Ca' Foscari University of Venice

Master's Degree

in Global Development and Entrepreneurship

Final Thesis

From Sustainability Report to Integrated Report: the suggested journey for Rifò S.r.l.

Supervisor
Ch. Prof. Silvia Panfilo

Graduand
Chiara Bedin
Matriculation Number 884893

Academic Year
2021 / 2022

TABLE OF CONTENTS

INTRODUCTION

"We do not inherit the Earth from our ancestors; we borrow it from our children"[1] it is a Native American aphorism quoted by His Royal Highness, Prince of Wales at the United Nations Environment Programme Finance Initiative in 2011. HRH played an important role in the foundation of the International Integrated Reporting Committee, that then became International Integrated Reporting Council in 2011. Two years later the first Integrated Reporting Framework was released and it is becoming an important reporting instrument in the business world.

We are now facing a time in which we have to handle adversities we did not have to deal with before, companies have been disclosing the same type of financial information for decades, but this information is tricky and only an *elite* of people can fully grasp its meaning. HRH claims that we are *"battling to meet 21st century challenges with, at best, 20th century decision making and reporting systems"* [2] and this calls for an upgrading of the current reporting system. The European Union in 2014 started to regulate on non-financial disclosures, but a general sustainability disclosure is not enough. We need to compare performances that go beyond numbers, we need to compare behaviours and the attention companies give to people and the surrounding environment. The Integrated Report can be the tool to do so.

Is it hard to prepare? Would companies need to go out of their way in order to comply with it? What if a company is already disclosing a Sustainability Report, how many more steps are needed to comply with the IR vision?

This thesis will give an answer to these questions firstly by analysing the European context and directives currently in force and in preparation. Secondly, the Value Reporting Foundation, Integrated Reporting Framework, Integrated Thinking and SASB Standards will be presented. After understanding where regulations and organisations active in this field are standing, a literature review will be carried out

---

1 Prince Charles at the UNEP Finance Initiative 2011 Global Roundtable summit: https://www.youtube.com/watch?v=YDZabtqjvbA

2 Accounting for Sustainability (A4S): https://www.accountingforsustainability.org/en/about-us/overview.html

to understand where the scientific community stands and how they have been analysing the matter.

To then see how in the business world this all reflects, we will be looking at the case of Rifò S.r.l., an Italian socially responsible clothes brand. They are currently disclosing a Sustainability Report and this thesis analyses where they currently stand with respect to the IR and where they could go in the future to improve their disclosure. This wants to be a suggestion for the company in order to improve themselves to be able to be compared with other giants in the fashion industry.

Since the fashion industry is one of the most pollutant right now, a change is needed. This cannot be done unless the investor community and consumers know what is behind things that they buy. Traditional Financial Statements do not allow for it and Sustainability Reports only let you catch a glimpse of what their way of operating is. There is a need for a common measurement unit to effectively compare enterprises and direct consumer choices towards the more responsible ones.

Integrated Reporting does so, but efforts made so far to prepare Sustainability Reports should not have been made in vain, what is needed is an upgrade, this is usually also an occasion for companies to look in the mirror and know more about themselves than what they did before starting the Integrated Reporting journey.

On a personal note, I have been interested in Sustainability disclosures ever since my bachelor's degree, I did in fact at the time write my dissertation on Integrated Reporting as well. My goal at the time was to become an auditor for Sustainability disclosures but at the time this was not even a job. During this master's degree, I have started the apprenticeship with the Ministry for Economy and Finance to become a statutory auditor. Last year the European Commission proposed the Corporate Sustainability Reporting Directive which will be analysed more in detail in the first Chapter of this thesis. According to it, in the future, auditors will be demanded to audit sustainability reporting in addition to their regular duties. This is for me an opportunity to study more in detail topics that will help my professional career.

1. EUROPEAN REGULATION ON SUSTAINABILITY REPORTING

The European legislation on Corporate Sustainability Reporting is quite recent, in fact, only in 2014 the European Commission firstly passed the Non-Financial Reporting Directive (NFRD). During the following years, after several forms of stakeholder consultations different needs emerged and in 2021 the European Commission proposed the Corporate Sustainability Reporting Directive (CSRD) to revise the NFRD. What has emerged is that there is a widening gap between sustainability information companies are currently reporting and the information really needed by stakeholders. Because of it, the European Commission gave a thought to the possibility of establishing non-financial mandatory reporting standards and it called the attention on the need of them. This piece of legislation aims at amending four already existing directives and regulation: the Accounting Directive, the Transparency Directive and the Audit Directive and Regulation. At present time, companies are bearing a cost to comply with the regulation, but the non-financial reporting that is to be disclosed right now is not comparable and does not fulfil the wishes of stakeholders. An estimation has been made regarding the costs that enterprises would save if the use of standards would take place and it is believed to be between EUR 24,200 and 41,700 per company.

The Directive is to be applied starting from Financial Year 2023, although listed SMEs will have three more years to be compliant. The first draft of standards is due for adoption by 31st October 2022, the first set of Sustainability Reporting Standards should be published by FY 2023 and a second one by FY 2024. Since it is important to keep up with the constant changes the accounting world is facing, the Commission has decided that at least every three years the standards will be put under scrutiny, to verify whether they still comply with European and international needs and standards. The Commission needs also to foresee administrative measures and sanctions for entities who violate the provisions.

The main changes the CSRD has brought in comparison with the NFRD are:

- to **broaden the pool** of undertakings that are required to comply adding all large companies and listed companies. Before the proposal, organisation that were included were: listed firms, bank and insurance enterprises. According to the CSRD *large companies* are defined as those who meet at least two out of the following three criteria:

- more than 250 employees
- more than €40M turnover
- more than €20 M in total assets.

This is estimated to increase the entities who are subjected to the regulation from 11’600 to 49’000 across all EU.

- information concerning sustainability is **subject to limited audit**. With the NFRD the data were to be included in the Annual Report of the company and audit was not mandatory in most countries. According to the CSRD, instead, the report will have to be included in the Management Report (to avoid the impression that sustainability information appertains to a less relevant type of disclosure) and audit will be mandatory. It will have to include the involvement of the key audit partner, EU taxonomy, the process to identify key relevant information and the integration in the Auditor’s Report. It is relevant for the Audit team to follow both financial and sustainability information, to ensure **connectivity** between them.
- to make sure that info disclosed is acquired and subsequently published as part of management reports it will have to be divulged in a **digital and machine-readable layout**.
- to define in a more detailed way the data to be disclosed and to be in compliance with **EU sustainability reporting standards**. Beforehand, organisations were only asked to disclose information and data related to: bribery and anti-corruption measures, highlight diversities composing the governing bodies of the firm, forms of environmental preservation and policies related to the wellbeing of employees.

In relation to what a Sustainability Report should now comprehend, a first clarification has been made by the Commission, the NFRD had already introduced a requirement related to their disclosure known as **double materiality**, which is intended as the mandatory provision to disclose both how sustainability concerns affect the company performance, future prospects and positioning in the market, including how climate change could impact the enterprise ("outside-in" perspective) and how their own operating is affecting the environment and the society ("inside-out" perspective). With the CSRD the Commission has wanted to highlight how firms should disclose information related to both perspectives and should be considered in their own right, not as alternative. Additionally, the Commission has intended to enhance the importance that **intangible assets** play in the value creation process of the undertaking. The NFRD did not mention intangibles other than those disclosed among assets in the balance sheet, the CSRD wants enterprises to disclose data related to intellectual, reputational and human capital, including also skills, their development and research and development carried out by the company. The NFRD was focusing on mainly five areas: business model, policies, their outcome, KPI relevant to the firm and risk and their management. The CSRD wants companies to disclose:

- business model, strategies and how these take also into account sustainability issues that may arise.
- main and potential repercussions their work has on the environment.
- when in place, plans to adhere to a transition towards a sustainable, carbon-neutral economy.
- how the business model and strategies take into account needs of stakeholders.
- opportunities arising from sustainability issues.
- targets and actions taken towards sustainability targets.
- composition of the board and its role played in relation to sustainability.
- how information included in the report has been gathered.
- payment practices, since lately insolvency has lead to disruptive effects on value chains.
- human health impacts of the enterprise, employees wellbeing and human rights.
- business ethics, anti-corruption and anti-bribery.

Information to be comprised should entail both qualitative and quantitative data, retrospective and forward-looking, over the short, medium and long term. Is it safe to affirm that the ultimate beneficiaries of this type of reporting are citizens considered individually, savers, that will then eventually decide in a more informed way in which undertakings to invest in, and organizations, both private and non-governmental ones. During the process of laying down on paper the impact companies have in society they can exploit the situation to question themselves on many aspects, including the management of sustainability-related risks, which is a new type of risk that shareholders are now starting to take into consideration, and the investments needed to adapt and maintain certain sustainability goals. International bodies, such as the European Central Bank and the Financial Sustainability Board are now stressing how important these new climate risks are and companies should now start to have strategies to deal with environmentally-related hazards. Since in the current state of the art organisations are not required to be accountable for their environmental impact, CSRD has raised another issue, there is an accountability deficit in relation to the impact undertakings have in the society and, ultimately, in citizens. Moreover, even if firms would have a clear idea of their repercussions, there are no generally agreed metrics nor approaches to do so. This is detrimental for enterprises that want to recognise and own the efforts taken in order to carry out their activity in a more sustainable way. At present time, information disclosed is not reliable enough and it cannot be compared because there are no standard rules that companies have to comply with. Furthermore, the lack of a unique format to adhere to and differences in requirements among the Union are source of additional costs and difficulties, which are detrimental in a single market and would not favour the free movement of capitals across Member States. This exposes the issue we are facing right now, we need sustainability data but there is a lack of an official European mandatory scheme to follow. In light of everything that has been presented so far, the EU Commission is considering the development of European non-financial reporting standards to adhere to. This should be done also taking into consideration the existing frameworks and standards that several organisations active in the sustainability field have already developed but these are not mandatory to comply with. Among the ones mentioned in the Directive, we can highlight the International Integrated Reporting Council and the Sustainability Standard Board, together they form the Value Reporting Foundation which will be explained in the following chapter. What has to be disclosed for both Value Reporting foundation (through the Integrated Report) and CSRD can simplistically be resumed as: business model, strategies, stakeholder involvement, future prospects, process to write the report and people responsible for it, human capital and its wellbeing, business ethics and materiality concept. Because of all these analogies, the Integrated Report could be the type of report fulfilling the needs of CSRD. We will see more in detail the requirements and the Framework suggested by the Value Reporting Foundation in the following chapter.

2. VALUE REPORTING FOUNDATION

The Value Reporting Foundation is a global non-profit organisation that provides enterprises with the support they need to understand themselves in terms of how value is built, protected and consumed. The Foundation has formed after the merging of the International Integrated Reporting Council (IIRC) and the Sustainability Accounting Standards Board (SASB) in June 2021. It has been established in order to give assistance to companies with respect to Integrated Thinking Principles, Integrated Reporting Framework and SASB standards. These three aspects are independent but highly related to one another, in fact, the Foundation has the role of overseeing the strategy of the operation, but it does not enter in the merit of the three abovementioned elements, it delegates directly to the SASB Standards Board and the International Integrated Reporting Framework Board the content of, respectively, SASB Standards and IR Framework.

Integrated Reporting and Principles are mandatory to be followed currently in only one country in the world: South Africa. It is mandatory for companies listed on the stock exchange to follow a "apply or explain" policy, this means that they have to publish the IR to be listed and if not they should state why they are not complying with the provision. The first country to set it as mandatory was South Africa, in 2009 it was introduced in the King Code of Governance Principles for South Africa and it became a requisite to be able to list on the Johannesburg Stock Exchange starting from 2010. The following year São Paulo Stock Exchange introduced the *Report or Explain for Sustainability or Integrated Reports*, it was meant to be a recommendation to disclose Environmental, Social and Governance (ESG) information. It took a few years to have at least 70% of companies to publish an IR or publish a reason for their non-compliance with the provision, the remaining enterprises (those who did not comment at all this requirement) were not afraid of repercussions because there were none set in place to sanction non-compliance. 2015 was the last year the Stock Exchange required companies to disclose Sustainability or Integrated Report, after this, the Regulator stepped in, so that companies would have to respond directly but no regulation came along, so it currently is not mandatory.

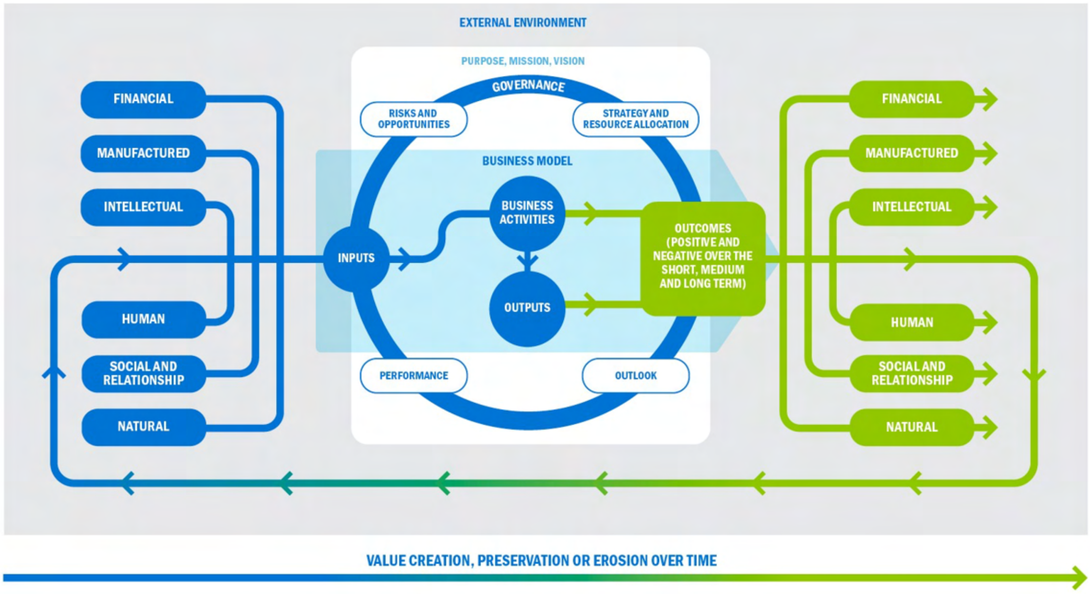
2.1. INTEGRATED REPORTING FRAMEWORK

The Integrated Reporting Framework is published and revised by the International Integrated Report Council (IIRC). The version currently in force has been published in January 2021, there is only one previous version which was published in 2013. First historical roots of the IIRC can be dated back to 2010, when HRH The Prince of Wales established the International Integrated Reporting Committee. The following year, it changed its organisational structure and its name to the current one, International Integrated Reporting Council and it launched the *Pilot Programme*. During the following two years, selected companies were involved in a journey to help lay-down the first format for the Integrated Report (IR). As a result, in December 2013 the first Framework was published. The difference between 2013 and 2021 Framework is not significant, the main pillars of information to be disclosed remain the same ones. This type of Framework is principle-based and it is drawn up in such a way that it allows for a certain extent of flexibility to allow an undertaking to tailor it to its own needs, while at the same time being adequately comparable. For these reasons, the Framework allows firms to write more than what required if the enterprise has to fulfil other reporting requirements. If such report is written according to the IR Framework it can still be considered as one. On the other hand, if data cannot be disclosed, either because unavailable or because releasing it would result in significant damage for the organisation, the latter should specify what has been omitted and the reason why that has occurred, if information could be obtained subsequently this detail should be included indicating also the forecasted timeframe to do so.

Another provision to be incorporated is the governing body accountable for the completeness of the Integrated Report along with their assessment on how well the IR Framework has been complied with. The main goal of the Integrated Report is to provide investors with notions on the value created by a firm, the benefit generated for others that ultimately can help the undertaking to produce value for itself.

Integrated Reporting has changed the way a company focuses on what and how to report, with respect to standard Financial Statements, the IR main focus is on the strategic spotlight and future direction the enterprise should have while using connectivity and interdependency of Capitals. These last ones are the inputs and outputs, divided by stock, that come in and out from the organisation and are the key for value production. The Framework classifies them as financial, manufactured, intellectual, human, social and relationship, and natural as shown in **Figure 1**.

Figure 1: Process through which value is generated, protected and destroyed.



Source: https://www.integratedreporting.org/wp-content/uploads/2021/01/InternationalIntegratedReportingFramework.pdf

Capitals in the company are perpetually flowing between them. For example, an investment in machinery in the firm will decrease financial capital while increasing the manufacturing one. Below a brief description of what is considered per each Capital:

- Financial, it is intended to as the one accessible for the manufacturing of products or the delivery of services. Loans or equity are the main sources.
- Manufactured, it is referred to as those assets available to be used for the production of goods or provision of services.
- Intellectual, meant both as know-how and intellectual property.
- Human capital, it is formed by the people in the enterprise and comprises also their drive to improve as well as their support of the organisation vision and ethics.

- Social and relationship, this involves institutions, associations, stakeholders in general and the relationship the undertaking has with them, encompassing also brand reputation.
- Natural, this comprises both renewable and non-renewable resources and includes both natural elements and the environment.

Capitals are included regardless whether they are owned by the organisation, the simple fact that an element is affecting the value creation process determines its inclusion in the Integrated Report.

Another important pillar of the Framework concerns the Guiding Principles that should be followed during the preparation and disclosure. They are:

- Strategic focus and future orientation, this entails to disclose main risks and opportunities, how these will develop and change in the short, medium and long run and how the business model is affected by them. This includes also a reasoning regarding usage and repercussions on Capitals.
- Connectivity of information, the enterprise should be able to highlight how interdependent various aspects of the firm are. The more integrated thinking is rooted in the organisation, the easier is for the organisation to point out dependencies across the company. It is vital to give an overall idea of connectivity between Content Elements (explained in the next paragraph), Capitals, past, present and future events, financial and cost/revenue data, qualitative and quantitative information, management information with respect to what externally communicated. To do so, it can be useful to insert links or cross-references.
- Stakeholder relationships, in relation to this one the Integrated Report should enlighten the public on how stakeholders' point of view is taken into consideration when making decisions and how they sense "value". Once this is understood it is important to take these aspects into consideration when formulating risks and strategies. This improves transparency on how external opinions might affect the undertaking.

- Materiality, since not every small detail can be disclosed it is essential to be able to determine what is relevant. To do so, there is a process that needs to be followed briefly described below:
    - Determine relevant matters, these are the ones that directly affect the capability to create value, namely the ones related to governance, strategy, performance and outlook. If the company does not know how to face an issue, this does not imply the matter is not relevant.
    - Assess their importance, not every relevant matter needs to be disclosed, what has to be reasoned upon is its potential amplitude affecting value creation. The magnitude does not need to be financially and quantitively assessed, it can also be determined with qualitative data, reputational and financial information.
    - Assign different priorities for different magnitudes.
    - Determine what to disclose.

  It is worth mentioning also the concept of Reporting Boundary, fundamental to apply this Principle. The boundary is given by both the financial reporting entity, intended as joint ventures, subsidiaries and other forms of investments, and risks, opportunities and outcomes that are outside the reporting entity but still play an important role in the organisation under scrutiny.

- Reliability and completeness, the first one relates with the trail of people and procedures the content of the Integrated Report has gone through. The subject matter has to be free from material error (if estimations are needed, it is important also to include how they have been made), should be presented in a simple format to avoid misinterpretation, should consider both positive and negative changes with the same weight (so, not de-empathise negative effects and emphasise positive ones) and should be subject to internal and external control. Completeness deals with costs, competitive advantage and future prospects. The more information is disclosed the more expensive it is for the enterprise to prepare it, the mere fact that certain data are expensive to obtain does not imply they can be excluded. Competitive advantage needs to be taken into consideration, when publishing the Integrated Report the firm should not take a hit. Future prospects are uncertain, but this cannot be the reason why it is excluded, in some countries there could be specific legal provisions related to this.

- Conciseness, the Integrated Report should contain all material information without being loaded with non-relevant data. Also, to avoid redundancies cross-referencing is recommended. This Principle is in conflict with the previous one, Completeness.
- Consistency and comparability, the first one is achieved when policies to gather data follow the same process from one year to the following one, unless an adjustment entails betterment of information disclosed, if this is the case it is important to disclose this fact. It aims at comparing the company with itself overtime. The second Principle aims at examining and analysing the firm with other organisations.

In order to be comparable, the Framework establishes Content Elements, we can see them summarised in Figure 2.

Figure 2: Summary of IR Content Elements.

These do not have to be disclosed as isolated statements, but rather, encompassed with other data. The Framework presents them with a question and a subsequent explanation. They are:

- Organisational overview and external environment: what is the purpose of the firm and how is the external environment in which it operates? To fulfil this requirement, the enterprise should disclose what the culture, ethics, values, competitors scenery, markets in which it is active, value chain positioning, number of employees, legal framework, environmental provisions, ownership and operational structure, political context and possible resources shortages.

- Governance: how is the company structured and how does this help value creation? That is to say, how is the top of the organisation structured and what are its characteristics in terms of gender, age, background, education, ethics, risk management, remuneration incentives and whether it has to comply with any legal requirement.
- Business model: what is the undertaking's business model? This is the scheme that summarises how the firm creates value by transforming inputs into outputs while creating value at the same time. This means highlighting:
  - Inputs, only the ones that play a significant role in value creation and their robustness and resilience.
  - Business activities, especially the key ones to have a unique positioning in the market and also the ones that are affected post-sale (e.g. warranty agreements).
  - Outputs, this is mostly concerning by-products and waste, what is the company doing with them.
  - Outcomes, both internal (e.g. employees moral) and external (e.g. customers complaints, pollution), both positive and negative, these latter ones will diminish the value created by the firm.

  If an organisation is active in different markets and operates with different business models, it is wise to report all of them and carry out this type of analysis per each one of them.
- Risks and opportunities, what are risks and opportunities for the company and what are the ones impacting value creation? What can possibly impact the access or availability of Capitals?
- Strategy and resource allocation, what are the organisation's future goals and how it is planning on reaching them? This includes the target as well as the steps, resources allocated for the purpose, impacts on Capitals, any forecasted change to the business model and measurement of the outcome.

- Performance, how well has the company achieved previous objectives? How have Capitals been affected? To explain this it both quantitative and qualitative data should be used, it could be interesting to emphasize performance indicators referred to different activities, for example: increase in revenue and reduction in emissions, especially when the last one is required by law provisions.
- Outlook, what are possible future complicating factors the company might have to face? Is it possible that the business model and Capitals will be affected, how so? Is there any safety net already in place to alleviate the burden?
- Basis of preparation and presentation, how is the organisation deciding on what to include in the Integrated Report? This covers how material matters and reporting boundary have been identified as well as an explanation on the estimations included in the Integrated Report, together with the role played by those carrying out the aforementioned activities and their responsibility.

2.2. INTEGRATED THINKING PRINCIPLES

Integrated Thinking is a management approach for thinking holistically about the resources and relationships the organisation uses or affects, and the dependencies and trade-offs between them as value is created, preserved or eroded, in a time period that can be short, medium or long. Integrated Thinking is approached through Principles and they directly influence the Business Model, as it is through them that the enterprise evaluates how resources are dealt with, hence, how inputs are transformed with the business activities into outcomes and outputs. Integrated Thinking Principles should be embedded in the Business Model, they are linked with the leadership and management philosophy that governs the behaviour of the firm. If the company espouses the Principles successfully the decision-making process will see an amelioration as well as a more resilient corporate culture and a higher understanding of the processes that lead to value creation in the company itself. Integrated Thinking wants the governing bodies of the organisation to work together as well as its six Capitals. Integrated Thinking principles, as previously stated, should be addressed throughout the Business Model in such a way that the company is able to recognise the offsets arising when value is created in an area but eroded in another one.

The IR Principles are organised in three levels, the higher one is directly interrogating CEO and the Board of Directors broadly on whether they are aware of them being included in the company, the second level brings the Senior Management into play, and it challenges them with a series of statements. The third and last level speaks to Senior Management again but this time offering processes, tools and practices to help in the adoption.

The Principles:

- Purpose, "*how do we make a unique contribution to the needs of society and why do we exist?"*[3]
  This is the question top management should be able to answer to and Senior Management should think of it as the core affirmation that summarises why they are on the market. It is manifested through relationship with internal and external stakeholders. On a practical note, decisions approved should be consistent with it.
- Strategy, *"how does our organisation seize opportunities, mitigate risks and maximise the resources available to us to meet the needs of our customers […], whilst generating a financial surplus?"*[3]
  That is something CEO and the Board of Directors should know. The Executive Team will see this as the actions to be taken in order to reach the Purpose and the impact these have. Strategies should be clearly described, have a look long-term viewpoint, include strategies to manage in-company concerns and outside ones, and constantly updated to see if the Purpose is being achieved.
- Risks and opportunities, *"how do we assess the impact of the external environment on our business model, operations and strategy, and vice-versa?"*[3]
  Since it is of outmost importance, that is to be considered by both CEO and Board of Directors. Senior Management will regularly value the burden external environment has on strategy and business model and vice versa. A

[3] Integrated Thinking Principles, Support Holistic Decision-Making – Prototype 2021

real example on how to do so is to identify considerable concerns linked with risks and opportunities and regularly check on their impact on the capability of the undertaking to create and preserve value overtime. After the evaluation, the Executive Team should take relative measures.

- Culture, *"how do we identify our key stakeholders, and how do we embed a culture that earns their trust and aligns with our core values?"*[3]

  The reply to this question should be clearly known by Top Management. The Executive Team should control that the way they carry on activities is coherent with the Purpose. In practice, the Executive Team can organise surveys to be distributed among stakeholders and regularly checks, with an appropriate procedure, who their stakeholders are and how their culture lines up with the one of the enterprise.
- Governance, *"how does our Board make a distinctive contribution to value creation [...]? How is our strategy execution enabled by our organizational structure, cross-functional teaming, decision-making processes, and risk and opportunity management processes?"*[3]

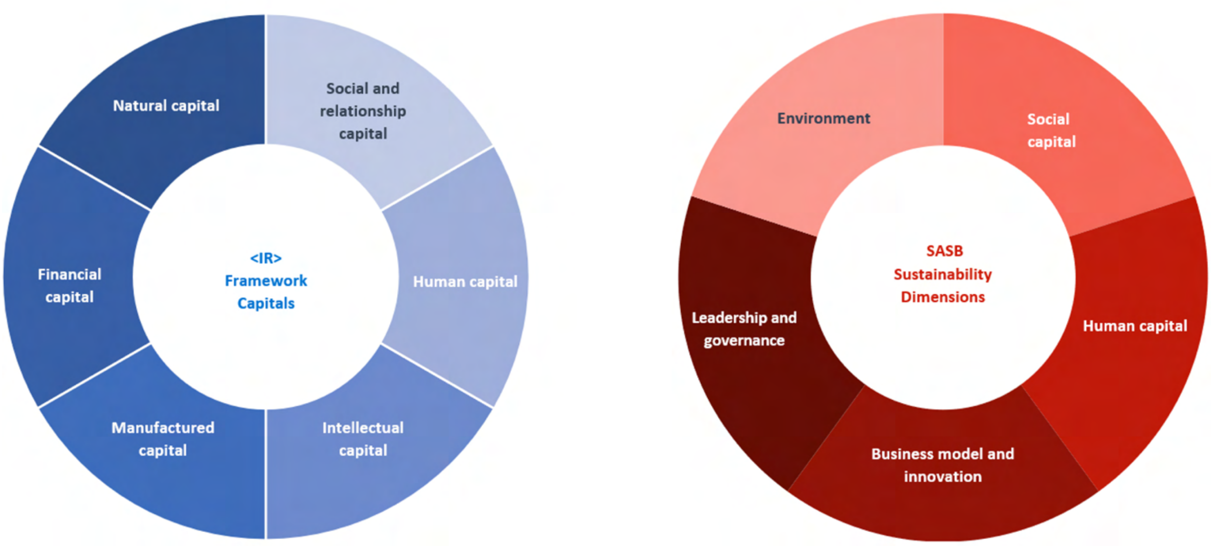
  Both CEO and Board of Directors must be reasoning on the role they play, their contribution to the implementation of the strategies. Senior Management should be aware that the creation of value from a certain capital may erode value in another one and their key role is played by finding the right balance between them. These processes and progresses can be practically measured by KPIs (Key Performance Indicators), in addition to this, the Board should regularly examine the governance structure to see if the one currently implemented is efficient and is able to actively respond to the needs of the firm.
- Performance, *"how do we measure and communicate the enterprise value we have created for out investors and the value we have created for our other key stakeholders?"*[3]

  This should be answered by CEO and Board of Directors with the publication of the Integrated Report and the journey they have decided to embark the enterprise on. Senior Management will check on the preparation of information to be disclosed in the Integrated Report which are related to value creation, preservation and erosion, performance is also measured with the help of KPIs and these are also used also internally to measure the contribution of the company towards SDGs.

2.3. SASB STANDARDS

The Sustainability Accounting Standards Board is independently working on SASB Standards. They have been created and published so that financial information can be completed with sustainability data in order to make them more comparable, in such a way that investors can be better informed during the decision-making process. They are industry-based (77 industries) and their goal is to disclose sustainability data that is financially relevant and can affect the financial condition, operational performance and/or risk exposure. Standards are divided among industries because business models and sustainability risks and opportunities are more likely to be similar in the same industry. The analysis proposed by SASB is implemented distinguishing risks and opportunities in five dimensions, namely: environment, leadership and governance, business model and innovation, human capital and social capital. These five are strictly related to the IR Capitals as Figure 3 shows.

Figure 3: Comparison between IR Capitals and SASB Sustainability Dimensions.



Source: https://www.sasb.org/blog/strengthening-an-integrated-report-using-sasb-standards/

The industry-specific Standards contains:

- Disclosure topics: short explanation of industry-related matters that are material for value creation.
- Accounting metrics: qualitative/quantitative criteria to assess company's actions.
- Technical protocols: instruction related to accounting metrics.
- Activity metrics: to be used together with accounting metrics, they are intended to assess the extent of the activity of a business.

For the purpose of the work that will be subsequently realised in this thesis, we will take as example SASB Standards related to the Apparel, Accessories and Footwear industry. Disclosure Topics and Accounting metrics related to this industry are:

- Management of Chemicals in Products, which comprises both compliance with existing regulations and assessment of risks for the use of such substances. There are no accounting metrics other than qualitative explanations.
- Environmental Impacts in the Supply Chain, it entails an analysis related to entities in the supply chain with respect to water discharge and other environmental requirements. It is expressed with quantitative data in percentage.
- Labour Conditions in the Supply Chain, it concerns suppliers that have been reviewed on a labour code of conduct, expressed in percentage. It also considers a qualitative assay on issues related with labour and risks connected to environment, health and safety in the supply chain.
- Raw Materials Sourcing, this is constituted by a qualitative breakdown related to the importance of raw materials, related environmental aspects, risks with the procurement of such components and strategies to deal with it. On the quantitative side, companies should disclose the amount of raw materials purchased and how much of that comes from a certified entity.

Activity metrics in this industry are related with the number of suppliers that have interactions with the undertaking. Technical protocols describe in greater detail how accounting metrics should be evaluated and presented.

3. LITERATURE REVIEW

Integrated Reporting is not a destination but rather a journey, it takes several years for a company to adjust and embed Integrated Thinking in the regular practice. As the previous chapter states, only in 2013 the Integrated Report Framework was published, before that and even now non-financial disclosure generally disclosed as a Sustainability Report. The issue we face with Sustainability Reports is that there is not a pattern or scheme to be followed, which makes them hard to compare – both among industries and within the industry.

The aim of this thesis is to understand whether it is possible to move from Sustainability Reporting to Integrated Reporting and Thinking. To do so, we can look at the academic world and see whether studies in this particular field have been made.

Since the scope of the literature review is quite narrow, we can start by looking at the bigger picture and introduce the topic with one of the pillars of IR, which is the article written by Filippo Vitolla, Nicola Raimo and Michele Rubino named *Appreciations, criticisms, determinants, and effects of integrated reporting: A systematic literature review*. This research is useful because it is a literature review on the types of articles available to be studied by *classifying contributions according to the normative perspective and the descriptive perspective*[4] and it gives a summary on the theoretical and managerial implications deriving from them. Many studies cited by them agree on the fact that there are both internal and external dimensions contributing to the adoption of the IR. Internal factors that positively influence the adoption of IR are: size (the bigger, the more likely), profitability (the more profitable, the more likely), board composed by experienced individuals with different backgrounds, higher educational level and assurance. External factors positively influencing the adoption of IR are: *the location of the company in highly developed countries […], Europe or in countries where integrated reporting is*

[4] Filippo Vitolla, Nicola Raimo, Michele Rubino (2019). Appreciations, criticisms, determinants, and effects of integrated reporting: A systematic literature review. Corporate Social Responsible Environmental Management 26, 518-528.

mandatory[4], *countries with stronger employment and investor protection*[4]. Positive effects that have been noticed have impacts on:

- reputation and brand image.
- transparency.
- stock liquidity.
- reduced cost of equity.
- expected cash flow.
- higher management quality, due to an increase in non-financial goals.

This article gives an important overall idea on Integrated Reporting, on the factors that actively persuade in the adoption of IR and on the main consequences both financial and non-financial.

Although this article is particularly relevant, what we want to find to hit the nail on the head, are studies that are committed to the journey from Sustainability Reporting to Integrated Reporting and Thinking. For this purpose, a systematic literature review has been set up, to be able to replicate and understand the research methodology. To be able to find articles related to this topic articles have been looked for in three different databases: MDPI, SAGE Publishing and Scopus.

The first and second databases have been chosen because of the high impact their journals have and because of their good reputation. Scopus has been selected because of the notoriety and because of the quantity of articles available there. Google Scholar has not been used because it is harder to navigate (e.g. set filters) and because it gives more relevance to most cited articles first and in this way new ones that are left behind. Since most of the changes happened in the field occurred in the past few years the outcome of the research would be a bit distorted, relevance of recent articles would not be correctly balanced because of the higher attention given to older and more cited papers.

On MDPI the inputs for the database have been set as:

- Keyword: “from sustainability report to integrated report”.
- Timeframe: from 2013 (the year the IR Framework was released) to 2022.

- Logical operator: “integrated report” AND “sustainability report” to be found in the Title of the article.

This research output is one article, named *Moving from Social and Sustainability Reporting to Integrated Reporting: Exploring the Potential of Italian Public-Funded Universities’ Reports*, published in 2020 on *Sustainability* in the special issue Exploring Sustainability Accounting and Management in Higher Educational Institutions by Sara Giovanna Mauro, Lino Cinquini, Elena Simonini and Andrea Tenucci. This article gives us an overview of the steps that Italian Universities have to take in order to be able to shift from Sustainability Reporting to Integrated Reporting, although public entities are not the type of organisations analysed in this thesis, the article gives a relevant contribution to the work with a checklist that has been used by the authors used to provide a baseline to examine the content of Sustainability Reports with respect to Integrated Report Framework. Below, in Table 1 the checklist that will be used in the following chapter to rate the goodness of Sustainability Reports.

Table 1: Checklist

Organisational overview and external environment (max score 11)

Mission and vision statements	0 = no statement, 1 = mission OR vision statements, 2 = mission AND vision statements
Values and culture	0 = no mention, 1 = general comments on ethics and culture, 2 = code of conduct and list of values, etc.
Legal, social, environmental, political context	1 point per each mentioned
Key risks and opportunities	1 for risks, 1 for opportunities
Market positioning	0 = not present, 1 = present

Governance (max score 4)

Governance structure's representation	0 = no mention, 1 = mention
Competencies and diversity	0 = no mention, 1 = mention, 2 = specific illustration of skills and diversity of those in charge with Governance
Process to make and monitor strategic decisions	0 = no mention, 1 = mention

Business model and stakeholders (max score 12)

Business model (inputs, activities, output, impacts)	1 point per each mention (max 4)
Capitals	1 point per each (max 6)
Stakeholders	0 = no mention, 1 = list of stakeholders, 2 = list of stakeholders with characteristics

Strategy, outlook and resource allocation (max score 8)

Short, medium and long-term objectives	0 = no mention, 1 = objectives with no time frame, 2 = objectives with time frame
Implementation plans	0 = no mention, 1 = description of actions taken/planned
Influence from operating context, risks and opportunities	0 = no mention, 1 = reference to operating context
Distinctive competitive institutional factors	0 = no mention, 1 = mention, 2 = mention of factors and links with strategy
Resource allocation plan	0 = no mention, 1 = illustration of the plan
Presence of links to the Strategic Plan	0 = no mention, 1= present

Performance (max score 5)

Performance indicators	0 = no mention, 1= KPIs or equivalent
Effects on capitals	0 = no mention, 1 = performance connected with capitals
Comparison with past performance	0 = no mention, 1 = present
Comparison against benchmarks	0 = no mention, 1 = present
State of key stakeholder relationship	0 = no mention, 1 = present

Basis of preparation and presentation (max score 6)

Methodology selection	0 = not present, 1 = present
Assurance	0 = no assurance, 1 = external assurance
Conciseness	0 = over 200 pages, 1 = in between 100 and 200 pages, 2 = less than 100 pages
Materiality	0 = no mention, 1 = mention of materiality issues, 2 = materiality matrix

Source: Mauro, S. G., Cinquini, L., Simonini, E., & Tenucci, A. (2020). Moving from social and sustainability reporting to Integrated reporting: Exploring the potential of Italian public-funded universities. Sustainability, 12(8), 3172.

Since only one article has been found, it has been considered appropriate to consult a second database, namely SAGE Publishing. Inputs have been set as:

- Timeframe: from 2013 (the year the IR Framework was released) to 2022.
- Keyword "from sustainability report to integrated report" (Anywhere field)
- Refined research with "integrated report" AND "sustainability report" to be found in the Title.

The research gives three results here summarised in Table 2.

Table 2: Summary of the research on SAGE Publishing

Title	Author(s)	Year	Geographical area	Journal	Brief description
The Impact of Corporate Governance and Sustainability Reporting on Integrated Reporting: A Conceptual Framework	Salaheldin Hamad, Muhammad Umar Draz, Fong-Woon Lai	2020	Malesia	SAGE Open, vol. 10, 2	Adoption of IR in Malesia
'Mixing' and 'Bending': The recontextualization of discourses of sustainability in integrated reporting	Franco Zappettini, Jeffrey Unerman	2016	Europe, Africa, Australasia and South America	Discourse & Communication, vol. 10, 5: pp. 521-542	Starting from Integrated Reports going backwards to reason on Sustainability
From Sustainability to Integrated Reporting: The Legitimizing Role of the CSR Manager	Daniela Argento, Francesca Culasso, Elisa Truant	2018	Italy	Organization & Environment, vol. 32, 4: pp. 484-507	Terna journey from Sustainability Report to Integrated Report

Source: output of the search on SAGE Publishing, direct link can be found in the sources.

The first article by Salaheldin Hamad, Muhammad Umar Draz and Fong-Woon Lai focuses on Integrated Reporting, rather that the journey to arrive there, this is the reason for exclusion from our literature review. The second article, by Franco Zappettini, Jeffrey Unerman focuses on the opposite process of what we are looking at, the authors start from the IIRC database and go backwards in finding sustainability-related disclosures starting from the Integrated Reports of companies, since this not the approach the research is based upon it has been considered appropriate to eliminate also this article.

The only useful article from SAGE Publishing for the purpose of this thesis is the third one *From Sustainability to Integrated Reporting: The Legitimizing Role of the*

CSR Manager, it is about the journey of an Italian public listed company from Sustainability Reporting to Integrated Reporting and Thinking, the interesting point of view from this article is the gradual involvement of the different areas that overtime understood the importance and relevance of Integrated Reporting and worked towards the goal not because forced but because they started believing in the final objective. The steps taken in involving gradually different departments of the company will be useful in laying down the suggested journey to Integrated Reporting for the company under scope in the following chapter.

Since academic literature is still poor, the need of consulting another database arose. The last database consulted is Scopus. Inputs for the research have been set as:

- Document search "from AND sustainability AND report AND to AND integrated AND report"
- Subject area "Business, Management and Accounting"
- Keyword "integrated report" AND "sustainability reporting"
- Publication year: between 2013 and 2022

This research returns 131 results, for these a manual content analysis has been made and only four of them fulfil the purpose of our analysis. Others have been discarded because of various reasons, we name a few: the main issue is non-financial reporting as a broad term and beyond the European Union, the article does not talk about Integrated Reporting and Sustainability Reporting but only one of the two topics, the main focus is on the relationship between Intellectual Capital and IR/Debt and IR/Financial Reporting and IR/quality of IR and financial performance/IR and SDG achievement/benefit corporation and its disclosure. The four articles that we will consider in our Sustainability Report to Integrated Report analysis are briefly summarised in Table 3.

Table 3: Summary of the research on Scopus (from Sustainability Report to Integrated Report)

Title	Author(s)	Year	Journal	Brief description
Board characteristics and the choice between sustainability and integrated reporting: a European analysis	Laura Girella, Stefano Zambon, Paola Rossi	2022	Meditari Accountancy Research Vol. 30 No. 3, pp. 562-596	Research paper on correlations between management characteristics and IR and Sustainability Report adoption
From the corporate social responsibility reporting to the integrated reporting: the case of Sabaf S.p.a	Renato Camodeca, Alex Almici	2017	Problems and Perspectives in Management 15 (1), 150-157	Steps and processes taken from Sabaf S.p.A. to transition from Corporate Social Responsibility Report to IR
The implementation of integrating reporting <IR> in SMEs - Insights from a pioneering experience in Italy	Mara Del Baldo	2017	Meditari Accountancy Research Vol. 25 No. 4, pp. 505-532	Approach of SMEs to IR with particular focus on Costa Edutainment S.p.A. case
Beyond Financial Reporting: A Journey from Sustainability towards Integrated Reporting	Chiara Mio, Marco Fasan	2014	Journal of Environmental Accounting and Management 2(3), 1-14	Literature review on Corporate Social Disclosure, IR and analysis on state of the art for both matters

Source: output of the search on Scopus, direct link can be found in the sources.

Before discarding once and for all the articles that do not fit the scope of the analysis, we can select some of them to understand how the IR alone is viewed and which benefits it can bring.

The four articles we will use to present IR as a standalone are recapped in Table 4.

Table 4: Summary of IR articles

Title	Author(s)	Year	Journal	Brief description
Theoretical insights on integrated reporting – the inclusion of non-financial capital in corporate disclosures	Mark Anthony Camilleri	2018	Corporate Communications: An International Journal, Vol 23 (4), 567-581	Description of IR and its benefits, analysis on IR and rationale behind it
Preparers' perceptions of integrated reporting: a global study of integrated reporting adopters	Mitali Panchal Arora, Sumit Lodhia, Gerard William Stone	2022	Accounting & Finance 62, 1381-1420	Feedback and perceptions of IR preparers. Interviews and data have been gathered among 6 different companies.
Is integrated reporting really the superior mechanism for the integration of ethics into the Core Business Model? An empirical analysis	Janine Maniora	2017	Journal of Business Ethics, 140, 755-786	Impact of IR on the integration of ESG issues into business model and disclosures. Effects on EGS performance.
Does it pay off? Integrated reporting and cost of debt: European evidence	Jannik Gerwanski	2020	Corporate Social Responsible Environmental Management, 27, 2299-2319.	Evidence on IR preparers and non-preparers and their cost of debt

Source: Scopus

These articles have been chosen because they introduce the IR from different points of view: the first one introduces IR with a theoretical approach, the second and third ones talk about practical consequences of IR inside the company and the last article discusses external repercussions of IR. Other articles were only talking about Sustainability Reports, quality of IR or other aspects that were not suitable to introduce a wide topic as IR with a perspective useful for this thesis, which is the transition from Sustainability Reporting to Integrated Reporting and Thinking.

All four articles agree on the fact that IR is a flexible and useful tool to integrate both financial and non-financial disclosures in one unique report. It is commonly acknowledged by all four that IR helps to break down silos-thinking in the organization, allowing for a more holistically understanding of the business itself. According to Janine Maniora its usefulness depends on whether the company is already disclosing ESG information or not. In her article *Is integrated reporting really the superior mechanism for the integration of ethics into the Core Business Model? An empirical analysis* she suggests that IR is *only a superior mechanism for the integration of ESG issues into the core business model when comparing IR with the ESG reporting strategies of no ESG reporting and EGS reporting in annual reports*[5]. This entails that companies already disclosing ESG matters in a separate document would not benefit as much from implementing IR with respect to undertakings in the other two cases, this is so because IR and integrated thinking would, with time, bring modifications to the business model as well. Companies that already pay attention to environmental aspects of their operating and that have already embedded those issues in their business model would not benefit from IR as much as others who do not consider ESG issues at all or only partially. Moreover, she also suggests that *companies that originate in a reporting regime with legal requirements for the disclosure of ESG information can be more likely to publish an integrated report than companies that do not have to consider ESG information requirements*[5]. This implies that, since the European Union is now focusing on these aspects more, a higher number of firms will be likely to embark the IR journey.

Mark Anthony Camilleri in his article *Theoretical insights on integrated reporting – the inclusion of non-financial capitals in corporate disclosures* highlights two important concepts. The first one is related with content of IR, he affirms that *IR framework encourages organizations to report both positive and negative behaviours that substantively affect their ability to create value over the short, medium and long term*[6], this contrasts with what non-financial disclosures were generally trying to

[5] Janine Maniora (2017). Is Integrated Reporting really the Superior Mechanism for the Integration of Ethics into the Core Business Model? An empirical analysis. Journal of Business Ethics 140, 755-786.
[6] Mark Anthony Camilleri (2018). Theoretical insights on integrated reporting – the inclusion of non-financial capitals in corporate disclosures. Corporate Communications: An International Journal 23 (4), 567-581.

do: highlight only positive aspects in order to maximise financial capital and profit. The second aspect he emphasised is the transition internal stakeholder will face overtime, in the long run they will understand how IR creates value for them as well. This aspect is also the focus, from a practical point of view, of the research carried out by Mitali Panchal Adora, Sumit Lodhia and Gerard William Stone. In his article *Preparers' perceptions of integrated reporting, a global study of integrated reporting adopters,* they interviewed different people with different roles within six different companies from six different sectors. What emerges is that IR is a tool to report beyond financial information and to tell the whole value creation story, this was commonly agreed by accountants, sustainability managers, corporate reporting managers and CFOs. All these people from different departments working together to write IR have been given a new perspective also on their day-to-day job. They feel more responsible, and they are also able to select data to be shared with other sections in a more effective way since, by removing the siloed thinking, they now know more how their activities can impact others.

All these three articles mention how the IR helps the company who is preparing and disclosing it in improving their reputation, image and ESG performance. Another important consequence analysed by Jannik Gerwaski is the reduction in cost of debt. In his article *Does it pay off? Integrated reporting and cost of debt: European evidence* he analyses how cost of debt is linked with engagement in IR. The results of the analysis confirm that there is a relationship between these two aspects, *IR decreases the firm's cost of debt but [...] this effect gradually attenuates with increasing ESG performance*[7]. This implies that IR aftermath is not only related with improved communication with stakeholders and transparency, but it involves way more aspects and repercussions.

Literature related to the IR and its consequences would be much wider, the selection of only four articles has been made in order to present IR as a standalone from different points of view. What we were looking for in the academic world was something more specific, the transition from Sustainability Report to Integrated Report. As can be seen from the research carried out above, literature is present but

[7] Jannik Gerwanski (2020). Does it pay off? Integrated reporting and cost of debt: European evidence. Corporate Social Responsible Environmental Management 27, 2299-2319.

not much has been analysed from a theoretical point of view, most of the literature involves a practical case without a detailed analysis with the practical and organisational steps needed to carry out the transition from Sustainability Report to Integrated Report. Below we can find an analysis on the articles presented in Table 3, which are related with the core of our analysis, the transition from Sustainability Report to Integrated Report.

It is interesting to highlight the point of view of Girella, Zambon and Rossi and that of Mara Del Baldo. They both focused their research on the bodies and roles people inside and outside the organisation have in the journey and how these differ depending on the size of the firm under scope. Girella, Zambon and Rossi in their article *Board characteristics and the choice between sustainability and integrated reporting: a European analysis* highlight first of all how different are both audience and scope for Sustainability Report and IR *"the target audience of an integrated report is embodied by providers of financial capital first and then all stakeholders. A sustainability report addresses all stakeholders. […] In terms of scope, an integrated report covers strategic, governance, performance aspects with a multi-capital view, a sustainability report is mainly centred on environmental, social and governance (ESG) elements."*[8], with this in mind it can be understood that the team preparing the IR needs to have *"more competences, discussion and alignment between management and shareholders' interests."*[8]. Their research also highlighted that the more independent and the bigger boards are, the more the enterprise is likely to adopt voluntarily integrated reporting. This study was based on larger companies, that are very likely to work in separate departments working independently. Mara Del Baldo in her article *The implementation of integrating reporting <IR> in SMEs - Insights from a pioneering experience in Italy*, considered the opposite point of view, that is, the one of SMEs. These types of companies are characterised by a family-based governance, not formalised organisational structure and limited managerial and financial resources. On the other hand, a SMEs is more accustomed to be dynamic and flexible, this *"can render the application of IR principles, such as connectivity,*

[8] Laura Girella, Stefano Zambon, Paola Rossi (2022) Board characteristics and the choice between sustainability and integrated reporting: a European analysis. Meditari Accountancy Research 30 (3), 562-596.

easier than in large companies" [9]. In her article, Del Baldo also mentions a practical case of a SME embarking the Integrated Reporting journey and identified three main pillars to its achievement, summarised in Table 5. These will be useful in the journey determination that will be done in the next Chapter.

Table 5: Pillars to achieve IR according to Costa Edutainment S.p.A.

Pillar	Actions
Materiality Analysis	Definition of areas where greater value can be created and at the same time risk the greatest value loss
Value Creation	Way in which the organisation uses capitals (inputs) to create value (outcomes)
Impact Evaluation	Measurement of relevant indicators, definition of objectives to ensure value creation

Source: The implementation of integrating reporting <IR> in SMEs - Insights from a pioneering experience in Italy, Mara Del Baldo, 2017 – Meditari Accountancy Research 25 (4), 505-532.

Different were the areas of interest for Sabaf S.p.A. when it decided to be one of the first pioneers towards the IR journey. While for a SMEs a lot of reasoning has to be made on the concept of "value creating", for a bigger company like Sabaf S.p.A. the main challenges to comply with the Framework were found in other areas, such as which risks to acknowledge and to what extent consider inputs and outputs for the business model and the strategy. Camodeca and Almici in *From the corporate social responsibility reporting to the integrated reporting: the case of Sabaf S.p.a* unveil the historical steps the undertaking underwent to be able to gather data and the impact the route had. This work is mostly presenting the outcome of IR rather than detailing the journey and the departments involved, it could be relevant for our further work the way in which the company understood the concept of materiality (intended as relevant subject areas), identified as "*staff training, industrial relations, remuneration and incentives policies, atmospheric emissions, waste management and environmental impact, research and innovation, partnerships with multinational groups, […] customer satisfaction, eco-efficiency and product quality management, managing relationships with suppliers, health and safety of personnel, staff recruitment policies, internal communications, diversity and equal opportunity,*

[9] Mara Del Baldo (2017). The implementation of integrating reporting <IR> in SMEs - Insights from a pioneering experience in Italy. Meditari Accountancy Research 25 (4), 505-532.

protection of human rights, performance evaluation and career development."[10]. Each and every article analysed so far is giving insights on the work that will then be carried out. As can be understood from the literature, Integrated Reporting and Thinking is a journey that requires time and effort for companies to prepare. It is a new different way of reporting which differs from the classic Financial Statements companies are used to disclose. In *Beyond Financial Reporting: A Journey from Sustainability towards Integrated Reporting*, Mio and Fasan affirm that "*financial reports are increasingly complex and backward oriented. […] Sustainability reports often contains too much information, thus generating in the users an "information overload", where it is difficult to understand which information is material and which is not."[11]*. The need for a document that divulges a different type of information is needed. The Integrated Report as the article *From Sustainability to Integrated Reporting: The Legitimizing Role of the CSR Manager* by Argento, Culasso and Truant states, *"it is a communication tool but, above all, a change tool as it guarantees greater dialogue between areas that did not communicate before"[12]*, this implies that there is a great need for understanding, accepting and embrace the change that integrated thinking and reporting inevitably brings. The same article defines the Integrated Report as a "*vehicle that increases awareness of corporate integrated value, generated by integrated thinking and horizontal communication flows, can enable a change in people's mentality and a shift in their actions towards more integrated and inter-organizational logics"[12]*, this can definitely not happen overnight but rather it will be likely to happen in various years and through steps, as new "horizontal flows" need to be built. The first step a company can make is to write a Sustainability Report, this is so because in this way a company starts to collect data that, despite being very important, are not directly related with Financial Statements. In their article *Moving from Social and Sustainability Reporting to Integrated Reporting: Exploring the Potential of Italian Public-Funded Universities' Reports,* Mauro, Cinquini, Simonini and Tenucci affirm that Sustainability Reporting is "*constituting a significant base*

[10] Renato Camodeca, Alex Almici (2017). From the corporate social responsibility reporting to the integrated reporting: the case of Sabaf S.p.a. Problems and Perspectives in Management 15 (1), 150-157.
[11] Chiara Mio, Marco Fasan (2014). Beyond Financial Reporting: A Journey from Sustainability towards Integrated Reporting. Journal of Environmental Accounting and Management 2 (3), 1-14.
[12] Daniela Argento, Francesca Culasso and Elisa Truant (2019). From Sustainability to Integrated Reporting: The Legitimizing Role of the CSR Manager. Organisation & Environment 32 (4), 484-507.

for the shift toward an effective IR"[13], so, companies that are already publishing Sustainability Reporting should be facilitated in the journey towards Integrated Report.

What are the steps an organisation that is already publishing a Sustainability Report needs to take in order to be able to write an Integrated Report?

This thesis will provide an answer to this question firstly by presenting the company object of the analysis, Rifò, and their precious work. It will then compare its Sustainability Report with the one of Patagonia, leading in the sustainable fashion apparel industry. After that, a reasoning on the following steps towards IR will be made, this time using as a reference Marks & Spencer IR, considered as Best Practice in Integrated Reporting in the consumer goods sector. Conclusions will then be drawn to gather up the different actions needed. Finally, suggestions for more responsible purchasing practices will be given.

[13] Sara Giovanna Mauro, Lino Cinquini, Elena Simonini and Andrea Tenucci (2020). Moving from Social and Sustainability Reporting to Integrated Reporting: Exploring the Potential of Italian Public-Funded Universities'. Sustainability 12(8), 3172.

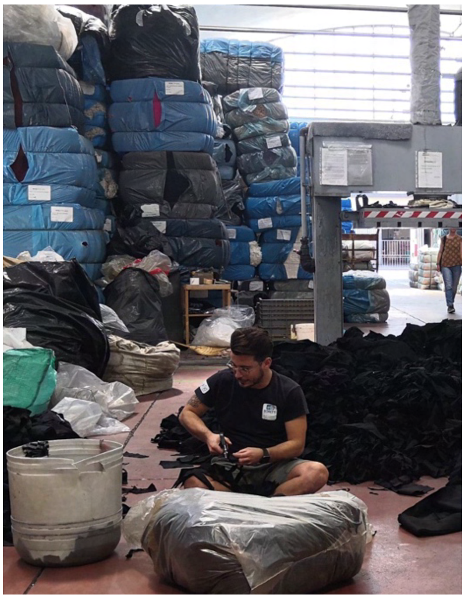
4. CASE STUDY: RIFÒ S.R.L.

Rifò S.r.l. (hereafter "Rifò") is an Italian start-up that was founded in Prato (Italy) in 2017 after a crowdfunding. Niccolò Cipriani had the idea of creating a sustainable brand after seeing in Vietnam the effects of overproduction in the fashion industry, the second most pollutant in the world. He came back to Italy and started analysing the market, organised a crowdfunding, its success made possible to start producing and selling t-shirts made of 100% recycled fibres. The following year the start-up took part in an accelerating programme and registered with its current name, Rifò S.r.l., the team started working and designing new garments. The year after, a jeans recycled jumper was launched and from that moment on garments have just been adding and now there is a wide selection.

Clothes from the brand are made of recycled materials, key to the firm was to establish in Prato, where artisans – so called *cenciaioli* - hundreds of years ago had already refined the method to recycle old clothes to make new yarns. In the nineteenth century *cenciaioli* started to recycle materials like wool and cashmere, to be able to offer products at a cheaper price with respect to products made of virgin fibres, the saving was from the use of already dyed scrap material. It was not always declared that the fibre was not virgin, but the consumer was looking at saving money. This continued and was perfectioned in the following century when with the war and autarky Italy needed to be self-sufficient. After the war there was a boom, because of all the know-how accumulated in the area Prato became the reference point at a global level for textile production at all supply chain levels. With the development of this industry the city then started attracting immigrants and as globalisation spread industries started relocating production in countries like Bangladesh, Pakistan, India, etc., so then who remains in Prato? *Cenciaioli*.

Who is a *cenciaiolo*? He is someone that from textile industrial waste (pre-consumer) or used garments (post-consumer) has the ability and knowledge to separate and select rags that can be given a second life. Rags that cannot be used are sold to German companies who will then create insulating paddings for cars or they are sold to produce floor felt. Up until a few years ago to be a *cenciaiolo* was not something to be proud of, they were not much considered although it was part of the tradition. Up until a few years ago the idea of recycled materials in garments was not well considered, but now with sustainability issues coming to light cenciaioli are highly requested and there is an issue with generational change. The first step in the recycling of fibres is done by *cenciaioli*, once they have separated the reusable rags (by quality, fabric and shade of colour - to avoid re-dying) as can be seen in Figure 4, they are sent to the unravelling process and the result is what can be seen in Figure 5.

Figure 4: *Cenciaiolo* at work



Source: Textile Tour

Figure 5: Output of the unravelling process

Source: Textile Tour

To obtain the output seen in Figure 5, rags have passed through a sort of brush that creates irregular threads (loose fibres). To be able to obtain a yarn, the threads need to undergo another process, called carding. In this process the threads are combed with rolling pinned rollers that separate them even more, from this what is obtained is the so called "carded web", as can be seen in Figure 6. In order to create a different shade from the ones available from the recycling process, it is sufficient in this step to mix colours together and have the carded web of the desired shade, in Figure 7 a colour order can be seen.

Figure 6: Carded web

Source: Textile Tour

Figure 7: Colour order

Source: Textile Tour

Once the carded web is obtained it is twisted to obtain slivers that are rolled up on a beam, this will then undergo the twisting process to be reinforced and to create yarns. These yarns are then used by Rifò to create garments. The company does not have major competitors right now, their peculiarity is the close contact they have with the supply chain, for instance, Rifò designers often visit *cenciaioli* to have their feedback on the types of seams they plan on using in order to make clothes that can be recycled another time.

The origin of wool and cashmere is the industry of Prato, while cotton is coming from Spain. In Italy we do not have developed enough the collection of cotton to be recycled yet. Since the spun is shorter for cotton it is hard to create a 100% regenerated cotton, it is usually 50% virgin and 50% recycled. Despite this, according to some studies, the saving of water, chemicals and dying products is still significant.

Rifò aims at being active in the territory not only by sourcing from it but also by supporting social causes. Since the end of 2021 Rifò is funding the education of a few guys coming from the Sub-Saharian area that have been victim of labour exploitation and they are teaching them the art of being a *cenciaiolo*.

Values of Rifò are: quality, responsibility and sustainability. Since the company intends to avoid overproduction, to overcome this issue before launching a new season they contact retailers asking them to order for the following season and they promote preorders on their website, granting a discount for the longer wait. This is done in order to have certain expectations on how much to produce with a little estimated extra. In this way what remains unsold is not very much. In June 2022 the founder, Niccolò Cipriani said that 2020 collection was already all gone and only some items belonging to 2021 assortment were in storage.

Rifò is a B-Corp since November 2020 and it is a Benefit corporation since march 2022. Being a B-Corp means that managers need to take into account outcomes of their actions on shareholders and stakeholders (accountability), they also need to publish a report stating the overall impact of the company (transparency). The B-Corp certification can be used to brand products and communications, it is renewed every 3 years and in exchange for an annual fee B-Lab offers services and support. To be a Benefit corporation is a legal status, the requirements of accountability and transparency are effective also in this case, there is no formal support from B-Lab and there is no need for renewal.

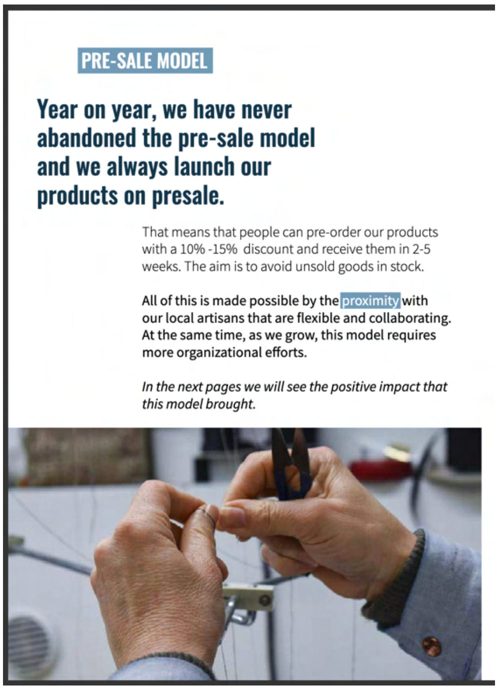
Figure 8: Rifò Sustainability Report

Source: Rifò Sustainability Report

To comply with the requirement of transparency the enterprise has been publishing Sustainability reports since 2021 (FY 2020). For the purpose of this thesis the most recent one will be analysed (FY 2021). Its structure is quite simple, it reflects the size of the firm. Firstly, they introduce the firm, its goals and values, then they present the materials used yearly for their production and the environmental impacts their manufacturing process has.

After these internal aspects we can find disclosed topics such as circular projects, their pre-sale model (with both an explanation on how it works and its benefits) and involvement with the community of Prato. They conclude with an analysis on gender equality, a disclosure on their suppliers and ideas for the future. The whole report is 60 pages long, but it is rich in images, so its content is quite concise. There are no financial data in it, KPIs that can be found are: staff composition (both in terms of type of contract and gender), percentages related with recycled materials used, virgin/recycled composition in clothing, yarns geographical origins, kilos of collected clothing (to be recycled), pieces of clothing produced, and euros donated to projects and communities. This is an overall description on the content of it, the qualitative analysis will be carried out in the following chapter.

Figure 9: Rifò pre-sale model explanation in Sustainability Report



Source: Rifò Sustainability Report

4.1. THE PATH TOWARDS A MORE EVOLUTED FORM OF SUSTAINABILITY REPORT

As mentioned above, Rifò has been publishing its Sustainability Report only since 2021 (FY 2020), it can be considered a novice in this world, especially because there are not many undertakings in the fashion industry that compete on the level of sustainability Rifò offers. Niccolò Cipriani has mentioned in an interview[14] that from time to time the company gets inspiration from Patagonia Inc. This company is established since 1973 and since its foundation has highly regarded values as sustainability, respect for the environment and active involvement with the communities. Since 14th September 2022 the ownership of the company has been transferred to two non-for-profit organisations: Patagonia Purpose Trust and the Holdfast Collective. This was done so that every dollar not reinvested directly in Patagonia can be reinvested *to protect*

[14] Niccolò Cipriani, interviewed on 18th June 2022 in Prato, Italy.

nature and biodiversity, support thriving communities and fight the environmental crisis[15]*.* This is proof on how committed the firm is for the protection of the environment. Patagonia has registered both as a Benefit Corporation and as a B Corp in 2012, because of its pluriannual experience it can be considered as a good proxy when wanting to compare Rifò Sustainability Report 2021 with Patagonia Annual Benefit Corporation 2021.

In this chapter we will compare Rifò Sustainability Report with the Annual Benefit Corporation Report of Patagonia. This will be done firstly by giving an overall feedback on the contrasts that arise, then we will use the Checklist provided by Mauro et al previously mentioned in Chapter 3. This will give us a baseline to start with the comparison and highlight the most important differences that emerge between the two reports.

At first glance, what can be immediately noticed is the different length of the two reports, while Rifò has a 60 pages report (of which 10 pages are image-only), Patagonia has a document only 18 pages long. Patagonia Annual Benefit Corporation has a more systematic organisation of the topics while Rifò Sustainability Report sometimes talks about the same topic (eg. materials used in their production) in different parts of the paper rather than having a unique section for it. On the other hand, Rifò takes a more narrative approach while Patagonia is mostly presenting facts and percentages.

We can now use the Table mentioned in Chapter 3 to evaluate the content of these two reports with respect to the Integrated Report Framework. The outcome of the analysis can be seen in Table 6. Points given in the table are attributed according to indications contained in the Checklist Table in Chapter 3, they refer to the presence of certain elements in Rifò Sustainability Report and Patagonia Annual Benefit Corporation Report (the more points, the more elements are included).

[15] Patagonia's next chapter: Earth is now our only shareholder: https://www.patagoniaworks.com/press/2022/9/14/patagonias-next-chapter-earth-is-now-our-only-shareholder

Table 6: Checklist – Content of Sustainability Report in comparison with Integrated Report Framework

	Patagonia Inc. Annual Benefit Corporation Report 2021	**Rifò S.r.l. Sustainability Report 2021**
Organisational overview and external environment		
Mission and vision statements	2	2
0 = no statement, 1 = mission OR vision statements, 2 = mission AND vision statements		
Values and culture	1	1
0 = no mention, 1 = general comments on ethics and culture, 2 = code of conduct and list of values, etc.		
Legal, social, environmental, political context	0	1
1 point per each mentioned		
Key risks and opportunities	0	0
1 for risks, 1 for opportunities		
Market positioning	0	1
0 = not present, 1 = present		
Total – Organisational overview and external environment (max score 11)	**3**	**5**
Governance		
Governance structure's representation	0	0
0 = no mention, 1 = mention		
Competencies and diversity	0	0

0 = no mention, 1 = mention, 2 = specific illustration of skills and diversity of those in charge with Governance		
Process to make and monitor strategic decisions	0	0
0 = no mention, 1 = mention		
Total – Governance (max score 4)	**0**	**0**

Business model and stakeholders

Business model (inputs, activities, output, impacts)	0	0
1 point per each mention (max 4)		
Capitals	4	4
1 point per each (max 6)		
Stakeholders	0	0
0 = no mention, 1 = list of stakeholders, 2 = list of stakeholders with characteristics		
Total – Business model and stakeholders (max score 12)	**4**	**4**

Strategy, outlook and resource allocation

Short, medium and long-term objectives	2	2
0 = no mention, 1 = objectives with no time frame, 2 = objectives with time frame		
Implementation plans	0	1
0 = no mention, 1 = description of actions taken/planned		
Influence from operating context, risks and opportunities	0	0

0 = no mention, 1 = reference to operating context		
Distinctive competitive institutional factors	0	0
0 = no mention, 1 = mention, 2 = mention of factors and links with strategy		
Resource allocation plan	0	0
0 = no mention, 1 = illustration of the plan		
Presence of links to the Strategic Plan	0	0
0 = no mention, 1= present		
Total – Strategy, outlook and resource allocation (max score 8)	**2**	**3**

Performance

Performance indicators	1	1
0 = no mention, 1= KPIs or equivalent		
Effects on capitals	0	0
0 = no mention, 1 = performance connected with capitals		
Comparison with past performance	1	1
0 = no mention, 1 = present		
Comparison against benchmarks	0	0
0 = no mention, 1 = present		
State of key stakeholder relationship	0	1
0 = no mention, 1 = present		
Total – Performance (max score 5)	**2**	**3**

Basis of preparation and presentation		
Methodology selection	0	0
0 = not present, 1 = present		
Assurance	0	0
0 = no assurance, 1 = external assurance		
Conciseness	2	2
0 = over 200 pages, 1 = in between 100 and 200 pages, 2 = less than 100 pages		
Materiality	0	0
0 = no mention, 1 = mention of materiality issues, 2 = materiality matrix		
Total – Basis of preparation and presentation (max score 6)	**2**	**2**
Total (max score 46)	**13**	**17**

The outcome of the checklist is that Rifò Sustainability Report is closer (due to a higher score) to an Integrated Report than Patagonia Annual Benefit Corporation Report. It is worth mentioning that since both companies are B-Corp and Benefit they both have the requirement to disclose certain type of information although, as emerges by reading the reports, Rifò has wanted to disclose more than what strictly necessary.

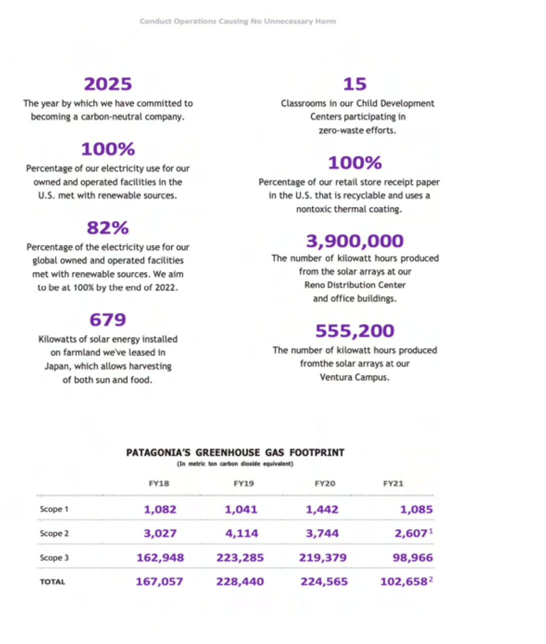
Differences between the two have emerged when disclosing the social environment they operate in, market positioning, plans to be implemented for the future and the state of key stakeholder relationships.

Patagonia is a company operating globally, so it did not specify in the report the type of legal, social, environmental or political context it engages with, they are various, but this can only be known by doing a background check and the analysis we are carrying on is only based on the Annual Benefit Corporation Report, for this reason they score zero points in "Market positioning" and "Legal, social, environmental, political context". On the other hand, Rifò states immediately that their supply chain is mainly located in the textile district of Prato, within a radius of 30 km[16], in this way the ambience of work is clearly defined and Rifò earns one point for this accurate disclosure of "Market positioning" and one point for the description of the "Social context" they operate in. "Legal, environmental and political contexts" can be understood but since they are not explicitly stated these three points cannot be attributed (instructions were to attribute one point for each context mentioned). Also, with respect to their market positioning Patagonia does not explain much, they only give a brief description of who they are without comparing themselves to the rest of the market. Different is the presentation of Rifò, in fact they pride themselves in being the first startup in Italy that coordinates the collection of old garments and their transformation into new products[16], this explains their market positioning, an additional information with respect to Patagonia.

Prospects (named "Short, medium and long-term objectives" and "Implementation plans" in the Checklist) for both companies are different, while Patagonia only refers to the future when talking about energy supply and CO2 emissions, Rifò elaborates more on this, talking both about projects, new forthcoming packages and objectives. Rifò future objectives are described also with a more detailed explanation related to actions to be taken, impacts and indicators to measure them with. Points to be assigned with respect to prospects are related with two different elements, the first one is "Short, medium and long-term objectives" both Patagonia and Rifò earn two points because in their reports they disclose future plans and the time frame they have foreseen to do so. Second element is "Implementation plans", as can be seen from Figure 10 and 11 there is a substantive difference on the disclosure. Rifò is describing in detail actions per each objective, for this reason one point is assigned. Patagonia does not mention anything similar anywhere in the report.

[16] Rifò Sustainability Report 2021:
https://issuu.com/rifolab/docs/sustainability_report_2022_4792f0ad330271

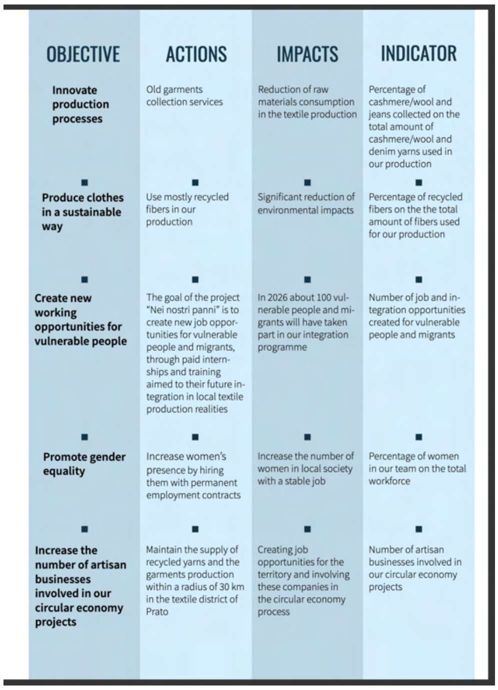
Figure 10: Patagonia disclosure on future prospects



	FY18	FY19	FY20	FY21
Scope 1	1,082	1,041	1,442	1,085
Scope 2	3,027	4,114	3,744	2,607[1]
Scope 3	162,948	223,285	219,379	98,966
TOTAL	167,057	228,440	224,565	102,658[2]

Source: Patagonia Annual Benefit Corporation Report

Figure 11: Rifò future objective table summary

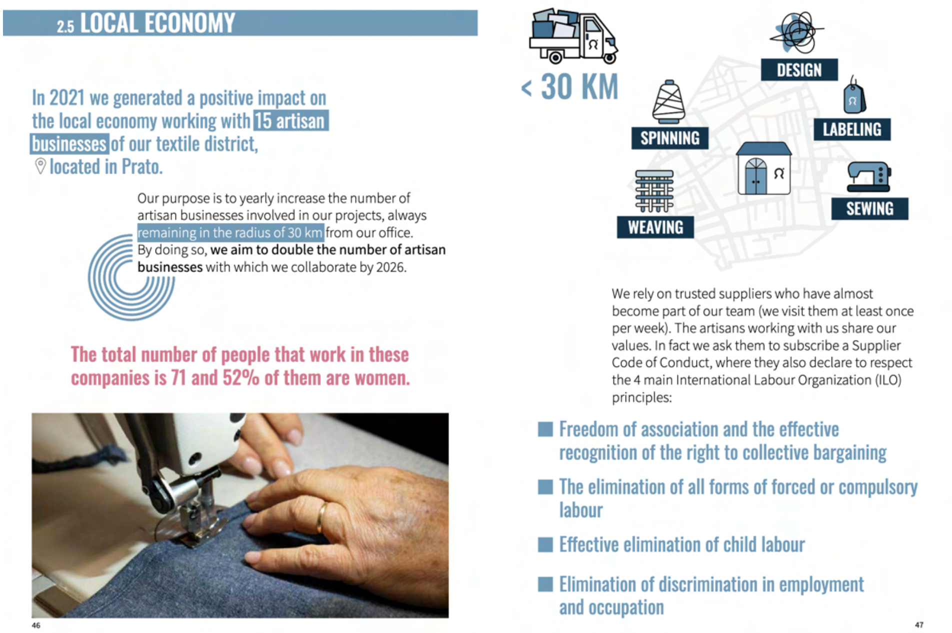


OBJECTIVE	ACTIONS	IMPACTS	INDICATOR
Innovate production processes	Old garments collection services	Reduction of raw materials consumption in the textile production	Percentage of cashmere/wool and jeans collected on the total amount of cashmere/wool and denim yarns used in our production
Produce clothes in a sustainable way	Use mostly recycled fibers in our production	Significant reduction of environmental impacts	Percentage of recycled fibers on the the total amount of fibers used for our production
Create new working opportunities for vulnerable people	The goal of the project "Nei nostri panni" is to create new job opportunities for vulnerable people and migrants, through paid internships and training aimed to their future integration in local textile production realities	In 2026 about 100 vulnerable people and migrants will have taken part in our integration programme	Number of job and integration opportunities created for vulnerable people and migrants
Promote gender equality	Increase women's presence by hiring them with permanent employment contracts	Increase the number of women in local society with a stable job	Percentage of women in our team on the total workforce
Increase the number of artisan businesses involved in our circular economy projects	Maintain the supply of recycled yarns and the garments production within a radius of 30 km in the textile district of Prato	Creating job opportunities for the territory and involving these companies in the circular economy process	Number of artisan businesses involved in our circular economy projects

Source: Rifò Sustainability Report

There are no particular mentions of stakeholders by Patagonia, while Rifò explicitly states that suppliers have to subscribe a particular Code of Conduct and Rifò staff visit them at least once a week, this shows closeness and trust among them, for this reason to the element "State of key stakeholder relationship" one point is attributed for Rifò and zero for Patagonia. See Figure 12 for the description of how Rifò relates with their suppliers.

Figure 12: Rifò disclosure on suppliers' relationships



Source: Rifò Sustainability Report

Because of the length of the report (both less than 100 pages long) they are both earning two points for "Conciseness". IR Capitals are mentioned for both companies and out of six they both mention Manufactured, Natural, Human and Social and Relationship, for each one point is attributed, this means four points are awarded to Rifò and Patagonia for the "Capitals".

We can highlight then that both companies did not disclose any information related to their Governance structure, nor to their Business Model. Stakeholders are mentioned here and there but there is not an area specifically dedicated to their influence and most importantly, who they are. There is then no mention of risks and opportunities, resources allocation in general and with respect to future plans. What is lacking, is also an explanation on the methodology used to select the data to publish, assurance and the process used to determine what is considered as material. For these abovementioned reasons both companies are scoring zero points in the whole "Governance" section, "Key risks and opportunities", "Business model", "Stakeholders", "Influence from operating context, risks and opportunities", "Distinctive competitive institutional factors", "Resource allocation plan", "Presence of link to the Strategic Plan", "Effects on capitals", "Comparison against benchmarks", "Methodology selection", "Assurance" and "Materiality".

The outcome of the checklist does not indicate that reports are correct or not, our analysis is considering how well the content of the report could be fulfilling Integrated Report Framework requirements although both reports were not written according to it. Despite the outcome of the checklist, it is safe to say that Rifò Sustainability Report contains more information than Patagonia Annual Benefit Corporation Report, this might also be due to the fact that since Patagonia is a bigger and wider company, the number of reports and material that can be found online is higher than for Rifò and for this reason not everything is included in the Report analysed since it can be found elsewhere, however, our analysis was only taking into consideration this specific report.

4.2. THE EVOLUTIONARY PATH TOWARDS INTEGRATED REPORTING

The journey towards Integrated Reporting is not easy, it is not only about fulfilling requirements to write and then disclose a document, but rather it is about the assimilation of Integrated Thinking in the firm. The main objective of this thesis, as previously stated, is to draw up the steps needed by Rifò in order to embrace the IR journey. Previously, what has been analysed is the presence of a foundation of Integrated Report in the Sustainability Report of the undertaking, what will now be done is a comparison with one of the IR considered as best practice.

On the IR website there is a database containing all reports considered as Leading Practices, documents gathered here have been selected highlighting the element/elements that is/are present in the paper and best align with the Integrated Reporting Framework, they all then have been reviewed by the Integrated Reporting technical staff.

Since the subject of our study is Rifò, the enterprise to be compared it with should be active in the fashion industry. By filtering among the Leading Practices by sector, consumer goods in our case, the most recent report of a fashion industry is Marks & Spencer Annual Report and Financial Statements for the year 2017. Nowhere through the report the IIRC or the Framework is mentioned, but it has been inserted in the database as an Integrated Report, so it can be considered as useful for the analysis as can be seen in Figure 13.

Figure 13: Marks & Spencer Annual and Financial Report 2017 on IR example database

Source: IR Examples database, the link to it can be found among the sources.

Marks & Spencer is a retailing company specialised in the selling of food, clothing and homeware. The company divides its operations among two categories: Food and Clothing & Homeware. The latter category (Clothing & Homeware), the one relevant for our study, in 2017 made up to 40% of the total revenue, so it plays quite a relevant role.

Marks & Spencer Report is significantly different from the Sustainability Report Rifò wrote, primarily due to the size and the requirements the company has to comply with (since it is quoted on the London Stock Exchange), the disclosure is longer and way more detailed, but it is helpful to understand in which areas Rifò could improve and take stimulus from.

The overall report is 140 pages long, but from page 94 onwards it is only related to Financial Statements and Notes. If the report is submitted to the checklist done also for the other reports in the previous sub-chapter, it scores almost all points. This means that the report is complete and contains all relevant information.

The most important things that were not mentioned at all in Rifò Sustainability Report were: Governance structure, Business Model, Stakeholders and Risks and Opportunities. In Marks & Spencer report both Governance structure and Business Model were highlighted as elements to be considered as Leading Practice. The Business Model is very complete in terms of :

- which inputs the company uses.
- which objectives the company has, divided in:
    - Financial.
    - Non-financial.
    - Strategic.
- how their activities deliver financial, non-financial and strategic value.
- financial, non-financial and strategic risk factors.
- people or bodies accountable for the objective to carry out (also divided by financial, non-financial and strategic).
- outputs with related key measures.
- key outcomes measured in terms of value created.

This specificity is of outmost importance for investors when they want to decide whether or not to invest in the company, in this way they know which is the model followed for the value-creation process, how it is managed and then how it is measured.

It is a good benchmark for Rifò to have inspiration from, since their business is so rooted and close with the territory, as they explained throughout the whole report. It would be useful to have a summary and a scheme with a clear Business Model to understand the inflows, activities and outflows that run to and from the company. The streams can be understood anyway by reading the whole report, but simplifying the issue through a diagram would give the reader the certainty of having correctly understood all different sections.

Second important element not included at all in Rifò Sustainability Report is the Governance structure. In Marks & Spencer report there is a whole section dedicated to the Board, not only who the people are with photos, position and appointment date, but also:

- a brief description of who Board members are, professionally speaking.
- which other chairs do Board members have (relevant in order to be transparent on potential conflicts of interest).
- who has retired and who is incoming (Board-wise).

- how many meetings they attended to over the year, distinguishing by executive and non-executive directors.
- diversity of the Board with respect to gender, sector experience and international experience.
- the process with which the new Chairman has been recruited.
- Board activities with arising actions and progresses made, for topics such as:
    - strategy.
    - values.
    - shareholder engagement.
    - Governance & Risk.
    - customer.
    - leadership & employees.
- evaluation of the Board effectiveness, with detailed explanation of the Board evaluation process.
- responsibilities of the Board.
- oversight role of the Board.
- independence of the Board.

All of this is quite illuminating for a potential investor, the feeling of knowing who you are entrusting is high. It is important to keep in mind that this is a listed company, whose goal is also to attract fund-holders. Since Rifò is a smaller entity, this level of detail might even be too much to disclose (they might not even have certain procedures set in place – e.g. hiring a new Chairman), even though on their website they have a similar description page of the team with photos, position in the company and a brief description. It could have been helpful for the reader to know how decisions are made, to insert a basic Governance structure in Rifò Sustainability Report, since they are a small company that could benefit from having some additional capital.

Another content not present at all in Rifò Sustainability Report is the evaluation of Risks and Opportunities. In Marks & Spencer report opportunities are mentioned every now and then, while Risks are very well explained and thought through. The report was written in 2017 when the United Kingdom had just voted to exit the European Union, risks related to this event are mentioned. At the introduction of their Risk Management section there is a detailed explanation on the bodies involved when having to identify a new risk. Since this report is subject to the UK Corporate Governance Code, it is a mandatory requirement to evaluate whether the company will be able to operate in a period exceeding the following 12 months, for this reason, the analysis is only carried out on medium and long term, with no particular emphasis on the short term. Despite this concern, Risk addressing is quite accurately made. Risks identified are 12, per each of them there is a symbol that represents whether the risk is new, evolved from prior year or has not materially changed overtime. Along with the symbol there is a brief description of the risk, the current context in which the company is operating and the mitigating activities the firm is taking in order to alleviate the exposure. In addition to this level of detail there is also a diagram showing and giving an example on how key risks are interdependent with one another.

In order to be able to produce something similar, Rifò would need time and resources. In Marks & Spencer there are multiple bodies doing these type of operations. Due to the limited team Rifò has, this type of reasoning, so detailed, is maybe too means-demanding. Moreover, we cannot forget that since Rifò has not yet established in the market as good as Marks & Spencer the advent for possible competitors, since at present time in Italy there are none, could be dissuading Rifò in handing out these type of information on a silver plate. An evaluation of Risks and Opportunities would be appreciated by stakeholders but with this respect Rifò would have to really reason on the reporting boundary necessary to this matter.

In addition to these issues, another topic not well disclosed by Rifò is Stakehoders, they are mentioned here and there but there is no dedicated area where they are mentioned and it is explained the role they play in the business. In Marks & Spencer instead, there are two pages that very well explain and highlight who stakeholders are to them, how do they engage with them and what type of contribution do they give to the firm. It would not be too hard for Rifò to summarise as well all the entities mentioned in the Sustainability Report to have a general overlook of the whole surrounding environment.

There surely are other things that Rifò could learn by getting inspiration from Marks & Spencer Annual Report 2017, but the main issues that arose so far and that have been mentioned in this chapter are the most urgent ones in order to disclose a more complete report.

4.3. DISCUSSION: KEY JOURNEY STEPS FOR INTEGRATED REPORTING

We have seen in the previous two sub-chapters that there is room for improvement for Rifò in the Integrated Reporting journey. In this sub-chapter we will resume the key organisational steps in order to be able to set the foundation to disclose a successful Integrated Report. Since the business is small and because of the attention the firm has towards the external environment, there is already a groundwork set for Integrated Thinking and Reporting to be embedded in the undertaking.

What the enterprise would need to do is to enclose the guidelines for Integrated Thinking and Reporting in an existing non-investor report, the current Sustainability Report. Benefits of this choice would be to improve what is already familiar, to exploit already-existing practices, to widen the type of information disclosed and to allow for easier comparison with other companies writing Integrated Reports. Challenges to this could be that the current audience might not be content with a change in pattern and since the content to be added would make the report more extensive, it might shift the focus the current Sustainability Report has.

First steps to be taken are related with the culture of the firm, it is important that those in charge with Governance are on board with the decision and facilitate the transition to IR. Secondly, the right resources need to be included in the process, it could be useful to hire a consultant or someone that has previous experience with it to lead the passage. Thirdly, the whole organisation needs to understand the journey and how much is important the engagement of all departments. Since the organisation is small there is no need to repeat that siloed thinking should be dismantled, they are already cooperating among departments. Collaboration will be needed for sure and active commitment by everyone to the cause is highly desired.

In September 2021, the Value Reporting Foundation has published a guide to help the transition towards Integrated Reporting. The suggested upheaval is divided in six steps, as can be seen in Figure 14.

Figure 14: Main steps needed towards the Integrated Reporting transition.

Source: Transition to Integrated Reporting – a guide to getting started. https://www.integratedreporting.org/wp-content/uploads/2022/08/Transition-to-integrated-reporting_A-Getting-Started-Guide.pdf

We can now resume what are the main steps involved and adapt these to the reality of the firm subject to the analysis.

First step to the change is Getting organised, which involves to have the enterprise understanding how important it is to have everyone on board. To do so, it is important to:

- *Establish responsibility for Integrated Reporting.* This includes the Governing body should formally approve the decision and appoint someone in charge of IR. Moreover, what is needed is also a clear definition of responsibilities related to quality checks and progress updates. In this way, both people involved in the preparation and those just cooperating will have a clear idea of who is doing what.
- *Create the Integrated Reporting team.* To function effectively, the team needs to be composed by individuals with diverse background, functional coverage and all business units should be included. Because of how small Rifò is, nearly everyone could be involved in it. At this stage it could be appropriate to hire an external consultant.

- *Develop a repository of key resources.* In order to give everyone the possibility to gather the necessary knowledge it could be useful to arrange a library, virtual or not, where to accumulate all relevant documents and resources.

Once all of this is ready it is possible to move to the second step: Establishing a plan. This aims to write down milestones to be reached with a timeline to be followed. All relevant actions and achievements need to be written down to give the team an idea of the future outlook. In this phase it is important to understand how existing resources could better communicate, what needs to be added or modified from the current Sustainability Report and who could be a good candidate for some IR training. To complete this stage the team needs to:

- *Apply a "Fundamental Concept" lens.* Here is when the Framework comes in handy. The team needs to have an idea on the value creation, erosion and preservation the company is responsible for and should start wording it. The six Capitals need to be identified and reasonings on their impacts among each other and their short-, medium- and long-term effect should be understood. This phase is not about reporting, it is about acknowledgment.
- *Identify the reporting boundary.* In doing so, there is not much reasoning to be done in Rifò for who the financial reporting entity is, there are no subsidiaries so it is only them. What is important to understand is where the boundary for Integrated Reporting extends since this comprises: employees, customers, suppliers, business partners and communities. Rifò has close connections with each one of these categories to it is relevant to decide what to disclose per each one of them.
- *Examine existing reporting for gaps.* Taking their Sustainability Report at hand, Rifò should compare it with the eight Content Elements: Organisational overview and external environment, Governance, Business Model, Risks and opportunities, Strategy and resource allocation, Performance, Outlook and Basis of presentation. While comparing the Sustainability Report with IR Content Elements, the team should take note on what is lacking, what can be improved and what could be removed from the current report. It could be useful to write down a timeline and implement or improve things focusing one area at the time.

Once identified where the room for improvement is, it is wise to Identify information needs. This is done in three main steps:

- *Outline information needs and sources.* From the gaps unveiled in the previous phase, now the team should focus on the info needed to fill the gap. For instance, if the Business Model is found out to be missing, now it is the time to identify which are inputs, activities, outputs and outcomes that compose it.
- *Identify material matters.* The concept of Materiality is the heart of the matter here. It is material *if it could substantively affect the organisation's ability to create value in the short, medium or long term*[17]*.* To establish where Materiality lays, three criterion are the determinant: scope of the integrated report (capability to create value overtime), purpose of the integrated report (explain stakeholders how the undertaking can create value overtime) and audience (who is the intended reader of the IR). Materiality determination, according to the Framework is done in four steps:
    - *Identify material matters based on their ability to affect value creation.*
    - *Evaluate the relevance of material matters depending on their potential repercussions on value creation.*
    - *Prioritize with respect to relative importance.*
    - *Determine what to disclose regarding material matters.*
- *Determine the form of required content.* Once identified what to be disclosed, it should be decided how to reveal it.

At this point, what has to be disclosed and what data needs to be gathered is clear, it is crucial now to Assess systems and controls. Since a lot of the data needed to write the IR is already collected for the Sustainability Report it is possible to accommodate the process already in place to fulfil IR requirements. To do so, three steps are to be done:

- *Review stakeholder engagement mechanisms.* Once evaluated the value creation, erosion or preservation process, instruments with which Rifò interacts and has

[17] Materiality – Integrated Reporting website:
https://www.integratedreporting.org/resource/materiality-in-integrated-reporting/

feedback from stakeholders must be evaluated. Rifò should wonder whether those represent the best way to link and communicate with them.

- *Check information systems and internal controls.* The aim here is to safeguard the reliability and accuracy of information collected to be able to follow how the data is gathered and then transferred. In big firms the help from internal auditors is extremely useful, in Rifò since staff is limited this is just a check of integrity in internal instruments to transfer data.
- *Evaluate audit and assurance activities.* With respect to this, assurance companies are now progressing towards the audit of IRs as well. Before having the IR audited however, to ensure the preparedness of IR, the company could disclose who has been in charge overseeing the IR and which internal procedures and controls are in place in order to assure its goodness.

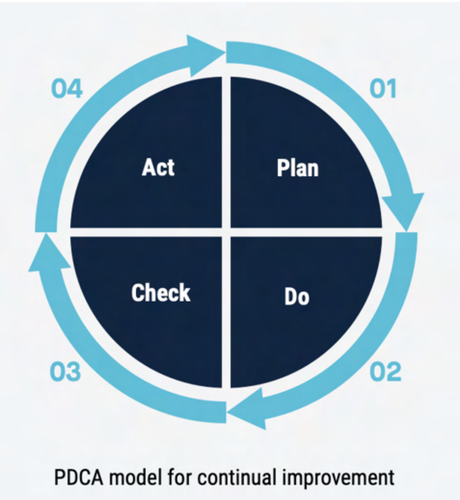
When content and control systems are in place it is time now to Prepare the report content. This is the outcome of the journey undertaken so far and it is the result of the work of the team that, with time, has embedded Integrated Reporting and Thinking in the organisation. To execute this final task the team should:

- *Draft contextual information.* This means, to write down in a disclosable format the data gathered, that have been considered as material and that are comprised in the reporting boundary. This can already be prepared during the year while the organisation is walking the IR journey and doing all the above mentioned steps. This comprises six of the eight Content Elements: Organisational overview and external environment, Governance, Business Model, Risks and Opportunities, Strategy and Resources allocation and Basis of preparation and presentation. This will result in a draft of the report.
- *Update preliminary report for year*-end results. The outcome of the previous step is a starting point to be then reviewed at year-end to ensure applicability and accuracy. It should be then completed with year-end results and the last two Content Elements: Performance and Outlook.
- *Refine content through systematic review.* This revision should look at how well Guiding Principles have been applied and how good they balance each other out.

Since the IR should by this last step be completed, the team should focus on Improving the process. As mentioned throughout this whole thesis, the IR is a journey. There is never an ending point and there is always room for improvement. From what the IR team has experienced it should, by this point, be able to have hints to improve information flows, boost efficiency and efficiently manage and anticipate problems. To benefit from this internal knowledge the company should then:

- *Design and implement a feedback mechanism.* This can be done by recording and act out promptly on issues that arise and by communicating whether information bottlenecks and critical dependencies are found.
- *Identify challenges and solutions.* To do so, the PDCA model can be used. This scheme can be found in Figure 15.

Figure 15: PDCA model (Plan-Do-Check-Act).



Source: Transition to Integrated Reporting – a guide to getting started. https://www.integratedreporting.org/wp-content/uploads/2022/08/Transition-to-integrated-reporting_A-Getting-Started-Guide.pdf

What is comprised in this phase is the Plan and Do actions. These comprise all the steps that have been explained so far, briefly namely: evaluate current reporting practices with respect to IR Framework, identify gaps and room for improvement, gather the necessary relevant data and structure it in an IR.

It could be useful every now and then to have people outside the team working on IR to join meetings to get their outside perception of the work carried out.

- *Monitor progress and embed successes.* This last stage is about Check and Act (see Figure 14). It is important to evaluate whether the result met expectations and whether there are actions to take in order to improve processes. It is highly likely that actions taken during the IR journey then become part of the every-day practice in the firm. It is important to remember what preparing the IR has taught so that those lessons can be taken into consideration when planning for the following year.

These steps are suggestions that should help Rifò in the writing process of the IR in case this type of report is considered relevant by the firm to spend time on. By upgrading their current Sustainability Report to an Integrated Report the company could step up their game. This means that since they currently do not have direct competitors and there is no one doing the same thing in Italy at present time they are not facing any big issue. However, they are still part of the fashion industry which is knowingly filled with giants. By being one step ahead of them in terms of reporting, they could increase their presence in the market and by being even more transparent, people might shift towards the circular fashion Rifò promotes.

5. CONCLUSIONS

Companies have been asked by the European Union with the NFRD Directive to be more transparent in what they do and how do they handle matters as sustainability. Enterprises have complied with the regulation, but everyone has been doing it their own way. This makes it quite hard for an individual to effectively compare the behaviour undertakings have in the market. The need for a scheme to follow has emerged, but efforts made so far by companies who have been writing Sustainability Reports have not been made for nothing.

The IIRC has published the Integrated Report years ago and it promotes the evaluation of a company as a living organisation in a society, not as a single box operating on its own. This peculiar view is the key to what we are lacking right now, everyone is doing their best, but only their own best with no regard for their own neighbour. In addition to this singular view, the Value Reporting Foundation has now released an updated Framework that could solve the issue of non-financial reporting scheme to be followed. It would be the key answer to the lack in regulation right now since it is both adaptable/flexible and methodical at the same time.

As we have seen in the previous chapters, by taking as an example Rifò S.r.l. we have been able to seen how, such a small start-up is already partially complying and evolving towards the Integrated Reporting journey without even being aware of it. Since Rifò has been founded with the idea that it is a company living in a society and not operating on its own, basis for Integrated Thinking are already there.

This thesis has wanted to analyse where Rifò currently is and where it could go, which steps would the business need to follow in order to step up and write an Integrated Report. If it would do so, it could then be compared with other giants, Benetton Group for example, knowingly active in the fashion industry and writer of Integrated Reports.

Since the Integrated Report is not as hard to read as Financial Statements are, also people with no relevant background in the financial/accounting world could be able to understand it. In the long run this could be the key to solve some important issues.

The fashion industry is at present one of the most pollutant in the world, most of garments present right now on Earth are not recyclable. Sometimes just 1% of synthetic fibres determines that the piece of clothing cannot be given a new life. If companies would be more transparent in the types of fibres and design they use, consumers could start directing their purchases in a different direction and this is possible only if information disclosed is more transparent and comparable.

More than 70% of the garments we have in our wardrobes cannot be recycled, most of them come from the fast fashion industry, and will highly likely end its life in an incinerator or open-air landfills. They have been designed with a linear life cycle, not with a circular one. To put an end to this, consumers could start with responsible purchasing practices. It is not as hard as it might seem, the only thing that we need to look at is the label of the piece of clothing we are intending to buy.

First suggestion that can be given is to buy in second hand shops or stores that have a valid sustainability ethic. Another tip that can be given is to look at the label of a garment before buying it (regardless of the shop we are in), this contains information on what we are about to buy. We can see where the product has been made and prefer clothes that have been made in close countries such as Portugal, Spain, Morocco and we should avoid Bangladesh, India and China. This will lower the footprint because of less transportation CO_2 emissions.

Secondly, we could choose garments made with natural fibres such as cotton, wool, linen, silk or cashmere. Thirdly, clothes dyed with natural colours or non-re-dyed are preferrable.

To ease the recycling process garments made of pure composition are easier to recycle (100% cotton, 100% wool, 100% cashmere, and so on). There is a tolerance depending on the fibre we are dealing with, for example 80% wool and 20% acrylic would be acceptable but a yarn made entirely with these materials will have a lower quality. Also, clothes that contain elastane are hard to recycle. This fibre that is usually used to give elasticity to the products.

What is hard to recycle are garments that are composed by three or more textiles, these are produced knowingly that they will become waste, there is no recycling option. Also items that have gone through special processes and that contain details that are made with different materials from the main piece are usually discarded because it would require too much time and effort to separate the decorations.

This thesis gave an overall reflection on how important it is to disclose matters related with sustainability and how important it is that these are comparable. In order to make the comparison possible, companies need to be structured in a similar way in order to deliver a common product. It is not possible to write a universal journey because each and every company has its own peculiarities, what can be given is a baseline to then adapt it to the needs of other enterprises.

REFERENCES

Websites:

Chapter 1:

https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/corporate-sustainability-reporting_en

https://home.kpmg/ie/en/home/insights/2021/04/corporate-sustainability-reporting-directive-csrd.html

Chapter 2:

- Value Reporting Foundation

https://www.valuereportingfoundation.org/about/

https://www.integratedreporting.org/news/iirc-and-sasb-form-the-value-reporting-foundation-providing-comprehensive-suite-of-tools-to-assess-manage-and-communicate-value/

https://www.valuereportingfoundation.org/#

https://assets.kpmg/content/dam/kpmg/pdf/2013/04/the-south-african-story.pdf

https://www.b3.com.br/en_us/news/report-or-explain-8AA8D0CC6545779601656B344D9A65FD.htm

- Integrated Thinking

https://www.integratedreporting.org/integrated-thinking/

Integrated Thinking Principles, Support Holistic Decision-Making – Prototype 2021

- SASB

https://www.sasb.org/about/

https://www.sasb.org/standards/

https://www.sasb.org/wp-content/uploads/2018/11/Apparel_Accessories_Footwear_Standard_2022.pdf

- Integrated Reporting Framework

https://www.integratedreporting.org/10-years/10-years-summary/

https://us.aicpa.org/interestareas/businessindustryandgovernment/resources/sustainability/integratedreporting#:~:text=The%20IIRC%20was%20formed%20in,the%20International%20Federation%20of%20Accountants.

https://www.integratedreporting.org/wp-content/uploads/2021/03/Framework-comparison-2013-to-2021.pdf

https://www.integratedreporting.org/wp-content/uploads/2021/01/InternationalIntegratedReportingFramework.pdf

Chapter 3:

https://scholar.google.com/intl/it/scholar/about.html#:~:text=Google%20Scholar%20provides%20a%20simple,universities%20and%20other%20web%20sites.

- MDPI

https://www.mdpi.com/search?advanced=(@(title)sustainability%20report@(title)integrated%20report)

- SAGE Publications

https://journals.sagepub.com/action/doSearch?content=articlesChapters&countTerms=true&target=default&field1=Title&text1=sustainability+report&field2=Title&text2=integrated+report&field3=AllField&text3=from+sustainability+report+to+integrated+report&Ppub=&Ppub=&AfterYear=2013&BeforeYear=2022&earlycite=on&access=

- Scopus

https://www.scopus.com/results/results.uri?sort=plf-f&src=s&st1=from+sustainability+report+to+integrated+report&nlo=&nlr=&nls=&sid=4cb90e772ed93796980457edbdee3c62&sot=b&sdt=cl&cluster=scosubjabbr%2c%22BUSI%22%2ct%2bscoexactkeywords%2c%22Integrated+Reporting%22%2ct%2c%22Sustainability+Report%22%2ct%2bscopubyr%2c%222012%22%2cf&sl=62&s=TITLE-ABS-KEY%28from+sustainability+report+to+integrated+report%29&origin=resultslist&zone=leftSideBar&editSaveSearch=&txGid=35d93ddb6430e75d171c829d6a69fabe

Chapter 4:

- Rifò S.r.l.

https://rifo-lab.com/en/pages/chi-siamo

Sustainability Report 2021:

https://issuu.com/rifolab/docs/sustainability_report_2022_4792f0ad330271

https://www.societabenefit.net/b-corp-e-societa-benefit-tabella-comparativa/

https://rifo-lab.com/pages/team

- Patagonia

https://eu.patagonia.com/it/it/company-history/

https://www.patagonia.jp/on/demandware.static/-/Library-Sites-PatagoniaShared/default/dw751661cb/PDF-US/PAT_2020_BCorp_Report-0503%20-%20FINAL.pdf

https://documentsn.com/document/b235b_benefit-corporation-report-patagonia-com.html

https://www.patagoniaworks.com/press/2022/9/14/patagonias-next-chapter-earth-is-now-our-only-shareholder

- Marks & Spencer

https://examples.integratedreporting.org/featured-practices/?app_region=&app_industry=11&app_year=&app_principle=&app_fundamental=&app_content=

https://examples.integratedreporting.org/about/

https://examples.integratedreporting.org/fragments/governance-29/

https://examples.integratedreporting.org/fragments/business-model-92/

https://www.annualreports.com/HostedData/AnnualReportArchive/m/OTC_MAKSF_2017.pdf

- Integrated Reporting

https://www.integratedreporting.org/wp-content/uploads/2022/08/Transition-to-integrated-reporting_A-Getting-Started-Guide.pdf

https://www.integratedreporting.org/resource/materiality-in-integrated-reporting/

Conclusions:

https://www.benettongroup.com/en/integrated-report/

https://www.youtube.com/watch?v=44fg6_G_PtQ

Bibliography:

Chapter 2:

- Integrated Thinking

  Integrated Thinking Principles, Support Holistic Decision-Making – Prototype 2021

Chapter 3:

Filippo Vitolla, Nicola Raimo, Michele Rubino (2019). Appreciations, criticisms, determinants, and effects of integrated reporting: A systematic literature review. *Corporate Social Responsible Environmental Management 26, 518-528.*

Sara Giovanna Mauro, Lino Cinquini, Elena Simonini and Andrea Tenucci (2020). Moving from Social and Sustainability Reporting to Integrated Reporting: Exploring the Potential of Italian Public-Funded Universities'. *Sustainability, 12(8), 3172.*

Argento, D., Culasso, F., & Truant, E. (2019). From sustainability to integrated reporting: The legitimizing role of the CSR manager. Organization & Environment, 32(4), 484-507.

Zappettini, F., & Unerman, J. (2016). 'Mixing'and 'Bending': The recontextualisation of discourses of sustainability in integrated reporting. Discourse & Communication, 10(5), 521-542.

Salaheldin Hamad, Muhammad Umar Draz, Fong-Woon Lai (2020). The Impact of Corporate Governance and Sustainability Reporting on Integrated Reporting: A Conceptual Framework. *SAGE Open, vol. 10, 2.*

Girella L., Zambon S., Rossi P. (2022). Board characteristics and the choice between sustainability and integrated reporting: a European analysis. *Meditari Accountancy Research 30 (3), 562-596.*

Camodeca R., Almici A. (2017). From the corporate social responsibility reporting to the integrated reporting: the case of Sabaf S.p.a. *Problems and Perspectives in Management 15 (1), 150-157.*

Del Baldo M. (2017). The implementation of integrating reporting <IR> in SMEs - Insights from a pioneering experience in Italy. *Meditari Accountancy Research 25 (4), 505-532.*

Mio C., Fasan M. (2014). Beyond Financial Reporting: A Journey from Sustainability towards Integrated Reporting. *Journal of Environmental Accounting and Management 2 (3), 1-14.*

Janine Maniora (2017). Is Integrated Reporting really the Superior Mechanism for the Integration of Ethics into the Core Business Model? An empirical analysis. *Journal of Business Ethics 140, 755-786.*

Mark Anthony Camilleri (2018). Theoretical insights on integrated reporting – the inclusion of non-financial capitals in corporate disclosures. *Corporate Communications: An International Journal 23 (4), 567-581.*

Mitali Panchal Arora, Sumit Lodhia and Gerard William Stone (2022). Preparers' perceptions of integrated reporting: a global study of integrated reporting adopters. *Accounting & Finance 62, 1381-1420.*

Jannik Gerwanski (2020). Does it pay off? Integrated reporting and cost of debt: European evidence. *Corporate Social Responsible Environmental Management 27, 2299-2319.*

Events and interviews:

Chapter 4:

- Rifò S.r.l.

  Textile Tour, 18th June 2022 – Visit to Rifò, Azienda Nuova Fratelli Boretti, Filatura Filippucci and Prato Textile Museum.

  Niccolò Cipriani, Rifò founder, interviewed on 18th June 2022 by Chiara Bedin in Prato, Italy.

Conclusions:

Daniele Ceni, Product Developer at Rifò S.r.l., interviewed by Chiara Bedin on 1st September 2022 via videocall.