present and discuss their research projects with two scholars who are leading researchers in the topics addressed in the workshop: Prof John C. Dumay and Dr. Vicki Baard from Macquarie University, Sydney.

This book entails the full papers or the extended abstracts of the research projects presented in Rome, revised and updated in light of the suggestions received during the SIW and after the reviews made by the two official discussants above-mentioned.

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Part I

Intellectual Capital and <IR> New Reporting Practices

New frontiers for local government reporting: learning by pioneers

Francesca Manes Rossi, Rebecca Levy Orelli

Purpose – Under the New Public Management waves of reform, new reporting practices have flourished in public administrations to communicate to stakeholders the value created for the benefits of the community. The paper aims at investigating the evolution in the new reporting practices in local government, questioning the ability of integrated reporting to represent the best way for local government to enhance accountability and stakeholder engagements.

Design/methodology/approach – Adopting the Actor-Network Theory and using a case study method, the research questions the process of "translation" of Integrated Reporting principles and content in three local governments. The three experience are compared, and the role played by different actors and networks in producing a stronger engagement by citizens in the decision-making process is investigated.

Findings – The case studies show how and to what extent people, processes and relationships have been mobilized and activated to create value. Furthermore, common roots of principles and content prompted by the Integrated Reporting Framework are related to other reporting tools.

Originality/value – The research sheds light on the role played by different actors in enhancing stakeholders engagements. The three cases offer a lesson to learn for politicians and legislators in activating the adoption of innovative reporting tools as a means to improve accountability and involve citizens in local politics.

Keywords – Integrated Reporting - Stakeholders engagement - Accountability - Public Value creation - Popular Report.

1. *Introduction*

The New Public Management (NPM) waves of reforms (Hood, 1995; Lapsley, 2009) fostered the modernization and transformation of public sector organizations in the pursuit of efficiency and effectiveness. Over time, NPM reforms have been coupled with the flourishing of new reporting practices, to communicate to stakeholders/citizens the value created for the benefits of the community, as well as to improve stakeholders' engagement (Adam *et al.*, 2014; Bonson *et al.*, 2015; Clay, 2008; Cohen & Karatzimas, 2015).

The focus in providing information has shifted from processes, access to resources and equity to outputs and outcomes especially concerning accounting data, both for budgeting and for reporting (Parker & Gould, 1999). The annual financial report is supposed to inform stakeholders about the management and expenditure of public resources, and it shapes the reality of the public entity to the eyes of the stakeholders (Christensen & Skaerbaek, 2007). However, as already discussed at length by scholars, the usage of the information embedded in the financial reporting by stakeholders is rather limited (Steccolini, 2004; Coy *et al.*, 2001).

One of the reasons often adopted to explain the limited uses of accounting information, and the consequent inability of financial reporting to discharge accountability has been recognised in its language, which is highly specialised and it is difficult to understand for people without specific accounting knowledge (Paulsson, 2006). As a consequence, progressively several initiatives have been undertaken to create reports more readily understandable by the majority of users, especially in countries where NPM reforms call for a more participative role of citizens in the decision-making process of public entities.

Additional non-financial information may illuminate stakeholders about the future of the local government. An integrated report, able to retain some of the essential features of the financial reporting but providing also information on governance, environmental and sustainability issues in an integrated manner, may represent the best way to engage people in the political life of the local government. However, the success and the usefulness of this new tool depends on the process through which it is translated into the local government practices and by the involvement of different actors within the process.

To examine the adoption of alternative communication tools the present research makes use of the Actor-Network Theory (ANT) (Callon, 1984; Latour, 1996, 1999). ANT helps to investigate the process of 'translation'

(Justesen & Mouritsen, 2011; Lowe, 2001; Lukka & Vinnari, 2014; Vinnari & Dillard, 2016) of integrated reporting principles and content in local governments. A comparative case study method is followed to examine the experience in new reporting practices made by three city councils from three continents differing in cultural, legislative and organizational traditions. The comparison aims at identifying the role played by different actors in producing more effective accountability, suitable to improve citizens' engagement in the decision-making process. Our examination points out the extent to which accountability innovations have been translated into local reporting practices, and the emerging networks of the accountability frame have been constructed, accomplishing (or not) to the aim of introducing the new reporting framework. The results offer room for further reflexions in understanding how to undertake the process of preparing integrated reporting in local governments both by scholars and politicians.

The paper unfolds as follow. The next section presents a summary of the ANT and the concept of framework, as a theoretical lens through which investigate new reporting tools development. Section 3 defines the research design and the methodology. Section 4 offers a summary of the development of <IR> and the efforts done so far for its extension to the public sector. The discussion of the three case studies under investigation is presented in section 5 from a comparative perspective. Section 6 draws some reflections on the new reporting practices and if and to what extent new accountability principles have been translated into local governments. Section 7 discusses the limitations of the study as well as possible further developments of the research.

2. *New reporting practices in local governments*

A vast amount of research has discussed accountability in public administration in general (Ball *et al.*, 2014; Dowdle, 2017; Gray & Jenkins, 1993; Patton, 1992; Parker & Gould, 1999) and, more specifically, in local governments (Boyne & Law, 1991; Ferry *et al.*, 2015; Steccolini, 2004; Martin & Kloot, 2001), considering the different facets of accountability, as well as codes, content and tools. It has been also recognised that «the prevailing idea of public accountability changes over time as a consequence of changes in the social, cultural, political context» (Steccolini, 2004: 331).

Since the '90 a growing attention on local government engagements in sustainability practices and reporting emerges (Ball & Grubic, 2007;

Bellringer *et al.*, 2011; Dumay *et al.*, 2010). As noted by Ball and Grubic (2007) local governments play a key role in sustainable developments, having a capacity to relate directly to society, more than corporations.

The advent of the Internet has facilitated the access to this vast variety of information by different users, and nowadays almost all public administrations provide a plethora of data, information and reports on their websites (Brusca *et al.*, 2016; Babeiya & Masabo, 2017). However, the grooving pressure for more transparency and accountability by local governments in the last decades may also result in an overloading of reports and information that may turn in a lower engagement by stakeholders, confused rather than illuminated by this overflow (Curtin & Meijer, 2006).

Consequently, the emergency for a holistic form of disclosure able to incorporate both financial and non-financial information, but also concise and easy to understand, has animated the academic debate, but had also an impact on standard setters and consultancy companies, generating a large number of different reports with different labels.

Meanwhile, the need for a holistic form of disclosure has also been developed for corporation leading, in 2009, at the creation of the International Integrated Reporting Council (IIRC) in 2009. The council was formed by actors with strong regulatory powers regarding accounting, all involved in regulating accounting practices about financial reporting and sustainability reporting[1] (Dumay *et al.*, 2017). After a pilot programme started in 2011, the IIRC released the Integrated Reporting framework (<IRF>) in 2013.

The <IRF> propose a set of guiding principles and content elements to be included in the report, as summarized in Figure 1.

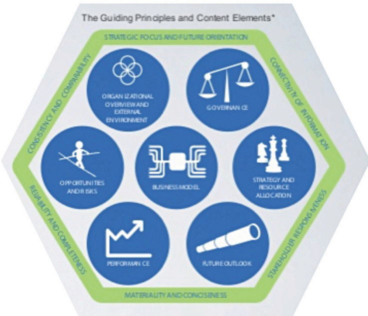
Each entity may adjust the report to its business model, in the aim of representing how value has been created. In particular, the report should inform the reader about the vision and mission, how the inputs (related to the six capitals: financial, manufactured, intellectual, human, social and relationship, natural) have been transformed into outputs and have produced specific outcomes. Indicators may be included for a concise representation.

Although the focus is on capital providers, the IIRC also states that the framework «can also be applied, adapted as necessary, by the public

[1] The initial memeber of the IIRC were the Association of Chartered Certified Accountants, the Chartered Institute of Management Accountants, and the International Federation of Accountants, with the support of the Big Four companies and sustainability reporting-focused organisations, such as the Global Reporting Initiative, the Climate Disclosure Standards Board, and the Sustainability Accounting Standards Board.

sector and not-for-profit organizations» (IR Framework: 4). However, the adoption of the Integrated Reporting by public sector organisations is challenging and not without difficulties. To better support public organisations, the IIRC has created a Public Sector Pioneer Network and a joint document with the Charted Institute of Public Finance and Accountancy in the UK has been published. Notwithstanding, at the moment no specific guidelines have been released, and the development of any specific project related to public sector entities seems to be at a standstill.

Fig. 1 – *The Guiding Principles and Content Elements*



Source: IIRC 2016

Several hurdles and opportunity may be considered. First, the preparation of the integrated reporting requires a different approach to setting strategy, overcoming the separation between different unit inside the entity and embracing integrated thinking. However, public organisations often refuse changes, and the adoption of this kind of 'thinking' requires managers and politicians to share a common view of strategies and values (Guthrie, 2017).

Second, local governments sometime prepare, besides the annual financial report, also the sustainability report and other specific documents to meet different information needs. In this respect, the Integrated Report is suitable at including different information in one document, offering a paramount picture of the entity to the reader. Nonetheless, the <IRF> does not provide a set of indicators. For this reason, the Global Reporting Initiative (GRI) guidelines can still be used to assist local government in preparing the report. (Manes-Rossi, 2018).

Stronger *stakeholder engagement* is a further benefit that may be prompted by the integrated reporting: as revealed by KPMG report (2012) for public sector entities, including financial and non-financial information in one document allows organisations to explain how they deal with different – and sometimes contrasting – stakeholders' interessment. Local governments may reinforce trust and legitimacy by citizens engaging with their people.

One of the risk to be consider while adopting an integrated report, common to any kind of accounting change, is that the organisation prepare the document just making a collage of information available, but does not adopt any change in the way in which strategies are prepared (Liguori & Steccolini, 2014; Katsikas *et al.*, 2017).

In the following section we make a first attempt, to the best of our knowledge, to examine the experience done in three cities in preparing an innovative reporting, to identify the main actors involved in the development of the document and to detect if the <IRF> plays a role, as an ally or as a framework.

3. *The translation of new reporting practices: the Actor Network Theory*

Reforms in public sector accounting can best be interpreted as a complex mixture of environmental pressure, polity features and historical institutional context (Christensen & Laegreid, 2017).

To understand how innovative accounting tools have been adopted in public sector entities, the role played by different actors may help to interpret why a specific innovation has been successful or turn out to achieve different aims from those initially planned. To this end, we frame our discussion within.

ANT has been adopted in accounting studies dealing with accounting innovations. Latour (1996, 1999) and Callon (1984) discuss on a macrosociological level that organisations and discourse are involved with organising interaction. The work of Latour has inspired a large number of studies, defining four notions that are at the basis of ANT (Lukka & Vinnari, 2014). The key notions relate to actors, translation, alliance, and trial of strength. An actor can be a human or non-human thing that can produce an effect on another thing. Quoting Latour (2005: 71) an actor is «anything that does modify a state of affairs by making a difference».

The concept of translation is an elusive one. According to Callon (1984), it is a process in which one group of actors, adopting a variety of tactics, is able to gain the power to speak on behalf of the others. Latour (2005) offers a different perspective identifying translation when a new association between human and non-humans elements occurs. In order to have a successful translation, an actor needs to create alliance: the more an actor is able to be connected with alliances, the more powerful the translation will be. In this approach, social order, power, truth and other phenomena that are generally viewed as a starting point, become the results of different trials of strength among different actors.

> «Such trials constantly emerge when actors resist externally imposed definitions of their interests and objectives and refuse to enrol in a particular network. It then follows that disorder is the norm, whereas the stability of a system is a laboriously achieved state that might collapse at any time» (Lukka & Vinnari, 2014: 1316).

Thus, to keep a network of alliances, it is necessary to maintain actors actively engaged around common interest and objectives.

According to Lowe (2001), accounting systems may be perceived as allies, in their ability to support humans to achieve their organisational objectives. Accounting tools are suitable to provide solutions to organisational problems (Miller & O'Leary, 1994).

Callon (1988) highlight how emerging actor-networks affect a wide variety of human and non-humans. Callon's study focuses on the consequences of engaging humans and non-humans, identifying four moments of the translation process: problematization, interessment, enrolment and mobilization.

The moment of problematization refers to the efforts done by focal actors to convince other actors (alliances) about the urgency of a specific problem, which is demanding a standard solution. In his study, Callon identifies the first unit of actors that define the problem, a possible agenda, and other actors to be involved in order to succeed. After this, an *Obligatory Passage Point* (OPP) need to occur, and it can be identified at the moment in which all actors can satisfy the role attributed to them by the focal actor in the pursuit of a solution. The OPP is identified by the focal actor and renders her/him/it indispensable. The moment of interessment is the one in which the focal actor (in Callon's study the three researchers) try to impose and stabilise the identity of the other actors it defines in the problematization moment. Callon also warns about the risk that despite arguments are convincing and the urgency of the problem, alliances with other actors may not be taken for granted. When other actors accept or get aligned to the interest defined for them by the focal actor, the enrolment occurs. The mobilization requires that all actors keep their involvement in the action and then the spokesmen representative need to be identified. As stated by Lowe (2001), accounting systems – both in their implementation as well as when they are operative – 'mobilize' organisational members either because they are constrained to use the number that the new reports disclose or because their actions and activities created data to be included in the reports. Thus, innovative accounting tools may also be used to obtain mobilization.

Along the whole process, «the notion of translation emphasizes the continuity of the displacements and transformations which occur» (Callon, 1984: 214) in the pursuit of the solution to the initial problem.

Adopting micro-sociological level of observation, Goffman (1974) studies what organises human interaction and introduces the notion of frameworks, as the stock of tacit knowledge on which actors are drawn from their everyday interaction. Callon (1984), elaborating on the concept of Goffman (1974), state that «the frame establishes a boundary within which interactions […] take place more or less independently of their surrounding context» (Callon, 1998: 249). However, overflows may occur in the framing attempts. The concept of overflows comprises both positive and negative externalities and, rather being accidental, are a normal and unavoidable phenomenon that occur simultaneously with the framing process. Summarising, framing creates order, while overflows create disorder (Callon, 1998). Changes follow a non-linear process and «success and failure is a fragile construction that turns on the strength of diverse ties tying together many heterogeneous elements» (Briers & Chua, 2001: 267).

To operationalise the use of ANT in the present study on local governments' new reporting practices, we question *if* and *to what extent* the main principles included in the <IRF> have been translated into reporting practices questioning the ability of integrated reporting to represent the best way for local government to enhance accountability and stakeholder engagements.

4. *Research design and methodology*

The study adopts a comparative case study method motivated by the contemporary and complex nature of the translation of accounting principles and tools into practice and their impact on actors, rules, regulation, and the network in which a municipality insists, and the need to keep in mind characteristics and the type of research questions to be addressed (Yin, 2018).

Drawing on prior research, on reasonable assumptions and existing correlative evidence, we derived some propositions. The conceptual framework and the researchable propositions guided data collection and analysis and were used as a template with which to compare the empirical results of the case studies (Yin, 2018).

Data on case studies of three local governments were collected over a long time frame (the maximum possible). Our selection of case studies was guided by the variables of the conceptual framework, using a most-similar-most-different case design. We chose municipalities differing in cultural, legislative and organizational traditions, but with a similar level of economic development, and publishing an integrated reporting kind of disclosure, even if published under other labels (see table 1). The three municipalities are listed as Alpha cities by the Globalization and World Cities Research Network (GWCRN) for their similar level of economic development (there are four main clusters of economic development, Alpha, Beta, Gamma and High sufficient). Alpha defines the group of 40 cities that link major economic regions into the world economy.

Data collection relied on multiple sources of evidence. We collected relevant municipal official documents (integrated reporting, sustainability reporting, strategic plans and performance reports, budget and financial reports, other administrative documents), mass-media articles, and official statistics on financial and non-financial performance to yield more data.

In the first stage of data analysis, each case was examined as an interpretable whole, constructing an explanation of accounting implementation decisions confronting respondents, while in the second stage a cross-case analysis was performed.

Table 1 – *Features of the municipalities*

	Johannesburg	**Melbourne**	**Warsaw**
Continent	Africa	Australia and Oceania	Europe
Country	South Africa	Australia	Poland
Capital status	Yes (one out of three)	No (it is the second city after Sydney)	Yes
Globalization and world cities research network rating	Alpha city n. 20	Alpha city n. 30	Alpa city n. 19
Name of the report	Integrated report	Annual report	Integrated report

Consistently with the case study method, the municipalities of Johannesburg, Melbourne, and Warsaw are compared, and the role played by different actors and networks is investigated in order to understand patterns of translation of accounting principle and tools was made possible. The results are generalizable to theoretical propositions, providing a convincing rationale for establishing the importance of critical factors that determine the translation of accounting principles and tools into practice by local leaders and their impact on actors, rules and regulation, and the network of each city.

5. *Setting the context of new reporting practices*

The present section compares the three selected cases using a common approach to analysis. For each city, it will be briefly described the basic features, and then it will be analyzed the new reporting practice core elements, paying particular attention to the focus of the report, the materiality process, the conciseness of the document and the kind of stakeholder engagement as it is disclosed in the documents.

City of Johannesburg

Johannesburg is the largest and most populous city in South Africa with a population of 4.9 million inhabitants. The new reporting practice represented by the integrated report is linked with the Integrated Development Plan 2011/2016, which is a part of Growth and Development Strategy 2040 of the city, both available on the city's website. The basic issues for the city are poverty, unemployment, and inequality because of the many migrants moving to the city in search of opportunities. Consequently, the efforts of the city are towards building up liveable communities closer to essential services and jobs.

The integrated report has its *focus* on ten strategic priorities and their related operative programmes. The strategic priorities are integrated with both the strategy of development and the value creation model that explains the six capitals use of resources in each operative programme and the results regarding outputs and outcomes. While the outputs are organized into the four areas of sustainable services, economic growth, human and social development, and good governance, the outcomes follow a more traditional classification economic, social, and environmental sustainability with the addition of the administrative sustainability element.

Regarding *materiality*, even if the absence of a materiality matrix structured along the stakeholder's needs, the integrated reporting identifies the materiality aspects in accordance with the growth and development strategy and it frames contents about the four areas of interest for the city.

The report consists of 333 pages so that it presents a less degree of *conciseness*. Nonetheless, it has to be noticed that it represents consolidated integrated report, disclosing information about the city as well as the enterprises or entities under the city's control. A large part of the document (about 2/3 of it) is devoted to financial statements and indicators inspired by the GRI G4 standard, with a limited number of pictures and graphs.

Johannesburg *engages* its community with regional ward clusters (no. 24 for the period 2015-2016) enabling community members, non-governmental organisations (NGOs), councillors, and various committees to participate in the preparation of the city's plans.

City of Melbourne

The city of Melbourne (State of Victoria, Australia) is at heart of Melbourne and covers the central city and 14 inners suburbs. In 2016 the city had a residential population of 135,959, that increases to 891,000 in weekdays. The Annual Report is prepared in accordance with the Local Government Act 1989, and it also draws on GRI G4 guidelines Sustainability reporting framework. The report describes performance for the 2014-2015 financial year against the objectives of the 2014-2015 Annual Plan and Budget and the four-year priorities of the Council Plan 2013-2017. The report is available on the city's website.

The city of Melbourne' report *focus* is on its performance against eight fundamental goals, closed to sustainability issues, presented in the four-year council plan and keeping with the vision. There is a clear description of the path followed to turn priorities into actions, even if the business model and the capitals involved in the value creation process are entirely lacking. The organization of the city, as well as the governance model, are quite articulated.

Concerning the *materiality* issue, the report is consistent with the requirements of the Local Government Act. Nonetheless, there is neither the description of the process followed for the identification of the material issues, of the kind of engagement done with stakeholders, nor the presentation of the output of the process, the materiality matrix. It is worth mentioning the compliance of the report with the GRI G4 requirements is based on a material assessment of sustainability issues.

As a principle, *conciseness* is not evoked in the document, even if the document would like to present an understandable view of the city performance. This results in 198 pages of information presenting a significant number of financial information, against the achievement of each of the mentioned Melbourn's goals, sustainability and performance indicators along the entire Annual Report.

The *stakeholder engagement* activity takes a critical part of the decision-making process of the city. There is a section (*Involving the community in* *our decisions*) devoted to the process undertaken to that aim as well as a section of the official web page of the city called *Participate Melbourne* that presents all projects open for consultation (with different manners of participation, i.e., questionnaires, documents, focus groups). In the annual report, a section of comparison between activities planned in the previous year and level of achievement is also presented in order to engage citizens with the life and the development of the community. Lastly, an activity of citizen engagement called «Implement the community engagement process agreed for the 10-Year Financial Plan» links the multiyear strategy of the city with citizens priority in managing the public finances.

City of Warsaw

Warsaw is the capital and largest city of Poland, with a population officially estimated at 1,765 million residents, that makes Warsaw the 8th most-populous capital city in the European Union. Warsaw is a global city, a major international tourist destination and a significant cultural, political and economic hub. In July 2017, the mayor presented the 'Third integrated report' showing data for 2014-2015, available in English. Since its inception, the report follows the GRI G4 guidelines as well as the ISO37120 standards for sustainable urban development, in order to assure comparability. There is no explanation of the methodology followed in the preparation of the report.

City of Warsaw *focus* is on the broad economic, social, and environmental sustainability, coherently with to the framework chosen as reference. As a consequence, the capitals involved in the value creation process are not mentioned, while there is room for general governance information (board and code of governance). The time orientation of the information disclosed is the past, with a consequence in terms of limited disclosure on risks and future agenda.

Concerning the *materiality*, the report is framed around aspects defined in accordance with stakeholders' engagement activities that took place through public consultations made thanks to the city's website and social networks. The materiality is reported concerning the main focus of the report, economic, social and environmental issues.

Regarding *conciseness*, the third integrated report is made up of 62 pages plus 6 pages of detailed indicators. Despite the report conciseness, all the performance indicators are disclosed over two years to allow comparability over time. About communication, the report makes use of infographics and pictures to facilitate stakeholders' engagement.

In terms of *stakeholder engagement*, the city identifies its core stakeholders and present them in the report also describing the open channels of communications (phone, website, apps, email, and chat). Notably, it is outlined the map of main stakeholders engaged in processes with public consultations and their involvement with a participatory budget effort.

A detailed table of the main key feature of the new reporting practices of the three local governments against the core features of <IRF> is provided in table 2.

Table 2 – *Key features of the accounting report against the core features of <IRF>*

Key feature	**Description of the key feature**	**J**	**M**	**W**
Strategic focus and future orientation	Explain how the entities plan to use 'the capitals' and the impact of business activities on the capitals	X		
	Explain the time frames (short-, medium-, and long-term) associated with strategic objectives	X	X	X
	Explain the strategic importance of material risks and opportunities in the discussion of business strategy	X	X	
Materiality	Explain material risks and opportunities in detail, especially regarding known or potential effects on financial, environmental, social, or governance performance	X		
	Identify the time frames (short-, medium-, and long-term) associated with material risk and opportunities			
	Prioritise material risks and opportunities based on their magnitude/importance			
	Prioritise the perspectives of stakeholders consulted			X
Conciseness	Information includes sufficient context to understand the organization's strategy, governance, performance, and prospects without being burdened with less relevant information	X	X	X
	There is a balance between conciseness and the other guiding principles, particularly completeness and comparability		X	X
Stakeholder engagement	Have the stakeholders been involved in the definition of the material issues?	X	X	X
	Have the needs and expectations of the stakeholders been considered in the definition of the external environment?	X	X	X
	Have the stakeholders been identified in the definition of the business model?			X
	Does the organisation activate stakeholder engagement activities?	X	X	X
	If the answer to the previous question is yes, are the inputs used in the definition of the strategy?	X	X	X

Notes. J: Johannesburg; M: Melbourne; W: Warsaw.

6. *Are new reporting practices translating new accountability principles in local governments? Some reflexions*

In order to understand the framing of new accountability practices such as the Integrated reporting, it is necessary to be aware of the context of its introduction. The present section provides the essential context of new reporting introduction in each of the three cases analysed and frames the network that developed in relation to such introduction, in light of the ANT.

The City of Johannesburg

The features of the institutional and political context of South Africa play a role in understanding the integrated reporting role nowadays in Johannesburg. Africa faces a number of challenges that have limited the scope, speed and quality of services. The challenges include corruption multiple accountability, poor resource utilisation and institutional capa-city. African governments, therefore, needed to increase their efforts to address these challenges through effective public sector reforms since mid 80ies (Carpenter, 1999). The Constitution of 1996 gave local authorities more power by making them autonomous and South Africa became a 'national' government instead of a 'central' government. The Government was restructured from a linear and hierarchical model into spheres – national, provincial and local. The Constitution requires coo-peration and respect between the three spheres, as municipalities have the executive and legislative power to take the initiative in the management of local affairs (Carpenter, 1999). The legislative (Parliament) and the provincial governments are not allowed to interfere with the power and functions of the local authorities. At the same time, national and provin-cial governments must ensure that municipalities perform their functions effectively and are obligated to assist them if they need help.

The municipalities in South Africa are the key actors of local deve-lopment, also in terms of accounting disclosure and engagement. The functions performed by municipalities are derived from the Constitution of South Africa in 1996. The structural and institutional arrangements are different for the different types of municipalities, metropolitan, district and local municipalities. The common feature is that they have to be accountable to the community they serve providing a democratic and accountable government for local communities ensuring the provision of sustainable services. The Constitution sets the two so-called *development duties* for municipalities that are related to the obligation of structure and manage its administration and budgeting and planning processes to give priority to the basic needs of the community, and to promote the social and economic development of the community, as well as to participate in national and provincial development programmes. It emerges that local governments provide the foundation for democracy and its service delivery the basis for economic and social cohesion in the context of a development state. Due to this and the fact that municipalities use taxpayer funds, levy surcharges on services (e.g., electricity, water, sanitation, refuse removal) good corporate governance is paramount for the success of the municipality itself and those who are impacted by it. Good corporate governance assists by putting in place leadership and other structures as well as processes and frameworks for the municipality to be responsive to the needs of the community, including residents and businesses.

NPM reforms in South Africa were mainly related to Performance Management (EAC, 2004) in order to face some of the accountability problems. In pursuit of the goal of performance improvement, performance management advocates for the 'empowerment' of managers and citizens.

The network that developed around the OPP (Obligatory Passage Point) has to take into account citizens, the first addressee of the integrated reporting. In the context of public sector reform, efforts to make public service agencies more accountable to the public have included the adoption of Citizens Charters. Launched in 1997, the principles of the African Public Service Charter that was adopted at the third Pan African Conference of Ministers responsible for the Civil Service, in 2001. The Citizen Charter Batho Pele-People First initiative in South Africa is based on a set of national principles for public service (Therkildsen, 2001) and, following the Charter, citizens should be consulted about the level and quality of public services and, whenever possible.

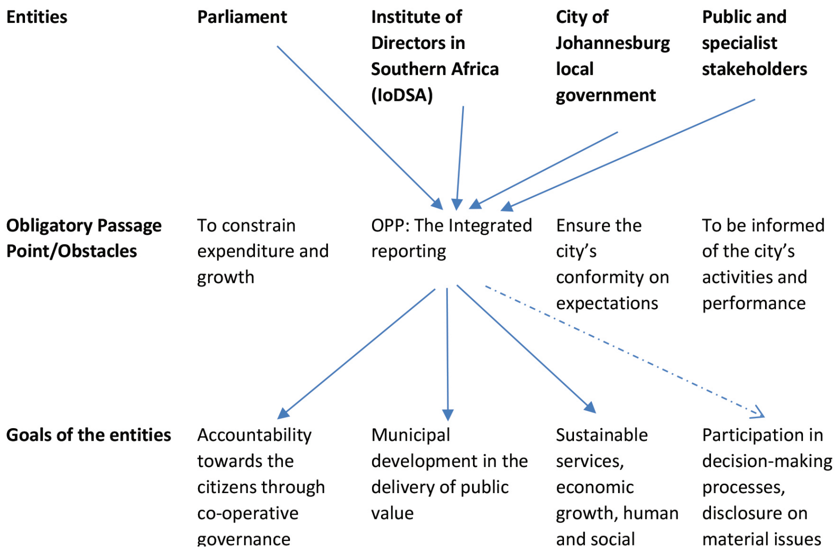
The basic Principles defined in the Charter are Equality of Treatment, Principle of Neutrality, Principle of Legality, Principle of Continuity (Charter for the Public Service in Africa, Third Pan-African Conference of the Ministers of Civil Service, 2001).

At present South Africa municipalities operate within a system of co-operative governance in terms of the Constitution. The Integrated annual report represents the main disclosure of the results of Johannesburg. Today, many public sector organisations in South Africa issue an Annual integrated report. The process of embracing the integrated report involves not only municipalities but also companies listed on the Johannesburg Securities Exchange (JSE) in South Africa. They were required to adopt Integrated Reporting from years commencing on or after 1 March 2010, becoming a JSE listing requirement. King III recommends that organisations should adopt Integrated Reporting on an 'apply or explain' basis. Some of the large State-owned entities have been preparing integrated reports since 2010 on the King III Code's recommendation to prepare an integrated report. In 1994 the first King Report on Corporate Governance (King I) was issued, and the King Committee assigned ownership of this and future reports to the IoDSA who become the leading actor regarding integrated reporting provision in Africa.

Public sector organisations follow the King Code voluntarily in the interests of good governance, rather than by any regulation under the Public Finance Management Act 1999. The King IV Code, released in November 2016 by the Institute of Directors in Southern Africa (IoDSA), has Sector Supplements, aimed explicitly at State-owned entities and Municipalities. According to the King IV, the Report highlights the importance of integrated thinking, integrated reporting and value creation and uses the definitions contained in the International <IR> Framework. There has been a generally positive and pro-active response from some State-Owned Entities in South Africa which have embraced Integrated Reporting as part of their King III application programs (KPMG, 2012).

The network that emerges in the Johannesburg experience is as shown in Figure 2.

Figure 2 – *The City of Johannesburg Integrated reporting network*



The Parliament with the Constitution defines municipality development against the increase of expenditure and unemployment concerns, and towards accountability as the primary value. Also, the Parliament has the power to control and eventually revoke municipality powers in case of failure in matching its objectives. The municipality of Johannesburg has to find its way of development in light of the rules imposed by the parliament, on disclosure. The IoDSA strongly encourages the use of the King Code for municipalities' disclosure as a way to connect local development goals to citizens.

Both the IoDSA and the Citizens Charter combined gave to the City of Johannesburg an impetus that was powerful in developing the network. The IoDSA readily enrolled the city of Johannesburg in the network as it offered the interessment of savings in expenditure programmes and sustainability. The enrolment is an effect of the coalition formed between the central government (Parliament) and the IoDSA.

Thus the actor-network was established with an Obligatory Passage Point through the Integrated Reporting project. It was problematized that an Integrated report would present data useful in demonstrating accountability toward citizens as well as sustainability in services, also attesting central government accomplishment. However, the coalition limited enrolled the public and specialist stakeholders, as, in practice, the integrated report did not engage stakeholders with the process of reporting as it should be given the features of the integrated reporting. For this network members, the interessment was given by the information content of the reports.

Nonetheless, due to the feature of the report, it does not help public and specialized stakeholders, as citizens and other stakeholders, to participate in the decision-making process, as there are not specific activities of stakeholder engagement and participation activated by the integrated reporting.

The City of Melbourne

Local governments are the third tier of government in Australia administered by the states and territories, which in turn are beneath the federal tier. Local governments are mentioned in the Constitution of Australia. Every state government recognises the local government in their respective constitutions. The city of Melbourne is a local government belonging to the state of Victoria, which expresses its own Parliament. Key elements of NPM have been implemented in Australian local governments. The Local Government Act 1989 (Victoria) states that the role of a council includes «providing leadership by establishing key strategic objectives and monitoring their achievement» (s. 3D, 2B). It is important to note that this incorporation of NPM principles has been incremental in the state of Victoria. The latter stipulation was introduced in 2003 with the passing of the Local Government (Democratic Reform) Act 2003. The Local Government Act 1989 (State of Victoria, 1989), defines the purpose of a local government (s.3A) that is to provide a system under which Councils perform the functions and exercise the powers conferred by or under the Act and any other Act for the peace, order and good government of their municipal districts. The primary objective of a Council is «to endeavour to achieve the best outcomes for the local community having regard to the long-term and cumulative effects of decisions» (s.3 C 1).

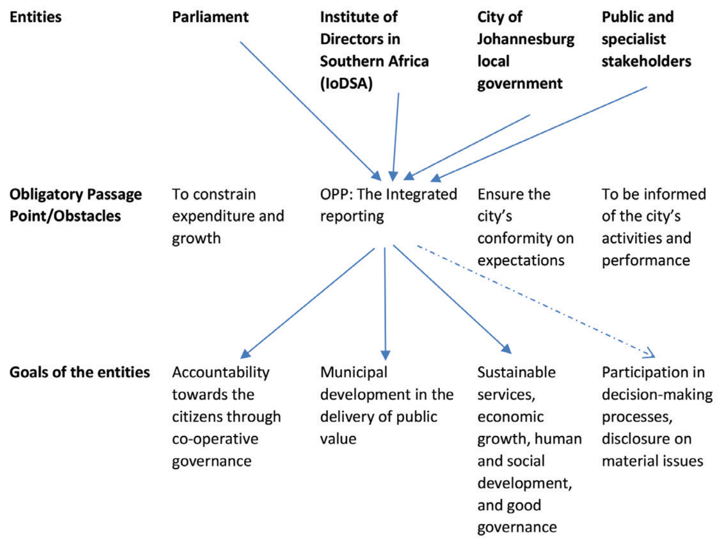
The state of Victoria embraced a series of reforms concerning accountability from the 1980s, implementing a series of NPM-inspired legislation that culminated in the Local Government Amendment (Performance Reporting and Accountability) Act 2014. This way, the broad tenants of NPM as discussed by Diefenbach (2009) have been gradually introduced to enforce roles and behaviour across the Victorian local government sector. Krapp *et al.* (2013) examined NPM in the context of local government, arguing that NPM reforms pose a fundamental question of focus on strategic objectives and better performance from local government administrations.

The purpose of the Local Government Act 2014 is to amend the Local Government Act 1989 and to require Councils to report against prescribed performance indicators in the report of operations and performance statement in the Council' annual report; to include in the annual report the results of the Council's assessment against the prescribed governance and management checklist; to include financial statements in its Strategic Resource Plan, budget, revised budget and annual report, ensuring consistency between its Strategic Resource Plan and the resourcing of plans to provide services or take initiatives in the period covered by the Strategic Resource Plan; and to publish the Council Plan, Strategic Resource Plan, budget, revised budget and annual report on its Internet website (Victoria, 2014).

The network that emerges in the Melbourne's experience is as follows Figure 3. While the Parliament identifies the need to achieve best outcomes for the local community concerning the long-term and cumulative effects of decisions in order to produce peace, order, and good government of the Commonwealth, the State Parliament of Victoria defines the general priorities of the state development towards performance reporting and accountability. The city of Melbourne introducing the Annual report identifies an OPP able to push the local government towards internal performance and good governance that is its primary goal. The Annual Report mobilize all the issues and show an extensive involvement of stakeholder with many channels and active engagement of citizens.

The City of Melbourne decided to prepare an Annual Report to connect local development goals, activities and assessment to citizens, with particular reference to sustainability. The city easily enrolled the general government (parliament) and the state government of Victoria in the network as it offered the interessment of more control on strategic objective and performance achieved at the local level. The latter is an effect of the coalition formed between the central government (Parliament) and state government and the City of Melbourne. The actor-network was established with an Obligatory Passage Point through the Annual Report Project. It was problematized that an Integrated Report (the Annual Report) would present data useful in demonstrating internal performance and good governance, two key elements of the annual report scheme used by the municipality.

Figure 3 – *The City of Melbourne Annual Report Network*



The Annual Report received the attention of public and specialised stakeholders involved in the city's activities and assessment, also showing state government accomplishment. The coalition enrolled the public and specialist stakeholders as for this network members the interessment was given by both the information content of the reports, and a variety of communication channels related to the integrated reporting engagement and participation (as previously described).

The City of Warsaw

Today Poland is divided into 16 provinces, 380 districts and 2,478 municipalities <http://administracja.mswia.gov.pl/> (last access 19.01.2019). The public administration reform in 1999 resulted, among others, in the transfer of about 63% of the state sector units (out of about 12,000) to the municipal sector, subordinated to the newly established units of local government (Kobylinska, 2015: 5). The function of government administration was changed, and in its new shape LG had to *focus* attention on the priority actions such as the formulation of policy or creation of a development strategy. The municipal sector was to provide public service, in line with the agreed standard. After the administrative reform of 1998, the process of adaptation of modern management methods and tools of public tasks management started.

In mid-June 2000 Civil Service Office started a program of *Friendly Administration* to provide comprehensive information officers and friendly public administration officers. The tools and techniques of quality management were used in the implementation of the program. By the first national experiences and exploration of optimal solutions concerning the functioning of administration, the so-called concept of Institutional Development Programme (PRI) was worked out. Its primary objective was to define the principles of institutional development of public administration units, including an analysis of the level of institutional development.

The implementation of a quality-based concept created tremendous potential for fostering NPM reform. This possibility was created by the European Social Fund, which financed the activities implemented under the Priority V Good Governance, Human Capital - Measure 5.2. The projects implemented in its framework were mainly aimed at strengthening the capacity of the Polish administration to carry out their functions in a modern and partner way. A large number of these projects related to the implementation of specific management tools in the institutions of government, including implementation of quality management systems according to ISO 9001, and customer satisfaction monitoring systems (Kobylinska, 2015: 6). Started in the late 90s administration informatization process aimed at improving the operation of Polish administration through the use of information and communication tools in dealing with citizens significance was also significant.

In 1997, the new Constitution strengthened local government. Among the fundamental rules of the State and its political system, the Constitution mentions both decentralisation (article 15) and the delegation of local and regional communities (represented by self-governing institutions) to perform «a substantial part of public tasks on their behalf and under their own responsibility» (article 16). Furthermore, the preamble of the Constitution introduces the principle of subsidiarity, which is one of the doctrinal foundations of local and regional self-government.

The Constitution allows local government units to adopt their own rules and regulations, to a limited extent. Rules passed by municipalities, counties and voivodeships (a kind of provinces) are territorially limited to the area of the particular unit. Also, the basis for these legislative acts and their limits must be specified by central government legislation. Constitutional arrangements are detailed in ordinary, separate legislation for each tier of self-government, the Municipal Government Act and the County Government Act.

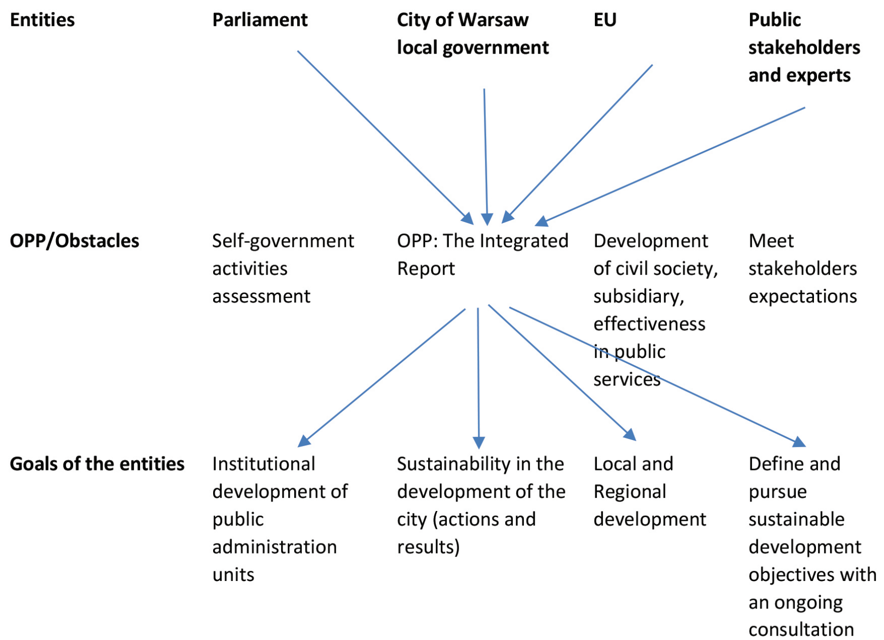
The Capital City of Warsaw is the object of specific regulation, and according to the law governing the structure of the city (Niziołek, 2008), Warsaw currently enjoys the status of a city with county rights. From 1994 to 2002, Warsaw was divided into several independent municipalities, but the model proved ineffective, so the formula of the single municipality divided into several auxiliary units' districts was adopted. The division of tasks between Warsaw and the districts is not specifically defined on a statutory level, so the Warsaw City Council decides on which tasks will be assigned to the districts. The Capital City of Warsaw Act, however, stipulates that the districts should participate in performing the following tasks: maintenance and operation of the municipal property; maintenance of facilities for education, culture, social welfare, recreation, sports and tourism; tasks related to health care; and maintenance of green areas and local roads. The Warsaw City Council adopts a budget that allows districts to perform these tasks. Districts are managed by district councils, which are elected at the same time as the municipal council. The executive body is appointed by the district council of each district (Kulesza & Sześciło, 2012).

As a part of the network, the EU helps to facilitate the reporting adoption. In recent years, European Union funds have played a key role in the Polish government's investment policy, which has made money available to many municipalities. The primary source of funding is derived from the Regional Operational Programmes, and funds are distributed according to public tender procedures, which are open to municipalities and counties. From the viewpoint of local communities, Poland's membership to the European Union has a much more important dimension, which is the access to the structural funds that are an essential source of financing for local and regional development projects. This is accomplished by monitoring committees established within the framework of operational programs. Members of these committees represent various stakeholder groups and include representatives of local government.

The City of Warsaw decided to prepare an Integrated report to demonstrate the sustainable development of the city regarding actions and results. The city enrolled the government (parliament) and the European Union (EU) in the network as it offered the interessment of sustainable development and good use of resources (actions and results). The actor-network was established with an Obligatory Passage Point through the Integrated report, and it was problematized that an Integrated report would present data useful in demonstrating sustainability and development of the civil society and effectiveness in public service provision as the EU required for funding Polish projects.

The Annual Report received the interessment of public stakeholders and experts involved in both define and pursue sustainable development objectives with ongoing consultation, showing EU accomplishment. The interessment was given by both the information content of the reports, the materiality issues in particular, and a variety of communication channels related to the integrated reporting engagement and participation (as previously described).

Figure 4 – *The City of Warsaw Integrated Report Network*



7. *Conclusions*

Under the pressures of New Public Management and New Public Governance, public sector entities are preparing innovative accounting tools to provide a comprehensive disclosure to their stakeholders. The research examines some reports provided by local governments in different contexts, examining the role played by different actors in introducing accounting tools which offer a broad perspective on the value creation process, questioning if and to what extent principles and content of Integrated reporting have been considered. To this end, the discussion is framed within ANT.

As it emerged from the three cases analysed, even to a different extent, an accounting innovation mobilized people, processes and relationships towards value creation. However, the reports analysed only partially meet the requirements provided by the <IRF> and information are developed mainly in accordance with the kind of pressure considered more significant by the main actors. As consequences, local government located in different contexts respond to different pressures providing reports that differ not only in their name but also in principles and focus adopted. Moreover, the level of stakeholders' engagement differs in relation to tradition in involving citizens and other stakeholders in the decision-making process.

The research presents some limitations due to the use of the case study method of research and to the peculiarity of the cases analysed. On the first side, the paper is based on a comparison of the cases of Johannesburg, Melbourne and Warsaw that are very different in many aspects. The case studies allow a broad investigation of the reality. Nonetheless, any generalisation beyond the investigated context must be considered with caution. The processes of adoption of accounting innovation, in the case of the integrated reporting, is quite recent in the public administration, and the integrated report as a mean of disclose value creation has a recent history so that few municipalities have started the path towards them. Further research will be able to explain the patterns of integrated reporting after its inception better and/or overtime and compare different countries than the two considered in the present study.

Even with the highlighted limitations, the experiences of Johannesburg, Melbourne and Warsaw advance the understanding of accounting innovations patterns in the public sector and the mobilization that an accounting innovation may produce. They offer room to academics interested in understanding the patterns of participation via the use of the integrated reporting; to politicians and technicians in local government in introducing new tools of engagement and participation avoiding possible misuse of the new tools; and to citizens in increasing trust in shared decision-making processes like the integrated reporting.

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The Role of Stakeholder Engagement in the Measurement, Management, and Reporting of Intellectual Capital: A Qualitative Analysis on Integrated Reporting Practices

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Purpose – Previous studies suggest that integrated reporting (IR) process is able to improve the measurement, management, and reporting of Intellectual Capital (IC) because it helps to develop internal awareness within the organization of the value creation mechanisms. The aim of this study is to understand how stakeholder engagement, which represents a crucial activity in the IR process, influences the measurement, management, and reporting of IC. We analyse this issue from a performative perspective by investigating how the stakeholder engagement process is realized in different business contexts and how it affects the internal awareness about IC, especially about relational capital, which includes the dimension of relationship with the external stakeholders.

Research design/Methodology – In the empirical analysis this paper adopts a qualitative approach based on a multiple case studies method on three Italian companies operating in different business contexts and adopting IR. Semi-structured interviews, with open answer questions, were conducted.

Findings – The empirical investigation shows that stakeholder engagement process improves internal awareness within the organization of the value creation mechanisms associated with the management, measurement and reporting of IC.

Value/Practical Implications – This paper presents both theoretical and practical implications. Firstly, it contributes to the prior literature on the role of IR in improving IC information and it offers an overview on how stakeholder engagement is implemented. Secondly, the analysis of the case studies shows the contribution of stakeholder engagement in the process

* This paper represents the results of a joint research project carried out by the four authors. However, the various sections of the paper are divided as follows: sections 1 and 3: F. Badia; sections 2 and 3: G. Dicuonzo; section 4: S. Petruzzelli; section 5: V. Dell'Atti.

of measurement, management and reporting of IC. These results could help companies to enhance the awareness on the usefulness to engage properly their stakeholders.

Keywords – Integrated Reporting; Intellectual Capital; Stakeholder Engagement; Performative Approach; Case Studies Method.

1. *Introduction*

Since the 1990s, practitioners and academics have shown an increasing interest in intellectual capital (IC), as it has been considered a critical resource in the value creation process (Roos & Roos, 1997; Stewart, 1997). This issue remains relevant due to the changing competitive conditions that have necessitated constant investments in intangible assets. The challenges of rethinking the organization that arise from the increased importance of intangibles call for an in-depth reflection on how these resources are measured, managed, and visualized (Lev & Zambon, 2003). Despite the proliferation of IC frameworks, some studies have shown the inadequacy of these models as their adoption by companies fails to enter into routine (Chiucchi, 2013a). In this context, the spread of a plethora of IC measurement, management, and disclosure practices has fostered the development of research in this field with the aim of narrowing the gap between IC theory and practice (Dumay, 2009).

To explore the actual role and effects of IC, Mouritsen (2006) compared two different approaches: the ostensive and the performative approaches. The first approach presumes that a single model can fit all organizations to explain a phenomenon such as IC. The second approach assumes that the analysis of IC elements is dynamic and therefore it depends on the specific business context. Other studies contribute to this stream of literature about 'IC in action,' (Guthrie *et al.*, 2012) focusing on how firms mobilize IC (Catasús *et al.*, 2007) or investigating how measuring IC can favor IC mobilization (Chiucchi, 2013b).

However, despite the belief that IC information leads benefits (Marr *et al.*, 2003), there is evidence that there is a gap between internal and external information flows provided by companies (Zambon & Guenther, 2011). The main reason is that IC reporting has evolved on a voluntary basis, without an acknowledged standard able to foster companies' proactive behavior to disclose IC elements (Guthrie & Petty, 2000; Melloni, 2015) the key components of intellectual capital are poorly understood, inadequately identified, inefficiently managed, and not reported within a consistent framework when reported at all. Second, the main areas of intellectual capital reporting *focus* on human resources; technology and intellectual property rights; and organisational and workplace structure. Third, even in an Australian enterprise thought 'ofàbest practice' in this regard, a comprehensive management framework for intellectual capital is yet to be developed, especially for collecting and reporting intellectual capital formation. In conclusion, Australian companies do not compare favourably with several European firms in their ability to measure and report their intellectual capital in the annual report. Introduction this study examines the proposition that knowledge management is an important strategy to large companies and that this will be reflected by way of disclosure of intellectual capital items in the firm's annual report. Supporting this expectation is considerable evidence, in particular from Europe, of the genesis of reporting frameworks that demonstrate a previously unseen level of public disclosure with respect to the intangible assets of firms (Organisation for Economic Co-operation and Development, 2000. To overcome the deficiencies in IC reporting, numerous initiatives have been launched jointly from academics and professional bodies.

In particular, these initiatives have led in the last years to guidelines or statements for the preparation of extra-financial disclosure on IC, often through specific documents called IC reports (Burgman & Roos, 2007; Mouritsen, Johansen *et al.*, 2001) reports, guidelines, compendiums, annual reports, opinions, submissions and legislation. Findings – Eight determining forces are identified that make the basis of the case for the provision of operating and IC information: the long-standing global dominance and growth of the US economy; the emergence of business models other than the value chain (especially the emergence of network businesses. However, despite some attempts and a rich literature production, the disclosure of specific IC reports has been an unsuccessful experience (Chiucchi, 2013b), enough to be declared 'dead' in 2012 (Dumay, 2016). The proposal of IR fits in this route, introducing a new perspective for IC reporting (Dumay *et al.*, 2016). The International Integrated Reporting Council (IIRC) has released the International <IR> Framework to improve the quality of information available to providers of financial capital (IIRC, 2013), also related to IC.

Given the rapid development of Integrated Reporting (IR) practices worldwide, IR Framework appears to be very relevant (de Villiers *et al.*, 2014). Although some studies impose a critical reflection on the future of IR (de Villiers & Sharma, 2017), this result is not surprising because IR presents several benefits: greater clarity, improvement in the decision-making process, deeper engagement and lower reputational risk (Krzus, 2011).

In essence, IR is a process that helps to develop internal awareness within the organization about the value creation mechanisms and to promote a more cohesive and efficient approach to corporate reporting, encouraging dialogue with stakeholders. IR represents a useful instrument to provide relevant and material information arranged in a systematic way to offer a complete picture of firms' value creation (Eccles *et al.*, 2014).

A criticism that has been moved towards the IR approach is related to the financial characterization of the 'value creation' (Flower, 2015). For the IIRC Framework the meaning attributed to the word 'value' should be interpreted in financial terms: value to the 'providers of financial capital' (IIRC 2013, par. 1.7). However, especially for the IC literature, the word 'value' should embrace broader interpretations, like 'value to society', 'value to stakeholders' and 'value to present and future generations' (de Villiers & Sharma, 2017).

In the path of IR adoption, the stakeholder engagement process plays an important role, because it allows IR's preparers to identify the relevant themes for stakeholders (Adams *et al.*, 2016), thus ensuring the convergence of information disclosed (including IC) with information requested or considered material by stakeholders. According to a performative approach, this process can contribute to clarify the priorities for the company in the relations system with the stakeholders and to catalyze some change in action about this dimension.

Moving from these considerations, the investigation aimed at answering two research questions:

1) *How can IR process facilitate awareness of the value creation mechanisms associated with the management, measurement, and reporting of IC through stakeholder engagement?*
2) *How can the stakeholder engagement process spur changes in management behaviors in different business contexts?*

In the empirical analysis, this paper proposes a multiple case study. For each of three case studies examined, semi-structured interviews with open-answer questions were conducted (Qu & Dumay, 2011). Specifically, we interviewed managers who were responsible for IR, to identify the central and significant aspects of stakeholder engagement.

This paper presents both theoretical and practical implications. Regarding theory, it extends prior literature on the role of IR in improving IC information and it contributes to the debate on the relevance of stakeholder engagement in IR process. From a management perspective, the analysis of case studies shows how stakeholder engagement affects the process of measurement, management, and reporting IC, helping companies to enhance awareness of its usefulness to engage their stakeholders properly.

The remainder of this paper is structured as follows. Section 2 provides a review of the relevant literature. Section 3 describes the research method. Section 4 provides the main results and discusses the findings, and Section 5 presents the conclusions.

2. Literature Review

In the knowledge economy, both the development and the management of knowledge resources are considered relevant to the competitive success of companies. Since 1997, when Stewart defined the values created by knowledge resources as 'intellectual capital' (Stewart, 1997), the theme of IC has garnered the interest of academics and practitioners. In the literature, IC is '*intellectual material, knowledge, experience, intellectual property, information… that can be put to use to create wealth*', and it represents a source of long-term value creation for organizations (Edvinsson, 1997). According to a more widespread classification, IC is composed of three distinct elements: internal or structural capital (i.e., intellectual property, information systems, corporate culture, management processes), external or relational capital (i.e., brands, customers, distribution channels, licensing agreements) and human capital (i.e., know-how, entrepreneurial spirit, education).

The emergence of IC as a key driver for companies has raised questions about its management, measurement, and reporting. From the analysis of prior studies, it appears that two perspectives of investigation have been pursued: internal and external perspective.

The 'internal perspective' is related to the consideration of IC information in corporate strategies to gain a competitive advantage and to improve business performance (Teece *et al.*, 2007). This stream of literature points out the potential effects and the benefits arising from the visualization, management, and measurement of IC. Zambon and Marzo (2007) suggest that awareness of IC enhances through its visualization, while Marr *et al.* (2003) emphasize that IC measures help to evaluate the execution of strategy. Analyzing three case studies, Mouritsen *et al.* (2001) prove that the IC statement can mobilize knowledge management and, similarly, Catasús and Gröjer (2006) conclude that the use of human intellectual capital indicators can legitimize or mobilize the organization. Some studies suggest adopting the performative approach to analyze how IC works in a firm (Guthrie *et al.*, 2012; Mouritsen, 2006). This approach assumes that it is not possible to identify a priori the form, function, and role of IC within the organization. Thus, the observation of these elements is dynamic and closely linked to the specific business context.

However, the effective role played by IC measurement in IC practices remains a questionable issue. Dumay and Rooney (2011) demonstrate that IC measures are not necessary to implement effective IC practices, whereas other studies investigate how organizations make sense to IC measurements (Giuliani, 2016) i.e. to analyse the sensemaking, sensegiving, and sensebreaking processes with reference to IC measurements. In order to achieve this aim, a case study, developed adopting an action research approach, will be presented. Design/methodology/approach – This study is based on a case study for which an interventionist research method was adopted. Findings – The main findings are the following. First, the development of an IC project requires the development of an intense sensemaking and sensegiving activity as the managers of an organization need, first, to make sense of this new object (i.e. assign it a meaning or examine the factors that can affect the utilization of IC accounting for managerial purposes (Chiucchi, 2013a).

The 'external perspective' relates to the pressure on companies to disclose the value of their IC to meet the information needs of stakeholders. In this case, the focus is on the usefulness of IC reporting, with the idea that IC information contributes to higher transparency in value creation mechanisms (Edvinsson & Malone, 1997), but is also taken into consideration by investors in their decision-making process (Abhayawansa & Guthrie, 2010). In line with the last assumption, previous studies reveal that voluntary disclosure of IC reduces the price volatility of the shares (Pew Tan *et al.*, 2008) and the cost of capital (Cordazzo, 2007) and ensures an easier and more stable access to the credit market (Lev & Zambon, 2003). Nevertheless, the evidence shows that IC disclosure is scarce and of poor quality, given the tendency to limit information to qualitative aspects (Guthrie & Petty, 2000) the key components of intellectual capital are poorly understood, inadequately identified, inefficiently managed, and not reported within a consistent framework when reported at all. Second, the main areas of intellectual capital reporting focus on human resources; technology and intellectual property rights; and organisational and workplace structure. Third, even in an Australian enterprise thought 'ofàbest practice' in this regard, a comprehensive management framework for intellectual capital is yet to be developed, especially for collecting and reporting intellectual capital formation. In conclusion, Australian companies do not compare favourably with several European firms in their ability to measure and report their intellectual capital in the annual report. Introduction this study examines the proposition that knowledge management is an important strategy to large companies and that this will be reflected by way of disclosure of intellectual capital items in the firm's annual report. Supporting this expectation is considerable evidence, in particular from Europe, of the genesis of reporting frameworks that demonstrate a previously unseen level of public disclosure with respect to the intangible assets of firms (Organisation for Economic Co-operation and Development, 2000). The reason is ascribable to the difficulty in identifying quantitative measures and to firms' aversion to providing confidential information (Bagnoli & Redigolo, 2016).

In this context, several IC frameworks and models have been proposed with the purpose of supporting managers in identifying IC elements (Beattie & Smith, 2013) and thus reducing information asymmetry. The proposals and attempts to concretize these frameworks into IC reporting proposals brought to unsuccessful experiences, at least until 2012 (Dumay, 2016). In the last few years, the IR has emerged as a new way to introduce process of IC measurement and reporting (Dumay *et al.*, 2016).

The IR Framework released by the International Integrated Reporting Council (IIRC) is gaining in popularity, because it can give a more holistic view of companies and provide a more complete representation of how an organization creates value over the time. This initiative is intended to overcome the limit of extant corporate reporting approaches, criticized for their incapacity to offer a company's comprehensive picture, including the connection between adopted strategies and obtained outcomes (Zhou *et al.*, 2017) (ISBN: 0001-3072, ISSN: 14676281, abstract: Integrated reporting <IR>).

As observed by de Villiers *et al.* (2014),

> «the IIRC's mission is to change the condition where financial and non-financial information are accounted for in isolation from each other towards integrated thinking which is embedded within mainstream management and accounting practice enabling integrated reporting to become the corporate reporting norm».

In this sense, Integrated Reporting (IR) promotes the connectivity of information through the combination, interrelatedness, and dependencies between the factors that affect the value creation process. IR «attempts to tell a story about an organisation's journey towards reaching its vision» (Abeysekera, 2013), combining financial and non-financial information in a single report. To this end, the IIRC framework requires a clear and complete description of the company's business model, with an emphasis on the inputs that determine the success of the organization. The inputs are represented by the 'capitals' (stock of value), classified in six categories: financial, manufactured, natural, human, intellectual, and social and relationship. The adoption of this categorization is not binding for the organization preparing IR, but it depends on the actual contribution of each capital to the value creation over the short, medium, and long term.

IIRC defines 'intellectual capital' as organizational and knowledge-based intangibles (i.e., patents, copyrights, software, rights and licenses, tacit knowledge, systems, procedures and protocols). The boundaries of this definition are quite limited, and they differ from those proposed in the literature, according to which, in a more comprehensive way, IC includes also human, social, and relationship capital (Busco *et al.*, 2013).

Given the relevance of the intangible inputs in IR, it appears that IC is at the core of IR (Melloni, 2015) current IC Disclosure (ICD). Different from the other traditional forms of voluntary IC reporting, such as IC statement, IR is a process that has the benefit of encouraging constant dialogue with stakeholders. This is in line with an integrated thinking approach, that considers «the capacity of the organization to respond to key stakeholders' legitimate needs and interests» (IIRC, 2013: 2). The rationale of this approach is to understand the relevant themes for stakeholders to satisfy their legitimate expectations (Adams *et al.*, 2016). Although providers of financial capital are identified as the primary users of IR, the benefits of enhancing accountability and stewardship are reflected on all stakeholders, including customers, suppliers, employees, competitors, regulators, governments, and other national institutions. Companies can engage the various groups of stakeholders using different instruments: online survey, multi-stakeholder workshops, round tables, focus groups, single meetings, interviews, digital forum.

Stakeholder engagement can reduce information asymmetry between the company and its external shareholders, and therefore it generates benefits by facilitating mutual interaction, improving corporate reputation, and increasing a firm's market value (Dal Maso *et al.*, 2017) we also explore whether these associations are affected by the cultural traits of the country in which a firm operates. Based on a worldwide sample of firms for the period 2002 to 2014, we document that stakeholder engagement positively influences market-to-book value of equity, without enhancing the value relevance of firm's accounting earnings. Drawing on Schwartz's cultural framework, we show that the results hold only in countries with a low (high. Venturelli *et al.* (2018) propose a model for evaluating the quality of stakeholder engagement, applying content analysis to the relative disclosure.

Through the materiality analysis, companies prioritize matters based on their relative importance, defining the information to be disclosed in IR, as well as the reference to IC information. This process reflects the tendency towards a convergence of stakeholders' perspectives. Thus, according to a performative approach, it can contribute to improving the internal awareness of the value creation mechanisms associated with the management, measurement, and reporting of IC. Furthermore, understanding the material information on IC for stakeholders can foster changes in management behaviors regarding how IC elements are measured, managed, and reported in the IR. However, the extant research provides little insight on how companies engage their stakeholders in the IR process, with specific reference to identifying material information on IC.

Following a performative approach, the empirical analysis aims to fill this research gap, investigating the role played by the stakeholder engagement process.

3. *Research Method*

The research method adopted in this paper is the case study approach, considered useful in collecting data to answer 'how' questions (Eisenhardt, 1989; Yin, 2015). The investigation consists of analyzing three different cases of Italian companies adopting IR, with specific attention to evaluating the stakeholder engagement process. A multiple case study approach is proposed to reinforce the considerations emerging from each of them and observe possible differences between them, using a comparative perspective (Baxter & Jack, 2008).

The cases selected are particularly suitable for this analysis. First, the chosen companies can be considered to be pioneers in the adoption of IR and therefore they are potentially aware of the role of IR in enhancing internal consciousness about IC information through a more proactive stakeholder engagement. Second, they are operating in different business contexts regarding size of the company, industrial sector, equity distribution, relationships with customers, and connection with financial markets. This allows observation of how, through an exploratory approach, different business contexts affect the stakeholder engagement process.

To ensure the validity, reliability, and triangulation of the data, multiple sources of evidence were used (Qu & Dumay, 2011). Specifically, public reports were examined and semi-structured interviews with open-answer questions were conducted. This kind of interview was considered the most useful for this kind of research, cause of its flexibility, accessibility and intelligibility and its capability of disclosing relevant and unseen aspects of human and organizational conduct (Qu & Dumay, 2011: 246). For each company, both managers and external consultants involved in the IR process were interviewed for an average of 60 and 30 minutes respectively. The research interviews considered three profiles of investigation: (1) adoption of IR, (2) contribution of IR to a more effective system of stakeholder engagement, (3) role of stakeholder engagement in the measurement, management, and reporting of IC information.

More specifically, the first investigative profile aimed to understand the state of progress in the IR process. Therefore, these research interviews focused on the timing and process of implementation of IR (duration, internal resources employed, use of external consultants, certification/assurance process, challenges and emerging difficulties), and the previous presence or current co-existence of other voluntary reporting instruments.

The second profile of analysis was intended to investigate the contribution of IR to a more effective system of stakeholder engagement. With that goal, these research interviews focused on the way stakeholders are engaged in the IR process to mark changes in behaviors and practices and the obtained results in terms of improvement in the relation systems with the stakeholders.

The third profile considered the role of stakeholder engagement in the measurement, management, and reporting of IC information. Therefore, these research interviews studied how stakeholder engagement could affect internal awareness about IC. In this case, IC was intended in a broader sense, including intellectual, human, and social and relationship capital of the IIRC framework.

4. *Results and Discussions*

The results of this investigation are presented in single subsections for each case study, followed by a discussion of the results.

4.1 *Company A*

Case presentation. Company A is a family-owned and unlisted group, operating almost exclusively business-to-business in several contiguous sectors: milling industry, cereal storage, agricultural commodities trading, retail, and production of photovoltaic energy. This group has experienced significant growth in the last decade and may be considered as a leader in wheat processing and trading. Its fundamental figures, as reported in the 2016 consolidated financial statements, are a turnover of 1.5 billion euros, total assets amounting to 558 million euros, and 286 employees.

First profile of investigation. Regarding the state of progress in the IR process, the interviewees explained that the group's attention towards CSR themes and the disclosure of non-financial information developed over time starting in 2013, with the issue of Company A's first sustainability report. The subsequent step was taken in 2014, with the issue of the first Integrated Report. According to the group's CFO:

> «This was quite a natural step because of the need of more qualitative disclosure by different stakeholders on sustainability themes, long-term plans and strategies, intellectual and relational capitals».

As observed by the group's president and CEO, the implementation of the IR process contributed to improved internal awareness by management and employees of this type of reporting and its importance for business aspects such as environmental and social sustainability, intellectual capital, corporate governance, and the effectiveness of the reporting process.

As noted also by the CFO of Company A, the 2014 IR was more like a 'combined report' (combination of financial and sustainability disclosure) rather than a true integrated report, according to the definition given in the 2013 IR Framework. In fact, this first IR does not properly describe capitals and how the group interacts with the external environment and the capitals to create value over time, even though the methodological note explicitly mentions the IIRC's Framework. From 2015 onwards, Company A followed the principles and indication reported in the IR Framework with increasing attention, to be compliant with it. Furthermore, 2015 and 2016 IRs were reviewed by an external auditor for sustainability and non-financial information.

The time needed to implement IR was eight months. The human resources involved in the process formed an interdisciplinary team, composed of 14 internal resources and one external consultant. In this process, eight categories of stakeholders were engaged through online questionnaires. Company A continues to prepare integrated reports on a voluntary basis and has abandoned sustainability reporting because, according to the CFO, their integrated reporting includes sustainability information that meets the GRI's G4 guidelines for sustainability reporting. Major challenges of the whole IR process continue to be: a) obtaining qualitative and quantitative information on environmental and social sustainability matters; b) providing appropriate disclosure of intellectual capital; and c) providing a concise and effective representation of the group's business model, strategies, and value creation process.

Second profile of investigation. With reference to the contribution of IR to a more effective system of stakeholder engagement, Company A conducted a materiality analysis aimed at identifying and prioritizing the matters considered relevant and significant for the group itself and its stakeholders.

In 2016, the stakeholder engagement was conducted through mixed techniques and involved the top management of the group and the board of directors. An important source of information was derived by the distribution of an online survey to more than 100 stakeholders (public authorities, universities, customers, suppliers, banks and providers of financial capital, employees, local communities and associations). Other dialogue initiatives included direct contacts with customers and suppliers, periodic meetings, customers' inspections and supplier audits, feedback regarding quality, activities to support the environment, life cycle assessment, audit of the environmental management system, participations in work groups, projects in collaboration with universities and training schools in Italy and abroad, support of, and participation in, local events and dialogue with representatives of public authorities.

According to Company A's CFO, this important and diversified activity of stakeholder engagement was certainly solicited by the need to prepare an IR compliant with the IIRC Framework and the GRI's G4 guidelines. On the other hand, the relevant amount of information and feedback obtained enhanced the quality of the materiality analysis and considerably improved the overall activity of stakeholder engagement and its effectiveness in identifying issues that are relevant for the group and influential for stakeholders for their proper disclosure in the IR. As stated by the partner of the advisory firm (one of the big four) that assisted Company A in the IR process:

> «The stakeholder engagement is essential in understanding key matters relevant both for external stakeholders than for internal ones. Such activity improves internal awareness and gives the right directions for the development of an integrated reporting».

Thanks to the stakeholder engagement, Company A could identify matters like 'growth of human capital', 'responsible supply chain and responsible packaging and labelling', and 'agricultural policies at international level', the importance of which for stakeholders was underestimated before.

Third profile of investigation. Regarding the role of stakeholder engagement in the measurement, management, and reporting of IC information, the interviewees emphasized the relevance of the feedback obtained. As mentioned before, themes like the growth of human capital emerged unexpectedly, and this can be noted by the fact that the related disclosure cannot be considered exhaustive and needs improvements. On the other hand, both the interviews and the review of the 2016 IR show Company A's effort to follow the materiality analysis regarding IC matters by giving importance to human, structural, and relational capital. A confirmation of this may be found in the disclosure regarding items like significant investment in employees training activities; development of managerial skills of managers through specific programs; recruitment activities for talented and young graduates; research and innovation in the industrial sector to improve efficiency, productivity, product quality, and competitiveness (e.g., through the development of technologies for automation and control systems); research projects in partnership with universities; and investments supporting trademarks and brands.

As a result, the analysis of this case study confirmed that stakeholder engagement affected internal awareness about IC. On the other hand, the disclosure of aspects like intellectual capital and the growth of human capital needs improvement and should require more space in the IR document, especially because of the lack of quantitative and forward-looking data. In this regard, the CFO of Company A commented that the use of stakeholder engagement techniques such as specific focus groups could improve the identification, and related disclosure, of key aspects pertaining to these IC themes, together with the implementation of adequate metrics, KPIs, and related processes to gather this data.

4.2 *Company B*

Case presentation. Company B is a service group, operating business-to-business in the transportation and logistics industry. This group is family-owned, and it is not listed on the stock exchange, though it is considering the opportunity for a short-term listing. Key figures, as reported in the 2016 consolidated financial statements, are a turnover of 85 million euros, total assets of 83 million euros, and 152 employees. This group has recorded significant growth in the last 7 years.

First profile of investigation. Moving to the specific profiles of the investigation, as commented during the interview, IR is considered to be a step along the 'Sustainability Path' undertaken by the company in 2014 with its first sustainability report. The reasons that led the directors to undertake this path were both internal and external. As part of the internal motivation, the group's attention towards sustainability issues and the reduction of negative externalities (especially of the environmental type) must be mentioned. External incentives can be traced back to the activity of reporting to the stakeholders, considering the classic CSR themes (economic, environmental, and social sustainability). Consequently, the developmental path towards IR has been naturally determined as a way to describe how the business model contributes to the process of value creation through representation by capitals.

The first IR was prepared in 2015 and, like Company A's first IR, it was more like a 'combined report' rather than a true integrated report. (In fact, this document does not disclose the capitals.) The time required to prepare the 2015 IR was about six months. To implement IR, Company B formed an interdisciplinary team composed of eight internal resources and one external consultant. Both the 2015 and the 2016 integrated annual reports were not subject to assurance regarding non-financial information. The main challenge of the whole process was to collect the great amount of quantitative information needed to comply with GRI standards, although this group did not experience specific organizational difficulties in implementing the IR process, thanks also to the streamlined organizational structure.

Second profile of investigation. Given the recent introduction of IR, Company B invested resources on the stakeholder engagement process, focusing both on the expansion of instruments of dialogue and communication, and on increasing efficiency in the feedback process concerning the requests made by the company's stakeholders. As stated in the last integrated report and confirmed by the interview, the top management of the company devoted attention towards the expectations of the various categories of stakeholders, to integrate them into corporate strategy.

For the preparation of the 2016 IR, the stakeholder engagement was conducted through the submission of an online questionnaire to about 300 stakeholders and by organizing meetings and thematic workshops. The categories of stakeholders involved were human resources, shareholders, customers, suppliers, financial institutions, local authorities, regulatory authorities, local communities, and category and mass media associations. The materiality analysis was conducted in conformity with the instructions contained in the GRI's G4 guidelines and in line with the process provided by AA1000SES, Stakeholder Engagement Standard 2015.

The analysis of the last IR and the interview with Company B showed that IR contributed in some way to a more effective system of stakeholder engagement by leading the management of the company to consider the process of value creation, also in the perspective of stakeholders. A limitation that was observed is that the overall process was set according to the GRI-G4 guidelines but without encompassing all the themes pertaining to the IR Framework's six capitals, especially those strictly regarding IC.

Third profile of investigation. With reference to the third profile of analysis, Company's B approach to the stakeholder engagement was driven by the GRI-G4 guidelines, and this influenced the measurement, management, and reporting of IC by limiting the materiality analysis to social, environmental, and financial issues. Because of this, the 2016 integrated report provides limited information about organizational capital (the structural capital of the managerial literature) and does not have a specific section dedicated to intellectual capital *stricto sensu*.

In more general terms, during the interview a certain centrality of IC emerged, especially with reference to human capital and to the importance of innovation and technology in the firm's business; these items, and in particular the human capital, find space in the IR document, although there is little quantitative and forward-looking information.

4.3 *Company C*

Case presentation. Company C is a group listed on the Italian stock exchange, operating in the utility sector (electrical energy, gas, heating networks, waste handling, integrated water cycle, etc.) in Italy and in other European countries. Its essential figures, as reported in the 2016 consolidated financial statements, are: total revenues of 5.0 billion euros, total assets amounting to 10.4 billion euros, and approximately 10,000 employees. With reference to equity distribution, 50% of Company C is held by local authorities, 3% is held by private investors, and the remaining part is floating on the stock market. This Group provides a wide range of activities and covers several local public services for the community, many of them subject to regulation.

First profile of investigation. Regarding the state of progress in the IR process, Company C implemented IR for the first time in 2017, as an evolution of its sustainability reporting. This Group was a forerunner in sustainability reporting; in fact, its first published sustainability reports are dated to 2008 and 2009. According to Company C's CSR manager:

> «The group decided to adopt IR to meet and benefit from the increase

> in sustainability awareness with investors and customers, to improve the internal processes of analysis and evaluation, and to enhance the quality of information to providers of financial capital. All of these aspects contributed to a more cohesive and efficient approach to corporate reporting and processes of value creation. Furthermore, IR helped to improve the process of risk assessment and to align it to CSR policies and practices, thus supporting an effective integrated thinking approach».

In Company C's view, the implementation of IR was a natural evolution of their reporting, aimed at describing the Group's strategic approach and the process of value creation with a forward-looking perspective, which is particularly appreciated by investors, analysts, and rating agencies. It is important to highlight that Company C has not abandoned sustainability reporting. In fact, Company C prepares both IR and sustainability reports because it conceives them as different documents in terms of recipients and nature of information. In particular, sustainability reporting is prepared at territorial level and is considered to be more focused on the disclosure of performance and impact, thus providing useful information to local communities and authorities, while IR is intended primarily for providers of financial capital and gives more comprehensive information, according to Company C's CSR manager.

The implementation of the IR process and the preparation of the integrated report was managed by a specific CSR function. Data collection was organized through worksheets sent to managers of all the corporate functions, territorial locations, and companies within the scope of the IR. The document was submitted to the Board of Directors in line with the deadline for approval of the annual report; it was subject to a subsequent review by an external company, according to the criteria set out in the International Standard on Assurance Engagement 3000 ('ISAE 3000').

Regarding difficulties and barriers faced in the implementation of IR, the interviewee emphasized the efforts in aligning sustainability reporting processes with financial ones, while the most relevant organizational challenges were identified in resistance to change and in ensuring simple and concise storytelling to enable stakeholders to make effective decisions.

Second profile of investigation. Since Company C has been preparing sustainability reports for several years, it is experienced at carrying out materiality analysis through the stakeholder engagement. In fact, this group has implemented an articulated and structured reporting system for the process of stakeholder engagement, with local facilities and internal teams that specifically deal with such a process, and it has developed a specific internal database.

For the preparation of the 2016 integrated report, approximately 240 engagement initiatives were organized, mainly focusing on local communities, institutions, and associations. The stakeholder engagement was conducted through mixed techniques. Specifically, Company C organized multi-stakeholder workshops and round tables (specific forum group programs engaging local communities), submitted an online questionnaire to approximately 120 stakeholders, and analyzed the results of forum groups and of the database of the year's engagement initiatives.

As emerged during the interview with Company C's CSR manager, IR contributed to a more effective system of stakeholder engagement by extending issues and topics to be submitted to a materiality analysis, in addition to those typically investigated for sustainability reporting. In this sense, as indicated in the 2016 integrated report, the materiality analysis resulted in the identification of 23 issues that embrace all six IR capitals and the group's governance system, and this is considered to be an improvement in the relation system with stakeholders.

Third profile of investigation. The materiality matrix included in the IR shows several topics that are relevant for IC (e.g., 'relationship with the local community', 'health and safety in the workplace', 'development of human capital', 'technological innovation and smart cities' and 'ESG elements in corporate governance' were evaluated as top issues), thus indicating that intellectual, human, and social and relationship capitals are very important for Company C's stakeholders and for itself. However, both the review of the 2016 IR and the interview with the CSR manager showed that the level of accuracy and completeness of the related disclosure did not fully reflect its importance.

The process of stakeholder engagement increased Company C's internal awareness about IC, as emerged during the interview and as demonstrated by the issues illustrated in the materiality matrix; however, as stated by the CSR manager:

> «Excluding human, social and relationship capital, it is difficult to focus on what is meant by intellectual capital in the strict sense. We considered R&D activities, IT innovation, patents and brands. Despite the results of the stakeholder engagement, we should have dedicated more insights and disclosure on this capital».

It must be considered that this was the first IR prepared by Company C, hence there is room for improvement in the IC disclosure, especially regarding the organizational capital. On the other hand, the robust stakeholder engagement process implemented by this group allows it to catch the relevant IC themes to be measured, managed, and reported in the IR.

4.4 *Discussion*

The comparative analysis of the three case studies allows identification of some similarities and differences among the three companies.

In all three cases analyzed, IR resulted as an evolution with respect to sustainability reporting. In fact, the interviews confirmed that IR is conceived as a further step in corporate disclosure, especially because it provides more comprehensive information and is aimed at explaining the entity's creation of value over time. Companies A and B abandoned sustainability reporting after the implementation of IR, while Company C continues to prepare sustainability reports at territorial level because of the nature of its business activity and the specific request of information.

The analysis of the case studies indicated that the implementation of IR requires time and effort, especially to collect data and to ensure the connectivity of information. On the other hand, the interviewees showed satisfaction with the results obtained from the adoption of IR. All the companies confirmed their willingness to continue IR in the future. This is not an obvious result, if compared with other experiences of practices of realization of IC statements, sustainability reports and social reports in different situations, which often have a non-negligible abandonment rate.

Regarding the contribution of IR to a more effective system of stakeholder engagement, in two cases (Company A and Company C) the implementation of the IR process resulted in several issues and topics to be submitted to materiality analysis, in addition to those typically investigated for sustainability reporting, to consider all the IR Framework's six capitals and their internal and external relevance. This aspect has positively affected the effectiveness of the activity of stakeholder engagement. Moreover, in all three case studies the stakeholder engagement and the related materiality analysis were influenced by IR's approach to identify relevant matters based on their ability to affect value creation, in line with the concept of materiality as stated in the IR Framework (IIRC, 2013: 18-20).

The empirical investigation showed that stakeholder engagement significantly changed internal awareness within each company of the value creation mechanisms associated with the management, measurement, and reporting of IC information. In line with the performative approach (Mouritsen, 2006), the findings show that the IR process seems to be able to mobilize IC, especially because of the positive impact of increased internal awareness. In fact, the stakeholder engagement activity according to the IR Framework specifically needs to consider internal and external relevance of the IC components, thus imposing a reflection on IC management and measurement and so contributing to extending and improving the related disclosure. Moreover, the adoption of IR requires the implementation of an effective integrated thinking process, hence inducing a change in the way organizations design their business and define how each capital, including intellectual capital, contributes to value creation.

A common point of improvement that emerged from the examination of the three case studies is represented by the limited disclosure (in terms both of quantitative and forward-looking information) pertaining to the structural capital, thus confirming a difficulty both in focusing and in describing this important component of the intellectual capital.

5. *Conclusions*

There is still a lack of research about how stakeholder engagement in the IR process affects IC. This paper aims to fill this gap, contributing to the literature on 'IC in action'. By reflecting on the role played by stakeholder engagement in the IR process, this study explores two research questions: 1) *How can IR process facilitate awareness of the value creation mechanisms associated with the management, measurement, and reporting of IC through stakeholder engagement?* and 2) *How can the stakeholder engagement process spur changes in management behaviors in different business contexts?*

The analysis of three case studies related to companies operating in different business contexts is coherent with the performative approach in investigating IC (Mouritsen, 2006).

With reference to the first research question, IR seems to contribute significantly to a more effective system of stakeholder engagement. The materiality analysis represents the key element that encourages a stable, systematic, and proactive dialogue with stakeholders. The empirical results suggest that stakeholder engagement imposes a deep reflection on material information, with the consequent increase of internal awareness of the value creation mechanisms associated with the management, measurement, and reporting of IC information.

With reference to the second research question, the three cases analyzed show both common and convergent elements. On one hand, all the companies give strong relevance to the materiality analysis to identify and prioritize the matters significant for stakeholders. Furthermore, different categories of stakeholders are involved in the process to ensure satisfying their interests.

On the other hand, some business context factors appear to have an impact on the stakeholder engagement process. Among them, two are emerging in particular: listing on financial markets, which appears to influence the categories of the engaged stakeholder; and size of the company, which seems to influence the extent of the stakeholder engagement process and the number of initiatives needed to capture the legitimate expectations of stakeholders.

Future research could analyze the impact of the prioritization of the providers of financial capital respect to other categories of stakeholders in IR practices, as proposed by the IR Framework. This research does not show a negative impact of this prioritization on stakeholder engagement practices, but this study is limited by using a small sample of companies. Therefore, an opportunity for future research could extend the analysis to a larger number of companies, corroborating the idea that stakeholder engagement in IR process is able to mobilize the measurement, management, and reporting of IC.

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IR in medium-sized firms: Is it possible to break the ice?
An empirical investigation

Mara Del Baldo

Purpose – This work addresses the issue of IR (Integrated Reporting) implementation and diffusion within small and medium-sized enterprises (SMEs) and investigates why and how SMEs can ìperform the journey towards integrated reporting.

Design/methodology/approach – An empirical research has been performed based on a case study relative to an Italian mid-sized enterprise that was part of the pivotal companies included among a working group aimed to producing a guidance designed at helping SMEs to implement an integrated report.

Findings – Findings point out the positive impact and the importance of some enabling conditions such as: the direct involvement of the top management and entrepreneurial team, the involvement of external consultants in the IR process, and the adoption of a 'step by step' approach whose roadmap is spanned throughout several years.

Originality/Value – Among the emerging literature focused on IR, both theoretical arguments and empirical research are almost entirely absent concerning SMEs. In order to enrich a still under-investigated topic, this work attempts to provide insights and discuss the reasons that can lead an SME to adopt IR and the possible way to reach this goal.

Practical Implications – The work contributes to enrich both the managerial debate on both the benefits and critical issues relative to the diffusion of IR among SMEs, in a research stram that is currently underestimated.

Keywords – Medium-sized enterprises, Integrated reporting, Integrated report, Case-study ntegrated Reporting; Intellectual Capital; Stakeholder Engagement; Performative Approach; Case Studies Method.

Paper type – Extended Abstract.

1. *SMEs and Integrated Reporting*

Despite acknowledging the SMEs' relevance within the socio-economic context worldwide (Dobbs & Hamilton, 2007; Eurostat, 2015) studies on implementations of Integrated Reporting (IIRC, 2013) in this context are rare (James, 2013a; James, 2013b; Del Baldo, 2015; Del Baldo, 2017b; Camodeca & Almici, 2017). Conversly, a growing number of contributions have been addressing large organisations (Adams & Simnett, 2011; Wild & Van Staden, 2013; Lai *et al.*, 2013; De Villiers *et al.*, 2014; Van Bommel, 2014; Tweedie & Martinov-Bennie, 2015; Setia *et al.*, 2015; Dumay *et al.*, 2015; Ruiz-Lozano & Tirado-Valencia, 2016; Vaz *et al.*, 2016; Velte & Stawinoga, 2016; Ruiz-Lozano & Tirado-Valencia, 2016; Macias & Farfan-Lievano, 2017; Lai *et al.*, 2017; Silvestri *et al.*, 2017; Demartini & Trucco 2017; Cerbone & Maroun, 2017). Among prior research a structured review analysis revealed that of 56 published papers on IR none addressed private-SMEs (Dumay *et al.*, 2016). Therefore, the motivations at the base of IR implementation and/or non implementation in SMEs – the choice being voluntary rather than mandatory – are still unknown. Moreover, it should be pointed out that this practice is still uncommon worldwide, but especially in Italy, where there are a few listed large companies subjected to the EU Directive 2014/95 on Communication of non-financial information (assimilated by the Italian Legislative Decree 254/2016), while the majority of large companies and especially SMEs did not decided to voluntary face the challenges that the integrated report implies.

Only recently the relevance of IR for SMEs has been recognized by practitioners at an international (CIMA, 2015) and national level (ODCEC Milan, 2016). Similarly, policymakers (e.g. the World SMEs Forum) have provided first recommendations to assist SMEs in overcoming hurdles in the IR process. The GRI and the IFAC SMP Committee started to implement a guidance on Integrated Reporting for Small and Medium Entities in November 2015, aimed at disseminating the knowledge of IR in the context of SMEs. More recently, the *Integrated Reporting Implementation Guideline* for SMEs drafted by the Italian Network Business Reporting is currently under the IIRC technical approval process, before being released (NIBR, 2018 forthcoming).

Drawing from these premises the work addresses the issue of IR implementation and diffusion within SMEs. In order to contribute at nurturing a still under-investigated topic, it attempts to provide insights and discuss the reasons that can lead an SME to adopt IR and the possible way to reach this goal. Accordingly, an empirical research has been performed to answer the following research questions: Why did the company move to IR? How did it perform the IR journey? Which were the main steps towards the integrated report?

2. *Methodological Approach*

After having introduced the theoretical background, the paper presents and discuss a case study that has been chosen being a best practice within the Italian context (Eccles & Krzus, 2015) and investigates why and how the selected company decided to perform the journey towards integrated reporting, moving from the corporate social responsibility and sustainability report to the integrated report, as well as the main steps and the current state of the integrated reporting process.

The case study (Scapens, 1990; Eisenhardt & Graebner, 2007; Yin, 2014) addressed the experience of Dellas s.p.a, a medium-sized Italian enterprise that is part of the pivotal companies included among the NIBR working group aimed at releasing a guidance capable of helping small and mid-sized entities to adopt an integrated report. The analytical approach based on narrative analysis and qualitative data collection draws on an interpretivist approach (Crane, 1999; Currie *et al.*, 2009; Brown & Dillard, 2014) which is considered appropriate for studying evolving organisational (Higgins *et al.*, 2014) and new reporting practices as per the objective of this explorative research (Stubb & Higgins, 2014; Doni & Gasperini, 2014; Havlováa, 2015; Dumay & Dai, 2016; Camodeca & Almici, 2017). This approach was used searching for an explanation of at least three issues: the reasons for Dellas' move to integrated reporting; the main steps of this transition; the current state of progress. Accordingly, the analysis benefited from in-depth semi-structured interviews addressed to company's interlocutors. In addition data have been supplemented by information derived from informal discussions with the NIBR members (scholars, entrepreneurs, managers, IIRC representatives, chartered accountants, consultants agencies, banks) performed during focus groups, workshops and round tables, as well as by the documental analysis of Dellas reports (Dellas 2016 & 2017; Pasquotti, 2017).

3. *Findings*

The motivations for starting the IR journey are tied to both internal and external factors. Among the former are the family owners' set of values that forged the company's cultures since its foundation. It emerges from the case that the willingness of the top (the entrepreneurial and managerial team) was (and is) of fundamental importance to trigger the shift from financial to non-financial reporting. This willingness rests on the top's awareness of the centrality of a set of values (such as responsibility, honesty and transparency) and the understanding of the benefits of IR. Among the latter are external competitive pressure, the need to disclose the intangibles assets and better disclose the company's tangible and intangible value (Zambon & Guenther, 2011).

Findings point out the positive impact and the importance of some enabling conditions such as: the direct involvement of the top management and entrepreneurial team (and the key-role played by the CFO who served as a team leader), the involvement of external consultants in the IR process Greenwood *et al.*, 2002), and the adoption of a 'step by step' approach whose roadmap is spanned throughout several years (Del Baldo, 2017a). Secondly, we acknowledged that the implementation of IR required three fundamental aspects: 1) the 're-definition' and critical revision and assessment of the business model and strategies; 2) the need to create a team that involves the main business functions and 3) the need to set the targets, time and costs for the IR implementation. However, many barriers emerged during the IR journey, due to the difficulties relative to the 'high level of technicalities' of the IR framework (Flower, 2015; Ruiz-Lozano & Tirado-Valencia, 2016; Dumay *et al.*, 2017) that should be necessarily simplified with regard to SMEs (Del Baldo & Girella, 2017). Moreover, the importance of participating in the NIBR working group emerges. These considerations allow us to answer the first research question (RQ1), related to the why of IR. IR is perceived as the bearer of internal and external benefits and the tool that allows Dellas to give the proper visibility to its value creation process and its high level of intangibles.

In reply to second research question (RQ2) – the how of IR implementation – we can argue that IR represents a possible goal for an SME, if conceived as a process to perform in a medium to long-time perspective, in accordance with the complex of contextual variables (Perego *et al.*, 2016) and communication strategy used to disclose the value of the company. In Dellas' experience the IR represents both an evolution of the annual report and the sustainability report and allows to overcome their respective limitations (Eccles & Saltzman, 2011; Jensen & Berg, 2012; Fasan, 2013; Higgins *et al.*, 2014; Silvestri *et al.*, 2017). Moreover, findings highlight that scholars and practitioners, in accordance with managers and entrepreneurs, should work together to ameliorate the IR framework and render it more suitable for SMEs, as in Dellas' current experience.

4. *Conclusion*

Drawing from the empirical analysis we first acknowledged that among the leading motivations to start the IR process in SMEs is the will to reinforce stakeholders relationships (particularly with customers, employees and local community) and illustrate the companies' capacity to increase its value in the long-term on the basis of its core-values and monitor non-financial key-value drivers.

Secondly, a relevant challenge in the initial phase of IR implementation is tied to the difficulty in understand and consequently apply the IR Framework (Dumay *et al.*, 2017). To face the lack of an '*ad hoc language*' for SMEs the importance of participating to multi-stakeholders forums emerges, because IR represents a complex and challenging choice. Therefore, findings provide the basis for suggesting that to be effective the 'journey' should be prepared, managed and explained through different steps, which are necessary to drive the evolution of the entrepreneurial and organisational culture of a medium-sized company towards IR. As such, despite the limitations of the empirical analysis, the work contributes to enrich the scientific debate on the diffusion of IR among SMEs, in a research field that has not been adequately investigated and is currently underestimated. Moreover, it helps in supporting the diffusion of the IR framework among SMEs, practitioners and consultants by emphasizing the opportunities deriving from the implementation of the IR process, as well as the criticalities to face in adapting the IR framework to the SMEs' specificities. Therefore, the reflections that have emerged are intended to suggest a contingent-based approach for the improvement of IR in SMEs, considering specific factors affecting medium-sized companies and their stakeholders' expectations and needs.

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Sustainability and technology: two challenges for financial reporting

Sabrina Pucci, Marco Venuti

Purpose – The purpose of this work is to highlight how the degree of stakeholder engagement, regarding the sustanaibility value and the technological issue, is related to different company sizes and national environment, and how this information has improved as a result of the application of the recent European regulation focused on non-financial information.

Design/methodology/approach – The analysis is based on a multi-stakeholder approach applied in a two-step analysis based on public information of Italian and European listed companies. The first step is based on quantitative analysis aimed at investigating the contents of the disclosure provided by a sample of listed Companies, belonging to three European Nations. The second step consists in the analysis of the 2017 non-financial statement declarations of the Italian listed companies divided by sectors compared with the analysis of the companies 2016 financial statements to verify the impact of the new law on non-financial information provided.

Findings – Referring to the first step of analysis, the research highligths the different degrees of stakeholders' engagement regarding the companies of different Nations and different sizes. Refering to the second step of analysis, the research highlights a meaningful impact of the new regulation on non-financial information provided, eventhough we found the way of comunicating non-financial information is heterogeneous and sometimes incomplete.

Originality/Value – This work contributes to the research on the sustainability value and the technology issue in different ways. Firstly, this paper carries out a new comparative analysis focused on different jurisdictions and environmental contexts taking also in account the company sizes. Secondly, this is one of the first research that takes into consideration the effects of the recent regulation on stakeholders' engagement. Thirdly, the analysis carried out contributes to validating a tentative conclusion regarding the possibility of developping a regression model that could permit to measure the link between the increase in sustainability and technology information in financial or non-financial statements and the market value.

Keywords – Sustainability, Non-Financial Statement Declaration, Financial Statements, IT Developments, Accounting Standards edium-sized enterprises, Integrated reporting, Integrated report, Case-study ntegrated Reporting; Intellectual Capital; Stakeholder Engagement; Performative Approach; Case Studies Method.

Paper type – Extended Abstract.

1. *Introduction*

The European Directive 2014/95/EU and the following European Commission Communication 2017/C215/01 was a relevant step towards the recognition of the importance of non-financial information for stakeholders. Non-financial information is expected to make companies more transparent and also more resilient and long term value oriented. That kind of information, combined with a specific disclosure on technology assets and risks, ought to help the different stakeholders to measure, monitor and manage the company's performance and its sustainability over time.

The European Directive followed a worldwide trend that made integrated reporting one of its central points. Before the application of this Directive, there were different rules and experiences: from France with the Grenelle prescriptions (where the definition of some social indicators such as climate change, conservation of biodiversity, better public information, prevention of risks, etc.) to Germany's experience of sustainability reports, from the UK London Stock Exchange pronouncements to Italy with article 2428 of the Civil Code which required the description of main risks and uncertainty that affect companies and the presentation of expenses for research and development. All these different legal requirements seek to obtain the same result: disclosure of long term substainability of businesses.

2. *The approach adopted*

In previous years, the weight of non-financial information was normally not so relevant in financial statements (a first legislative signal at European level was introduced only by Directive 2003/51/EC) and a lot of companies presented a substainability report as a separate document from their financial statements. The integrated report was prepared by the management only in limited cases, depending also on the country in which the company had its main market. There were multiple frameworks, standards, goals and codes in the non-financial reporting analysis. The closest to general acceptance is the Global Reporting Initiative (GRI), whose standards are used by companies in over 90 countries[1] but is something different from a financial reporting standard.

So the request for disclosure of long term sustainability of businesses opens an interesting debate on the content of financial statements and on the relevance of this information for investors. As a recent EU analysis[2] has shown, the main sustainability factors considered by investors are climate and governance factors (75%) and environment and social factors are a bit less relevant. In every case, most investors (75%) would like to have information about sustainability factors (and pension funds are the most interested).

In this debate, another variable was added: how to reach financial disclosure of technological assets and risks, which are now a fundamental value from a long term point of view. To understand this, it is sufficient to consider cyber risk or the impact of technology on sales channels and on product design.

Looking at the sustainability value and at the technological issue, our analysis tries to verify what kind of information may be found in the last few years in financial statements of listed companies (separating between the information included in financial statements or in the social reports) regarding these topics and if the non-financial statements[3], issued for the first time in 2017, are fundamental to improve the level of understanding on these topics from an investor's point of view.

The analysis is based on a multi-stakeholder approach applied in a two-step analysis based on public information of Italian and European listed companies.

The first step is the study of the contents of the disclosure provided by a sample of 75 listed Companies, of which 26 Italians listed on the Italian Stock Exchange, 24 Anglo-Saxons listed on the London Stock Exchange and 25 German listed on the DAX, belonging to the energy and industrial sectors. For the purpose of the research, the companies are also divided into sub-samples based on company size (large, medium and small companies). The study considers non-financial information included in consolidated financial statements or in specific non-financial reports for the periods 2014-2016.

This research analyses to what extent the companies of the sample

[1] IASB, 2017.
[2] UE analysis 24.05.18.
[3] Legislative Decree 30 December 2016, n. 254 and Consob deliberation n. 20267, January 2018.

guarantee users information appropriate to the principles envisaged by the IIRC (International Integrated Reporting Council) or the GRI regarding stakeholders' engagement and environmental disclosure.This research also investigates the different degree of disclosure compliance on the basis of company size.

The second step consists in the analysis of the 2017 non-financial statement declarations of the listed Italian companies divided by sectors compared with the analysis of the companies 2016 financial statements to verify the impact of the new law on disclosure.

The first step analysis is almost completed, the second is in progress.

3. *Some initial considerations*

Referring to the first step analysis, the study highlights that the percentage of stakeholders' engagement decreases, passing from the category of large companies to that of small companies. This decrease is more pronounced in Italian companies due to the limited propensity of small-sized companies to satisfy a stakeholders' engagement.

In addition, the research finds that:

a) large Italian listed companies are characterized by a high degree of stakeholder engagement, as a result of a voluntary adoption of reporting criteria set forth by GRI and IIRC;
b) large Anglo-Saxon listed companies provide a non-financial level of disclosure which, in a homogeneous manner, offers a more pragmatic view of the business carried out, as it seeks to make a synthesis between the results obtained by the company and the associated risks. The dissemination of this kind information is carried out in compliance with the reporting criteria reported in the "UK Corporate Governance Code";
c) German listed companies have been able to reconcile the needs of stakeholders to acquire non-financial information - which meets only certain categories of stakeholders needs (shareholders and lenders) - with the articulated work of preparing financial statements from heterogeneous contents. However, clear standardization of the financial statements published in the three years taken into consideration is observed with respect to the financial statements of Italian companies.

Referring to the second step analysis, the following aspects should be mentioned. There are a lot of different ways adopted by companies to respond to Italian legal requirements. First of all, there is a big difference between those companies with an integrated report and those without.

In the first case, there are two main behaviours: some companies, in order to avoid a double system of similar information in the non-financial statement, use systematic recall of the integrated report paragraphs that analyse the non-financial quantitative data (KPI) required by the law. Others have prepared a completely new report that contains all the information required by the law even if part of this information is already present in other public documents.

In the hypothesis of companies without an integrated report, it is possible to find both detailed reporting with indexes indication and a very short report with only the main KPIs.

Some differences exist also in the non-financial statements of financial and non-financial companies. In some cases, the links with financial results or the links with social reports are clearly defined, in some cases the reconciliation is not so clear.

Referring to technology, it is not easy to find detailed information on costs and value creation due to this asset but it is also difficult to have a precise perspective of the risks that affect companies regarding technology.

Considering these first results, it is possible to adopt a tentative conclusion with the idea of developing a regression model that could permit measurement of the link between the increase in sustainability and technology information in financial or non-financial statements and the market value that validated this conclusion. Even if the consciousness of the importance of long-term value creation has significantly increased, the presentation in the annual accounts of some drivers that permit this long-term value creation is not fully integrated with the financial values and is integrated in a different way from company to company.

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Part II

Intellectual Capital Practices in Action

How B-Corporations' mobilize IC (unawares) to create value. Evidence from the Italian ecosystem

Monia Castellini, Marianna Marzano, Vincenzo Riso

Purpose – This work investigates the presence and disclosure unawares of Intellectual Capital (IC) within Italian Benefit Corporations and their capability to create value through the mobilization of IC.

Design/methodology/approach – The analysis is developed on a double level. In the first part the work recurs to the qualitative Content Analysis to investigate if the certified BCorps mobilize the IC. In the second part is conducted an empirical analysis on sample of the certified B-Corporations located in Italy to detect the degree of awareness about information, meaning and presence of Intellectual Capital.

Findings – The BCorps responding to the assessment tools make an aware disclosure of value creation informations, but they are unaware that within this information there are elements of Intellectual Capital.

Originality/value – Bcorps are a new reality to discover and there are few academic researches about this topic.

Practical Implications – The lack of awareness about the presence and mobilization of Intellectual Capital makes reflect on the fact that for companies that want to become BCorps or want to renew the certification to continue to be in the BCorps ecosystem they must pay attention to the development of IC.

Keywords – Intellectual Capital, Disclosure, Value Creation, Benefit Corporations ntegrated Reporting - Stakeholders engagement - Accountability - Public Value creation - Popular Report.

Paper type – Extended Abstract.

1. *Intellectual Capital and Corporate Sustainability*

In the last decades the literature on Intellectual Capital have emphasized that benefits deriving from intellectual capital are incorporated into CSR practices deepening empirically the convergence of IC within the social and environmental reports (Cordazzo, 2002), sustainability reports (Pedrini, 2007) and the Voluntary Disclosure of Intellectual in sustainability reports (Cinquini *et al.*, 2012).

Cordazzo's study (2005) assumes that the IC report is a generalisation of the social and environmental reports and Low (2002) put the attention on the companies that have placed on the creation of value detached from financial data (Low, 2002).

The financial report is not sufficient to communicate with the internal and, above all, external stakeholders to explicate the corpororate reponsibility (Perrini & Tencati, 2006).

Indeed, it's emerged the need *to break free the dominance by accounting practice* and to integrate it with other types of mesaurement and reporting on the organizational life of the companies (Dumay & Garanina, 2013: 10).

In the 2003, Zambon – on the base of a previously study with Cordazzo (2002) presents within a study on the intangibles and practies of reporting, a consideration about the possible link between the IC Statement and the environmental and social reports.

Later, Cordazzo (2005) expands their previously study on the italian context assuming that the IC report is a generalisation of the social and environmental reports, highliting the areas of overlapping between the three documents normally treated as separate elements. The main result addicted was the high level of corresponding between the components of IC and the elements of environmental and social report.

The literature has highlited that a good disclosure reduces the information asymmetries (Brown & Hillegeist, 2007), but could create others kind of reflections such as: reliability, loss of competitive aspects, distorted information according to the context in which information is developed, providing many informations (Schaper *et al.*, 2017).

One of the latest Dumay's research enphasizes the «need to abandon reporting, and concentrate on how an organization discloses what was previously secret or unkown, so that all stakeholders understand how an organization takes into consideration its ethical, social and environmental impacts» (Dumay, 2016: 180).

The literature has evidenced that ICD represents an element of creation value, but did not explain exhaustively the link and coherence about the relevance and the creation value of IC with the respective definitions (Abeysekera, 2006).

The concept of value creation assumes that we are talking about extended value, because many organizations are understanding the importance to converge management practices with sustainable and social responsability approaches.

The Intellectual Capital perspective need to expand, starting from an expanded vision of value which should include the environment, social, business relationships, corporate identity (Allee, 2000), highlighting a limitation in the traditional division.

The value creation of IC, in the holistic approach, encompasses citizens, stakeholders, sustainability, ecology and management making: so, Dumay (2016) identify the variables of creation value of IC in money, utility, social, sustainability.

Furthermore, Dumay et al (2018) explained that in the fifth stage of ICR, there is the need to research a new concept of value and to move beyond the boundaries of traditional conception of it taking into account what is also (but not only) worth to various stakeholders, investors, society, and the environment.

According our point of view the disclosure of IC means disclosure of value creation; but the disclosure of information is voluntary and not bound by regulation (Lang & Lundholm, 2000) and does not always correspond to a total awareness of what information is being disclosed. Often the information provided is greater than what is believed to have been given.

This work aims to analyse the presence and voluntary disclosure of Intellectual Capital within the BCorps that to reach this status must be evaluated through the B Impact Assessment (BIA).

Starting from the analysis of the BIA, the study aims to investigate if exists a relation between the tool of assessment and the report of Intellectual Capital with the aim of highlighting the disclosure of intellectual capital that emerges from the BIA.

2. *Benefit Corporation*

The Benefit Corporations are the new realities focalized on financial, social and environmental impact, developed around the principle of 3P bottom-line: planet, people, profit (Tobin, 2013).

In this work, it's analysed the B-Corp Impact Assessment (BIA), the assessment tool utilized by B-Lab, subject that certificate the B-Corp companies.

More in depth, the first part of this study aims to analyse the linking between the IC statement and the tools of assessment to certifie the positive impact of companies on sustainability factors.

The B Impact Assessment (BIA) is the tool to measure the impact of the organizations around five standards: Governance, Community, Environment, Workers and Business model.

It's constructed around two thresholds: the minimum to achieve the certification as BCorps is 80 and maximum 200. After this process, every organization pay every year a few according the company turnover and the status of BCorps does not permanent, but it must be renewed every two years.

In deep, the certification has not legal validity; every organization declares in the statute the social mission and made a report to disclose the results achieved at the end of year.

In this work, indeed, the analysis conducted recurs to the qualitative approach combining two research methods.

In the first part, the work recurs to the qualitative Content Analysis (afterwards CA) to respond to the research question to investigate if the organizations, which pursue the certification BCorp through the BIA, mobilize the Intellectual Capital: the scope is to understand if the 'BIA' assessment tool contains elements of IC and if, at the same time, with this tool BCorps disclose information about their IC.

So, CA is applied to underline probably overlap of the contents and information provide in the B-Impact Assessment and IC report (Brennan and Connel's, 2000): the aim is to reveal how the IC informations are present in the BIA.

In the second part, has been conducted a survey on 48 BCorps present on official web site of Bcorporation. To respond to the second research question about the awareness of IC by the same organizations, in case of mobilisation of IC, recurring to questionnaire.

3. *Conclusion*

In the light of the research results it's possible to affirm that through the BIA the BCorps make disclosure about informations strictly related to the IC but, it emerges that the BCorps have a very little awareness about the presence and mobilization of Intellectual Capital in their organisations and that there is a overlapping between the value of B Impact Assessment and the report of IC.

A future reflection point is enhance the awareness about the Intellectual Capital and to learn to manage the elements of IC because it could permit an increasing of level of positive impacts and reach a better score in the assessment.

For this reason, this lack makes reflect on the fact that the companies that want to become BCorps and want to renew the certification to stay in the BCorps ecosystem must pay attention to the development of IC. The BCorps have the aim to create value through concrete actions that measure and disclose to reveal to the stakeholders their impacts, where this value is linked to the elements of IC.

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Intellectual Capital and the University Third Mission: an Evaluation Framework

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Purpose – The purpose of this work is to understand the new role of universities in the development of the knowledge economy via an intellectual capital perspective. Indeed, from being entities for knowledge creation and dissemination, universities are now asked to play an increasingly entrepreneurial role, involving networking and collaboration, as well as sustainability and social engagement. This consideration is in line with the 4th stage intellectual capital perspective, which focuses on knowledge creation with an ecosystem focus.

Design/methodology/approach – The work is based on the following steps: first a literature review on the new role of universities and on the Third Mission approach; then, an analysis of the evaluation of Third Mission activities, by including several international ranking systems and research projects; finally, an analysis on the exploitation of IC as an assessment tool.

Findings – Despite the academic and institutional efforts, there is little agreement on a set of indicators to evaluate quality in Third Missions activities. Several models have been implemented in order to identify IC in universities, but they need further applications and evaluations.

Originality/Value – Through this methodology, we will try to systematise the theoretical contributions, which are currently fragmented and lack a systemic vision.

Keywords – Evaluation, Intellectual Capital, Third Mission, University-Business-Government Relations ustainability, Non-Financial Statement Declaration, Financial Statements, IT Developments, Accounting Standards edium-sized enterprises, Integrated reporting, Integrated report, Case-study ntegrated Reporting; Intellectual Capital; Stakeholder Engagement; Performative Approach; Case Studies Method.

Paper type – Extended Abstract.

1. *Introduction*

European Commission and OECD (2012) stated that «higher education is facing unprecedented challenges in the definition of its purpose, role, organization and scope in society and the economy», by becoming progressively aware of its crucial role for the economic and social development.

Public research institutions not only generate and disseminate knowledge, but are also called to transfer their findings to science related communities, such as industries and commerce. This evolutionary process, resulting in the Third Mission theory, is consistent with the fourth stage perspective in intellectual capital (IC) theory, that advocates for knowledge creation with an ecosystem focus (Dumay & Garanina, 2013). In fact, the creation of knowledge by ecosystems (be they national or local ones), and not by individual organizations, is aligned with the Third Mission approach, where universities build ties and relationships with their local communities to enhance their development and create shared knowledge.

In order to meet Third Mission challenges, several attempts have been made to find commonly agreed indicators and methodologies to evaluate and compare the activities of this new approach in different institutions and countries.

For this work, the definition of IC to be employed is the one by Stewart (1997), adapted by Secundo *et al.* (2016). IC is «intellectual material, knowledge, experience, intellectual property, information that can be put to use to create value». As the authors explain, the concept of value is broader than mere monetary wealth creation, and goes to include social value, which is one of the outputs of the university's activities, as well as one of the pillars of the Third Mission theory.

2. *The new role of universities: a literature review*

Today's socio-economic reality is based on the concept of 'knowledge', the element at the core of the currently dominating model of the knowledge-based economy and society (Powell & Snellman, 2004; Leydesdorff *et al.*, 2006; Leydesdorff, 2010).

The strong push toward the knowledge-based economy led to exploring the way through which know-how is exchanged from producer to user, known as 'technology transfer's.

The initial and best-known theories on technology transfer were developed by Gibbons *et al.* (1994), focused on the transition from 'Mode 1' to 'Mode 2'.

Then, the Triple Helix Model, built by Eztkowitz and Leydesdorff in 1995, completely changes the equilibria between actors in the technology transfer, giving a primary and innovative role to universities.

The role that they have, in this modern perspective, refers to the concept of 'Third Mission' (Etzkowitz, 2003; Hessels & Van Lente, 2008; Ranga & Etzkowitz, 2013), a symbol of their involvement in socio-economic progress.

2.1 *Evaluating university Third Mission: a state of the art at international level*

The growing importance of Third Mission in universities has led institutions and researchers to look for indicators to assess this dimension.

Despite several initiatives in this direction, the collection of data and the development of indicators on Third Mission activities still keep many limitations (E3M, 2012).

University rankings have become important worldwide, representing a significant factor impacting on higher education institutions, policy makers, public opinion and media (E3M, 2012; Hazelkorn *et al.*, 2014).

The three main rankings are (Altbach, 2012): the Academic Ranking of World Universities (ARWU), the QS (Quacquarelli Symonds Limited) World University Rankings and the Times Higher Education World University Rankings (THE). They have been strongly criticised, since they compare different types of higher education institutions using a single set of criteria (Hazelkorn *et al.*, 2014).

To overcome some of these limitations, in the last years several other rankings have been proposed; the most important is the U-Multirank (UMR), that only compares institutions with similar activity profiles.

Therefore, the weight of Third Mission activities in the main international rankings is marginal or non-existent, thus in the last decade many research projects have attempted to identify and test indicators for them.

The Russell Group of Universities identified 12 groups of Third Stream activities and for each of them they developed a set of indicators; the Observatory of European University (OEU) carried out the framework of the PRIME Network of Excellence; the Higher Education Funding Council for England (HEFCE) conducted an annual study, the Higher Education-Business and Community Interaction (HE-BCI) survey, which examines the exchange of knowledge between universities and the wider world.

Then, the E3M Project (European Indicators and Ranking Methodology for University Third Mission) was a three years project co-funded by the European Commission and developed by partners from eight European countries.

Finally, in 2012, the European Commission and the OECD provided a framework to help European higher education institutions managing and driving the institutional and cultural changes, with a focus on their entrepreneurial role.

But, in a context characterized by the decline of financial resources, intangible resources appear more stable, able to generate the competitive differential between universities and improve their social legitimacy (Leitner & Warden, 2004; Secundo *et al.*, 2010).

In this sense, skills and knowledge of human resources, the knowledge encoded within the organisation and processes and that deriving by external relations generate a system of strategic resources for higher education institutions, identified as ICU (Intellectual Capital within University) (Canibano & Sanchez, 2009; Leitner *et al.*, 2014). It could satisfy the needs of different subjects simultaneously, inspired by the principles of the collaboration and co-creation of value (4th stage IC perspective), but its consideration results currently sporadic and not institutionalised.

An exception is represented by Austrian universities, that, in 2006, adopted mandatory knowledge balance sheets (according to the 'Intellectual Capital Report 1999-2004').

In Italy, the evaluation of Third Mission activities is assigned to ANVUR, the Italian National Agency for the Evaluation of the University and Research System. Although the exploitation of ICU descriptive reports is still not formalised (Sanchez *et al.*, 2009; Elena-Pérez *et al.*, 2011), the evaluation of research quality (VRQ), especially in the second model adopted (2011-2014 VQR), tries to analyse the efficiency, the effectiveness, and the value of research activities and Third Mission through qualitative and quantitative indicators related to each component of IC.

According to Secundo *et al.* (2015), intellectual capital should be measured and managed in order to enhance the strategic management of universities. Since intellectual capital represents the largest proportion of universities' assets, its effective management is a key issue in university policy (Secundo *et al.*, 2015); it should be measured in terms of its direct or indirect social value (Secundo *et al.*, 2017; Castellanos and Rodrigues, 2004).

Moreover, given the complexity of measuring the performance of universities in terms of Third Mission activities, intellectual capital can provide help «to identify structural and personal strengths and weaknesses, reveal the current state of the accomplishment of university third mission and can be used as an assessment instrument» (Secundo *et al.*, 2017).

3. *Conclusions*

For a long time, universities focused on what is called basic research: the 'pure' researcher, sitting in his ivory tower, without thinking of engaging in actual activities that could create economic value; over the last years, society and economy have challenged the university to use its knowledge in applied research.

Moreover, we saw how the Third Mission approach presents conceptual similarities and links with the 4th stage IC perspective. Based on this consideration, it is possible to expand the Third Mission framework to include, and merge with, IC elements. Authors like Secundo *et al.* (2016) did so, and built a model for assessing and evaluating Third Mission activities on the basis of considerations on IC. In fact, the intellectual capital of universities can become both an assessment tool for evaluating Third Mission performance (as suggested by Secundo *et al.*, 2017), and an empowering and facilitating tool for enhancing and encouraging Third Mission activities.

The practical implications of this paper concern the importance of building reliable evaluation frameworks. Limitations include the newness of studies providing evaluation frameworks, which need to be further applied and tested with the internal and external stakeholders.

Future research should be devoted to the role of universities in supporting growth and innovation within society.

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Building Sustainable Intellectual Capital: Insight from a Company Included in the Dow Jones Sustainability Index

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Purpose – This study concerns an international company leader in electronic and information technologies, which has developed an Intellectual Capital (IC) reporting system to manage sustainability projects and meet the stringent criteria required for inclusion in the Dow Jones Sustainability Index (DJSI).

Methodology – The study has been conducted in light of interventionist research. Data were gathered from in-depth interviews with managers, as well as from group discussions.

Findings – The research highlights that identifying, measuring and monitoring firm-specific intangibles functional to the creation of sustainability performance can be regarded as an effective way to support general management. Furthermore, the design and implementation of an IC reporting system to manage sustainability projects can also be deemed to have a positive impact on the assessment process companies are subject to for inclusion in the DJSI.

Practical Implications – This paper adds to the discourse on the third stage of IC research, based on a critical and performative analysis of IC practices in action. In doing so, it improves the relevance and usefulness of the IC concept for business organisations.

Keywords – Corporate Sustainability, Intellectual Capital, Dow Jones Sustainability Index, Integrated Management Control System.

Paper type – Extended Abstract.

1. *Introduction*

The construct of Intellectual Capital (IC)—defined by Stewart (1997) as knowledge, information, intellectual property and experience that can be exploited in order to generate wealth—offers a means to visualise, assess and measure the knowledge accumulated within the firm (also referred to as 'intangible resources' or 'intangible assets)' (Cuozzo *et al.*, 2017).

In contemporary research, however, IC should also encompass social and environmental knowledge to be managed for the purposes of meeting social requirements, improving business competitiveness and enhancing corporate performance (Dumay, 2016). Based on these remarks, our research addresses the design of a management control tool that aims to promote sustainability within a company by measuring and reporting strategic intangible resources embedded in organizational settings.

From a methodological point of view, the study was carried out in the light of interventionist research. More specifically, the focus of attention was on a leading Italian organisation in electronic and information technologies, whose holding company, listed on the FTSE MIB and also on the NYSE, was admitted for the first time to the Dow Jones Sustainability Indices (DJSI). Due to the competitive environment, over the last few years, the company's top management has shown an interest in enhancing the company's IC potential. To this end, an organizational unit—entirely devoted to promoting product innovation, managing patents and trademarks, strengthening staff competencies and enabling social and academic relationships—has been set up. The company's management also expressed an interest in adopting an IC measurement system, allowing the authors to collaborate in a project on the management of intangible resources.

Our research contributes to the literature in several ways. First, defining sustainable IC is an important stepping stone. In fact, a sustainable IC map is a means that allows a company's managers to identify the extent to which they accept social and environmental responsibility, by clearly showing how they accumulate and use knowledge for sustainable development.

Second, the effective integration of sustainability into strategic management is still an underexplored topic (Crutzen & Herzig, 2013). To date, only a few empirical studies have investigated how management control systems have been practically deployed to promote corporate sustainability (Perego & Hartmann, 2009; Henri & Journeault, 2010; Riccaboni & Leone, 2010).

Finally, this paper adds to the discourse on the third stage of IC research (Guthrie *et al.* 2012; Dumay & Garanina, 2013, Guthrie *et al.* 2018) by addressing how a high-tech company has successfully adopted an IC perspective to manage specific initiatives in line with sustainable management; in so doing, the article highlights the relevance and usefulness of IC for business organisations.

2. *Methodology*

This study was conducted in the light of 'action research'. In action research, researchers collaborate with the business (commonly referred to as a host organisation), developing solutions and simultaneously elaborating theory (Dumay, 2010; Jönsson & Lukka, 2005). Action research traditionally «involves a collaborative change management or problem-solving relationship between researcher and client aimed at both solving a problem and generating new knowledge» (Coghlan & Brannick, 2010: 44). This approach to research studies the resolution of organisational/social challenges together with the people who have direct experience of the challenges themselves. This process involves observing processes and outcomes, analysing findings with the help of relevant literature.

The main benefit for the researcher is the ability to gain insights into the implementation of new management innovations within organisations. For practitioners, the benefit is to gain the assistance and knowledge of academics as a resource in the implementation process (Dumay, 2010). Therefore, action research contributes to both research and practice.

3. *A Sustainable Intellectual Capital Map*

According to the majority of the literature, IC is categorised into three sub-components, namely Human Capital, Structural Capital and Relational Capital (Saint Onge, 1996; Stewart, 1997; Sveiby, 1997; Roos *et al.*, 1997; Bontis, 1998).

As firms adopt different approaches for accumulating and utilising their knowledge, researchers agree that the quality and quantity of single IC components are 'firm-specific' factors (Edvinsson & Sullivan 1996; Bontis, 1998; Guthrie, 2001; Youndt *et al.*, 2004).

The first step in managing IC is the visualisation of those intangible resources existing in the business that must be reinforced or acquired to support the strategic objectives of the company (Roos, 1998; Mouritsen *et al.*, 2001; Marr *et al.*, 2004). Accordingly, we claim that, for companies competing in challenging and turbulent environments, where the call for social and environmental responsibility is increasingly pressing, the IC map must be revised in light of the concerns mentioned above.

A few authors have included environmental and social concerns into the IC framework for managerial purposes (Parisi & Kai, 2008; Lopez *et al.*, 2001; Huang & Kung, 2011; Chang & Chen, 2012; Wasiluk 2013; Dameri & Ricciardi, 2016).

Lopez *et al.* (2011: 21) define sustainable IC as the sum of all knowledge that an organization is able to leverage in environmental management to gain competitive advantage. While Lopez *et al. focus* on how companies manage knowledge on environmental issues to gain competitive advantage, in our study, we propose to integrate it into the mainstream definition of IC (Stewart, 1997). Accordingly, we deem that IC can also include social and environmental knowledge, information, IC property and experience.

Therefore, we posit that the constructs of the three IC pillars (Bontis, 1999; Johnson, 1999) should be revised in order to include knowledge concerning social and environmental issues.

Human Capital should also include the employees' knowledge, skills, attitude and behaviour toward social and environmental issues. These elements can be leveraged with specialised training, personal development or job experience.

Structural Capital can be organisational and technological. The organisational side also refers to all policies, processes, procedures and routines implemented within the organisation to meet social and environmental standards required by laws, norms and standard setters, on a mandatory or voluntary base. The technological side should also encompass intangibles and accumulated knowledge related to the introduction and development of 'green' and 'recycling-oriented' production processes, eco design, greener plants and machinery, new ecological products, etc.

Accordingly, Relational Capital also deals with the company's knowledge and information exchanged with its supply chain with respect to social and environmental requirements. Furthermore, Relational Capital has to do with the company's links to the market and the environment (i.e., green or ecological brands, labels or certifications, the company's reputation within the communities in which it operates and the social relationships it entertains).

As environmental and social issues are becoming an important theme in strategic planning, we support the view that the IC map should also visualise, among others, the knowledge-based resources a company should acquire to create value over time.

4. *Discussion and concluding remarks*

In recent years, the commitment to corporate sustainability has been gaining momentum worldwide. Increasingly, stakeholders have become more vocal in their demands for greater transparency and accountability, and additional evidence is being requested of businesses on their sustainability. As a consequence, companies have started seeking effective ways to align sustainability and business strategies, to translate social and environmental performance into long-term shareholder value.

The assessment process companies are subject to for inclusion in sustainability indices is built on a wide array of financially relevant sustainability criteria concurrently covering the economic, environmental and social dimensions. Within this context, intangible resources and capabilities are broadly recognised as the most influential sources of value creation and competitive advantage. Therefore, it seems reasonable to posit that the evaluation of the firm's IC represents a promising starting point for the incorporation of social and environmental dimensions into the general management system.

Building on the seminal works of Surroca *et al.* (2010), Perrini *et al.* (2011) and Ling *et al.* (2015), we argue that intangibles can be regarded as the mediating variables between sustainability management and corporate financial performance. Accordingly, together with the company's professionals, we developed a management control tool that enhances sustainability performance by measuring and managing the firm's IC (such as skills and competencies, knowledge and innovation, values, legitimacy, trust and reputation). More specifically, we posit that accounting for CSR activities through firm-specific intangibles allows managers to be aware of which performance drivers can lead to improved financial and non-financial outcomes.

Commitment to sustainability is not only communicated externally to financial analysts but also internally (by progressively including sustainability principles in organisational culture).

Our management control approach is different from others (i.e., sustainability evaluation, sustainability balance scorecards) because it is grounded in intellectual accounting (Guthrie *et al.*, 2012). In other words, it addresses how social and environmental initiatives can contribute to increasing a company's IC stocks and, by means of these processes, how these might have a positive impact on corporate performance. In line with the IC-performative research stream (Mouritsen, 2006), we recognise that IC is a representation of knowledge-based resources, the transformative qualities that emerge in application. Thus, IC measurement is a 'convention' useful for managers to gain awareness of the challenges ahead and the main knowledge-based resources to be mobilised. Based on these premises, in our management control model, the links between social/environmental initiatives and IC stock (and between IC stock and corporate performance) should not be intended as direct causal relationships, but rather as relationships whose influence emerges only in good practice (Mouritsen & Larsen, 2005).

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This book aims to explore the opportunities, criticalities and future perspectives offered by qualitative methods with specific reference to the research on Intangibles, Intellectual Capital (IIC) and Integrated Reporting. Despite the interest shown in developing theory, the benefits attributed to measuring, managing and reporting IIC are not fully recognised in practice, thus leading to a call for more rigorous and performative research. Adopting a performative approach implies studying the measurement, management and reporting of IIC "in action", inside and among organizations, to understand how knowledge resources such as people, processes and relationships are mobilised and activated to create value. Against these challenges, this book presents the research outcomes discussed at the SIDREA International Workshop (SIW 2018) on "Qualitative Research in Intangibles, Intellectual Capital and Integrated Reporting Practices. Opportunities, Criticalities and Future Perspectives", organised by the Dipartimento di Studi Aziendali, Roma TRE University and the Dipartimento di Management, Università Politecnica delle Marche.

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