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Non-financial Disclosure and Integrated Reporting

Theoretical Framework and Empirical Evidence



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Part VI
The Role of CFOs and Controllers in the Non-financial Reporting

Non-financial Disclosure and Materiality: Exploring the Role of CFOs



Maurizio Cisi, Mara Del Baldo, Alessandro Marelli, Federica Ricci, and Vincenzo Scafarto

1 Introduction

In the last few decades, the growing attention to corporate sustainability along the three pillars of environmental, social, and economic sustainability (Lee & Yeo, 2016) has brought non-financial disclosure (NFD) into widespread use. There are several frameworks and standards that inform corporate NFD such as those issued by the Global Reporting Initiatives (GRI, 2013, 2016), AccountAbility (2006), and the

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International Integrated Reporting Council (IIRC, 2021) by establishing a set of guiding principles, which include the materiality principle.

Materiality is a multifaceted concept which originates from the field of financial accounting and auditing and generally refers to the need to provide relevant information to users of corporate reporting (Bernstein, 1967). It serves both as a guiding principle for identifying information that is of relevance for the users of corporate reports (e.g., minimum of required information) and a limitation to the amount and detail of information presented in order to avoid information overload (Baumüller & Schaffhauser-Linzatti, 2018).

Presently, nonfinancial disclosures (should) also heavily rely on judgments about materiality. Torelli et al. (2020) argue that materiality is the driver through which companies can select issues to be included in sustainability and integrated reports with an aim to address the needs and expectations of all stakeholders. However, in the realm of non-financial information, the application of the materiality principle is even more challenging than in financial settings (Guthrie & Parker, 1990). As Mio (2013) argues, non-financial information seeks to capture a broader concept of value creation and is not always quantifiable, and even if the impact of a nonfinancial issue might be quantified, it is not possible to establish a unique "threshold" because it may affect more than one form of capital (e.g., financial and non-financial). Additionally, NFD is per se intended to address a broader array of stakeholders who may have heterogeneous information needs, which makes it more difficult for companies to determine which non-financial issues deserve disclosure. Standard setters and accounting professionals have in fact highlighted the challenges associated with implementing materiality in non-financial information (IIRC, 2021; CDP et al., 2016). These include aligning the materiality determination process with regulatory frameworks and providing a balanced view of the issues that appear to be material to the company on the one hand and to external stakeholders on the other. Also, differently from financial information, NFD does not involve reporting misstatements but requires selecting the issues that have the strongest sustainability impacts. As a result, the relative importance attached to nonfinancial issues may vary even substantially between individual firms and industry sectors (Eccles et al., 2012) as well as between different frameworks and standards for materiality assessment (Edgley et al., 2015). This suggests the need to study the materiality assessment process in the organizational contexts in which it occurs.

Over the recent decades, a host of research studies have emerged that analyze the issues associated with non-financial information disclosure in general and with the application of the materiality principle in particular. Research has also sought to establish the business case for nonfinancial information disclosure. Several works suggest that capital market participants react positively to non-financial information disclosure (e.g., Barth et al., 2017; Knauer & Serafeim, 2014; Zhou et al., 2017). Furthermore, a study by Ernst & Young (2017) finds that 68% of investors consider nonfinancial information as important in their decision-making. However, other studies reveal that non-financial information disclosure is costly and may even negatively affect firm value (e.g., Lee & Yeo, 2016).

The empirical research specifically devoted to the application of the materiality principle in non-financial information disclosure has focused on analyzing the extent to which companies disclose material nonfinancial information (e.g., Jones et al., 2016), the internal and external factors that influence the quantity and quality of material nonfinancial information (e.g., Fasan & Mio, 2017; Torelli et al., 2020), and whether the application of different reporting frameworks leads to prioritizing different material topics (e.g., Mio et al., 2020).

There is instead a shortage of qualitative studies that investigate how the principle of nonfinancial materiality gets defined and implemented in practice. A few studies investigate the materiality determination process in IR contexts (Stubbs & Higgins, 2014; Lai et al., 2017) by focusing on who is involved in defining materiality and who are the primary intended recipients of NFD, while Farooq and de Villiers (2019) and Sentuti et al. (2020) examine how the materiality process is carried out in sustainability reporting settings.

In an attempt to fill this research gap, this chapter explores, through a case analysis of two Italian listed companies issuing sustainability reports, how the materiality determination process takes place by engaging the organizational actors involved in this process with a particular focus on the role of the CFO/controller. Given the exploratory nature of this research, semi-structured interviews have been used to explore the activities and the steps characterizing the materiality process of NFD. The key research questions driving this investigation are the following: (RQ1) Who participates and, in particular, which is the role of the CFO/controller in the materiality determination process underpinning non-financial information disclosure? (RQ2) Whose information needs are primarily addressed when determining what is material or not?

Italian listed companies provide an interesting setting for our research purposes because in Italy from the 2017 financial year onward the legislative Decree no. 254/2016 (enacting the European directive 2014/95/EU) requires "public interest companies" (PICs) to integrate statutory financial statements with a disclosure of environmental, social, and governance strategies. Thus, non-financial reporting has moved from a voluntary to a mandatory perspective, and Italian PICs now have to determine what information is material regarding the issues indicated in the decree.

The remainder of this chapter is divided into the following sections: Sect. 2 presents a literature review; Sect. 3 describes two case studies, the first case study is Iren, an Italian listed company which operates in the energy sector, and the second case study is Biesse Group, an Italian listed company leading in the field of wood and glass processing. Finally, Sect. 4 outlines conclusions, the research limitations, and suggestions for future research.

2 Materiality in Non-financial Information Disclosure

Materiality has long been regarded as a fundamental concept underlying the production of financial reports and accounts (Edgley, 2014; Messier et al., 2005; Calabrese et al., 2015). In the realm of financial reporting, materiality represents a guideline to assist practitioners in determining whether an item should be included or not in financial reports based on its relative importance. The principle is also intended to guide audit practices which must filter and guarantee information in a manner that ensures true, fair, and useful representation of the company's financial situation, in support of capital protection, risk management, and decision-making (Edgley, 2014). The International Accounting Standard Board (IASB) defines an information as material if "omitting or misstating it could influence decisions that users make on the basis of financial information about a specific reporting entity. In other words, materiality is an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual entity's financial report." To further clarify the practical relevance of the materiality principle, the IASB states that the "disclosure of immaterial information can impair the understandability of material information that is also disclosed." This makes it explicit that an effective implementation of the materiality principle reduces the scope for information overload.

The concept of materiality has been adopted in the field of non-financial information relatively recently, in response to a growing demand for reliable and useful information on how companies address the societal call for sustainable business conduct (Hahn & Kühnen, 2013). Similar to the definition of materiality in financial reporting, the available definitions of non-financial materiality focus on whether an information item affects the decision-making process of its recipients. For instance, in the context of sustainability reporting, the Global Reporting Initiatives guidelines (GRI, 2016) refer to the following notion of materiality: "Relevant topics (. . .) are those that can reasonably considered important for reflecting the organization's economic, environmental, and social impacts, or influencing the decisions of stakeholders." The usefulness of non-financial information represents one major concern because, due to the heterogeneity of information available and possibly of relevance for the recipients of non-financial disclosures, the scope for information overload is greater than in financial ones, which cover a much narrower range of issues and impacts (Baumüller & Schaffhauser-Linzatti, 2018). Additionally, the concern exists that companies use NFD to rhetorically project an image of sustainability that differs from their actual behavior (Unerman & Zappettini, 2014), which is often referred to as "greenwashing."

As compared to financial information, determining the materiality of non-financial information is inherently more challenging because the impact of a non-financial issue cannot be assessed by quantitative criteria as for financial materiality. As Mio et al. (2020) point out, differently from financial reporting, objects represented by non-financial disclosures cannot be "priced" in an efficient market, which makes it complex to quantitatively assess how it is worth a death in

the workplace or the damage of firm reputation. Furthermore, the potential users of non-financial information are more heterogeneous and may have different expectations regarding NFD (Fasan & Mio, 2017; Mio et al., 2020); consequently companies strive to determine what information deserves to be disclosed.

Differently from financial information, the non-financial information that is considered "material" for disclosure may vary even substantially between reporting companies depending on the industry sector, the strategy, and the business model. This is because non-financial information does not involve reporting misstatements (i.e., errors, omissions) as in financial reporting contexts but rather selecting the issues that have the strongest impacts on corporate sustainability (CDP et al., 2016). As such, the materiality determination process tends to be highly firm-specific because it will ultimately reflect the (subjective) judgment of the organizational actors involved in the social construction of materiality (Eccles & Youmans, 2016). This is why scholars are calling for more qualitative research which analyzes the process through which practitioners collectively come to make and implement this judgment (Stubbs & Higgins, 2014; Lai et al., 2017).

Finally, non-financial materiality may vary between companies following different NFD frameworks, because some frameworks such as the integrated reporting (IR) framework tend to prioritize the information needs of capital providers focusing on non-financial issues which have financial consequences, while others such as the Global Reporting Initiative (GRI) are more stakeholder oriented (Mio et al., 2020).

2.1 Non-financial Materiality in the International NFD Frameworks

As non-financial information disclosure (NFD) has become widespread in the past few decades, several NFD frameworks and standards have been developed to guide companies in determining whether a particular impact or outcome is sufficiently material, against the overall operations and impacts of the reporting organization, to be disclosed (Unerman & Zappettini, 2014). Although an overall discussion of the existing NFD frameworks goes beyond the scope of this chapter, it is worth outlining at least two major frameworks and their approach to materiality determination, namely, the Global Reporting Initiative (GRI) and the International Integrated Reporting Council (IIRC) frameworks.

The GRI and IIRC both provide guidance for the materiality determination but with different scope and audience.

The GRI guidelines essentially provide guidance for the production of sustainability reports (SR) and define material topics as those reflecting "the organization's significant economic, environmental and social impacts; or that substantively influence the assessment and decisions of stakeholders." Diversely, the IIRC defines material topics as those that "substantively affect the organization's ability to create value in the short, medium and long term" (IIRC, 2021, p. 29). GRI guidelines put

the materiality principle at the very heart of SR by recommending the provision of information on matters that are critical to the achievement of sustainability goals especially for their impact on the environment and society.

The GRI has detailed the process of materiality determination in GRI G4 version of its guidelines, which have then been updated and incorporated in the current GRI standards (2016). This process revolves around a materiality analysis implying that material topics should be ranked from less to more important and on the identification of those topics which have a higher priority from a stakeholder perspective. As such, SR is intended as a pivotal tool for communicating with stakeholders about how companies are performing against strategic environmental and social goals (Jones et al., 2016).

Since it requires making judgments on a number of matters in relative terms, materiality in SR is regarded as a process involving selection, inclusion, and (critically) exclusion of information (Unerman & Zappettini, 2014). Specifically, GRI describes a process including four steps that SR preparers should follow in order to comply with the materiality principle, namely, "identification," "prioritization," "validation," and "review." Identification of material topics involves recognizing and listing the actions that may impact on the company's environmental social and economic performance. Prioritization involves ranking the identified topics based on their significance from an internal and external perspective. This crucially relies on a company's ability to identify the interests of different stakeholder groups because only if the information needs of each group is captured, companies could provide material information to their heterogeneous audience. Validation involves the approval of the topics identified as material on behalf of internal senior decision-makers and ideally by external stakeholders. Finally, the review step is carried out after the integrated report (IR) has been published as a basis for the next reporting period. It involves gathering feedback from stakeholders with an aim to understand whether the SR disclosed actual material information and provided a balanced picture of corporate sustainability performance. The process should result in a materiality matrix which depicts how material topics rank across two dimensions, namely, their influence on stakeholder assessments and decisions and the significance of a company's social, environmental, and economic impacts. The materiality matrix thus showcases the relative importance of different material topics and how they are ranked against each other (see Puroila & Mäkelä, 2019).

The IR materiality determination process has been originally outlined by the IIRC in 2013 in its background paper for IR about materiality (IIRC, 2013) and has been incorporated in the current IR framework (IIRC, 2021) released in January 2021. Under the IR framework, companies are encouraged to disclose information about their strategy, governance, performance, and prospects in a manner that reflects the commercial, social, and environmental context within which the company operates (Green & Cheng, 2019). Veltri and Silvestri (2020) argue that the IR represents the current frontier of corporate reporting with an aim to overcome the limits of traditional corporate reporting and provide stakeholders with a concise and complete information on the prospective capability of a firm to create value. The term

integrated report (IR) itself makes explicit the intended outcome to provide a reporting model that combines financial and non-financial information into a single report.

According to the IR framework, the materiality determination process should be mainly driven by strategic concerns and as such requires the involvement of the senior management and the bodies charged with governance. Departing from the GRI framework, the IIRC (2021) specifies that the information to be disclosed in IR needs to be material (primarily) to the providers of finance capital. This simplifies to a great extent the whole materiality determination process. The IR framework then outlines four steps that companies ought to follow in their materiality determination process (IIRC, 2021, p. 29): first, identifying material matters, based on their ability to affect the company's value creation potential; second, evaluating the relative importance of material matters, which involves considerations regarding the magnitude and probability of the matter; third, prioritizing the material topics based on their relative importance; and fourth, determining the information to disclose about material matters, which requires the exercise of judgment and a regular engagement with providers of financial capital and other stakeholders to ensure that the IR meets its primary purposes.

Differently from the GRI framework, the IR framework not requires companies to provide a materiality matrix, essentially because plotting material topics according to their importance to the organization and importance to stakeholders would be inconsistent with the IR notion of materiality, which revolves around value creation over time mainly from the perspective of capital market participants.

Materiality is also one of the fundamental principles of the nonfinancial information regime introduced by the European directive 2014/95/EU (also known as the non-financial reporting directive (NFRD) as an amendment to the accounting directive 2013/34/EU). Art. 19a, as introduced by the NFRD, talks of "information (. . .) necessary for an understanding of the undertaking's development, performance, position and impact of its activity, relating to as a minimum, environmental, social and employee matters, respect for human rights, anticorruption and bribery matters (. . . .)." According to Baumüller and Schaffhauser-Linzatti (2018) who have analyzed the various aspects of non-financial materiality covered by the NFRD, the provisions of art. 19a consider as material, for NFD purposes, only information that aligns the financial perspective on the company with its impact from the stakeholders' perspective, such that information that refers to certain impacts but is of no financial relevance is not covered by the reporting obligations. Thus, the NFRD establishes a regime for assessing materiality that borrows from the SR framework the notion of a company's impact on a broad range of stakeholders but with a much narrower focus because, similar to the idea of materiality in the IR context, more prominence is given to the perspective of financial capital providers (e.g., Baumüller & Schaffhauser-Linzatti, 2018).

Although the NFD frameworks referred to above differ in the underlying notion of materiality, they all consider the determination of materiality to be a complex multistep process that requires the exercise of subjective judgment and cannot be addressed by simple checklist-based approaches. This raises the question of how

materiality judgments are made in practice, which leads to focusing on the organizational process by which the actors involved in the production of nonfinancial information collectively come to share and implement these judgments (Lai et al., 2017).

2.2 *Prior Research on Non-financial Materiality*

Most of the existing research on non-financial materiality has focused on the internal and external determinants of materiality disclosure, typically relying on content analyses of company reports and formal documents rather than engaging directly with companies. Overall these studies indicate that: industry play a key role in the decisions regarding the type, the quantity, and the quality of materiality disclosure (Mio, 2013; Fasan & Mio, 2017), arguably because of the different pressures from regulators, public opinion, and stakeholders in general; that firm-level characteristics such as board size and gender diversity may affect materiality disclosure (Fasan & Mio, 2017; Gerwanski et al., 2019); and that the quality of materiality disclosure may increase over time due to some kind of learning effect (Pistoni et al., 2018; Gerwanski et al., 2019). Additionally, studies show that stakeholder engagement in the materiality determination process is fundamental to achieve a high level of materiality in NFD and good report quality for stakeholders (Torelli et al., 2020).

Studies also show that non-financial materiality differs between companies following different NFD frameworks. Based on a case study analysis of a global assurance company which was an early sustainability reporter and later a pioneer in the implementation of the IR framework, Mio et al. (2020) show that the material topics identified according to the sustainability reporting (GRI) approach to materiality are significantly different from the material topics identified according to the IR materiality approach. Specifically, the case analysis suggests that the IR approach to materiality is mainly driven by a market logic and prioritizes the information needs of the providers of financial capital (the main addresses of IR) focusing on the financial effects of non-financial (e.g., environmental and social) issues, whereas the GRI approach to materiality is more stakeholder oriented and as such is more affected by the stakeholder engagement process.

Researchers also point out that non-financial materiality is an ambiguous concept because the potential users of non-financial information are more heterogeneous than in financial reporting, and therefore different user groups may have different expectations with regard to NFD. Reimsbach et al. (2020) investigate in an experimental setting the perception of non-financial materiality between two different stakeholder groups (capital market participants and potential employees). They find that potential employees perceive non-financial information such as energy consumption and biodiversity as generally more material than capital market participants. The authors conclude that non-financial materiality is stakeholder-dependent and lies in the eye of the "beholder" (e.g., the potential users of NFD) and call for more research that analyzes non-financial materiality from a user perspective. Indeed, to date, only a

handful of studies exist that take a user perspective (e.g., Deegan & Rankin, 1997; O'Dwyer et al., 2005). For instance, Moroney and Trotman (2016) analyze materiality from the perspective of assurors and report a different understanding of materiality by assurors confronted with financial versus non-financial information, while Edgley et al. (2015) reveal a different understanding of materiality between accounting and non-accounting assurors.

However, to date, there appears to be a dearth of qualitative research analyzing the process by which non-financial materiality gets defined and implemented in practice by engaging the organizational actors involved in this process. One notable exception is the study by Lai et al. (2017), which, based on a case analysis of a global assurance company that was an "IR pioneer," explores the meaning that practitioners attach to the principle of materiality by focusing on who participates in determining IR materiality and to whom the IR is addressed. This analysis relies on in-depth interviews with the organizational actors charged with the task of drafting the report (named the Group Integrated Reporting & CFO Hub) and other key informants involved in determining and approving its contents. The findings reveal that, in the case company, the IR materiality content is determined on the basis of the strategic priorities set (at corporate level) by the top management, such that any information that reveals the corporate strategy is considered material and deserves to be included in the IR. As such, the IR is primarily conceived as a tool for communicating the strategy to capital providers. The research also uncovers the role of the CFO in the materiality assessment process indicating that the IR preparers report directly to him asking for feedback on the contents of the report and refine it accordingly (Lai et al., 2017). Prior research focused on companies that were early adopters of IR in Australia indicates that these companies also based their materiality process on strategic issues, with some using cross-functional teams—including representatives from the finance, strategy, and sustainability areas—to drive the reporting process and align it with the business strategy (Stubbs & Higgins, 2014). Although exploratory in nature, this early work suggests, consistently with Lai et al. (2017), that when the reporting process is focused on the business strategy and on how organizations create value, the finance and strategy people may play a more prominent role in determining and disclosing material non-financial information (Stubbs & Higgins, 2014).

Farooq and de Villiers (2019) have explored how sustainability reporting managers (SRMs) institutionalize sustainability reporting practices (including how they undertake materiality assessment) based on in-depth interviews with SRMs in Australia and New Zealand. This study reveals huge variations in the approach to materiality in SR identifying four phases through which companies may transition, each reflecting a different approach to materiality. In phase one, materiality assessments are informal with SMRs relying on secondary data and management insights to identify external stakeholders and their concerns. In phase two a more formal assessment process with greater stakeholder engagement is undertaken (e.g., materiality assessment meetings or workshops, stakeholder surveys, and social media forum). In phase three the materiality assessment activities and the stakeholder engagement process become routinized (occurs more frequently) and in a more

formal manner. Finally phase four involves introducing sustainability KPIs and materiality assessment reports in integration with risk assessment and strategy development to support planning and decision-making (Farooq & de Villiers, 2019).

Recently, Sentuti et al. (2020) have examined the organizational process underpinning non-financial disclosure (including materiality assessment) through a case study of an Italian listed group operating in the manufacturing sector. In this instance, the responsibility for coordinating the NFD process was assigned to the internal audit area, and it was carried out in strict collaboration with the marketing and communication department. The materiality assessment process required the involvement of various corporate departments in order to identify the most material topics for the group and its stakeholders and resulted in a materiality matrix that drove the collection of data and information. The internal audit team previously shared the methodology used for NFD with the various corporate departments, including the finance area, so as to ensure a common vision regarding the method and the reasons for carrying out NFD. The whole procedure for materiality analysis was approved by the Control and Risk Committee which also examined the final draft of the non-financial statement (NFS) before sending it to the Board of Directors for approval. This case analysis identifies some major problem areas in the materiality assessment process which include the identification of the relevant stakeholders for NFD, the gathering of information from the various corporate departments (due to the difficulty to find a common language), and the need to support all the material topics by documentary evidence.

To the best of our knowledge, these latter studies are among the few ones that explore how the materiality assessment process is undertaken by engaging the organizational actors involved in this process. In an attempt to fill this research gap, the present chapter, based on a case analysis of two Italian listed companies, investigates how the materiality determination process takes place in SR contexts, with a particular focus on the role of the CFO/controller and on the intended addressees of NFD.

3 Research Methodology

According to the research questions driving the investigation, the following sections are devoted to present and discuss the main findings derived from an in-depth case analysis focused on two Italian companies, namely, Biesse Group S.p.A. and Iren, both listed on the Milan Stock Exchange and having in common to fall within the characteristics of mandatory non-financial disclosure. The adoption of an interpretative perspective and the choice of a qualitative research approach rest on its consistency to explore evidences that are not objectively observable, thus requiring direct interaction with the actors' perceptions to investigate how the materiality determination process takes place and the role of the CFO/controller. In this vein, both the description of the premises at the base of the selected methodological approach and the tools adopted to collect data (semi-structured interviews and

triangulation with secondary sources, i.e., public and internal reports) have been pointed out in the previous chapter (In Sect. 3 of Chap. 25—Research Methodology) to which one can refer for any additional information.

3.1 Case Study 1: Biesse Group S.p.A.[1]

The purpose of this case analysis is to provide evidence of the role and the steps carried out by the team involved in releasing the non-financial statement and managing the materiality process in Biesse Group S.p.A. Additionally, the case highlights the pivotal role played by the internal audit (IA) function and the complementary role of the chief financial officers (CFOs) in setting up the direction of change and promoting new procedures concerning the preparation of the sustainability report, and the stakeholder engagement activities, that prompted the company to shift from a reactive to a more proactive response toward pressures for non-financial disclosure integrating corporate sustainability in the managerial decision-making process.

Data were collected in 2020 through semi-structured interviews addressed to key informant NFS (non-financial statement) preparers (Chief Executive Auditor, Compliance Specialist, independent board members belonging to the Control and Risk Committee, and the Group CFO). Primary sources were complemented by information gathered from secondary data (consolidated financial statement, annual report, sustainability reports (2017–2020), 3-Year Industrial plan (2020–2022), corporate journal, company website, and press releases) to provide an effective triangulation (Biesse Group, 2020a, 2020b, 2020c).

3.1.1 Company Overview

Biesse Group S.p.A. (Biesse) is a global leader in technology for processing wood, glass, stone, plastic, and metal. Headquartered in Pesaro (central-west Italy), it operates through 4 business units, 11 manufacturing facilities (10 in Italy and 1 in India), 39 branches around the world, and more than 300 selected distributors. With over 67,000 clients—that include prestigious Italian and international brands—it exports about 85% of sales. The Biesse has approximately 4000 employees around the world while keeping a family-based ownership structure: 51% of ordinary share capital (that amounts to € 27,393,042) owned by the Selci's family (through Bi.Fin. Srl) and 49% free float/other shareholders.

[1]The author would like to express special thanks to Dr. Domenico Ciccopiedi and Dr. Desiré Colanzi (internal audit), the Group CFO, and the members of the Board of Directors of Biesse Group for their support and collaboration during the research.

Biesse has been listed on the STAR segment of the Italian Stock Exchange since June 2001 and is currently included in the FTSE IT Small Cap index. At the end of December 2019, the Biesse had 706 million of total revenue, EBITDA (before non-recurring costs) of € 76,732, and EBIT (before non-recurring items) of € 39,554. Being a multinational with a strong Italian identity, it plays a pivotal role in the socioeconomic context in which it is embedded and in the local community where it was set up in 1969 by Giancarlo Selci.

Pursuant to the Consolidated Law on Finance, Biesse has adopted a traditional administration and control model which requires shareholders meeting, board of directors, board of statutory auditors, and independent auditors (Deloitte & Touche S.p.A). The central body of the governance system is the Board of Directors formed by eight members, including the Chairman (Giancarlo Selci, the founder), five executive directors, and three independent non-executive directors. In accordance with the corporate governance code, the group has adopted an internal control and risk management system, according to the CoSO Report (Internal Control Integrated Framework).

3.1.2 The Implementation of the DNF and the Sustainability Reporting Journey in Biesse

Before the Legislative Decree 254/2016, Biesse never felt the need to disclose non-financial information because both the sector and its (B2B) market are characterized by a low critical environmental impact. The implementation of the non-financial statement (NFS) was initially driven by the legislation (coercive pressures). However, when the transposition of the Directive (2014/95/EU) came into force, instead of making a minimum effort to be compliant (e.g., by including ESG information in the management report), the Board triggered a challenging project due to the sensitivity toward stakeholders (Page & Spira, 2016), previously pursued through a CSR "walk-the-talk" approach (Wickert et al., 2016; Schoeneborn et al., 2020) and the shared values underpinning the business model: innovation, reliability, and respect (Biesse Group Sustainability Report, 2019, p. 21):

"Starting from the mandatory requirements we have taken the opportunity to do more. We started an internal and external process of reflection on the topics of sustainability guaranteeing transparency towards all stakeholders (. . .). In this way, the first sustainability report was born." (Biesse Group President and CEO, drawn from Biesse Sustainability Report, 2017, p. 4)

The sustainability report—pertaining to the Group consisting of Biesse S.p.A. and its fully consolidated subsidiaries—is published annually. It is reviewed and assessed by the control and risks committee and approved by the Board.

Moreover, "Deloitte & Touche Spa has submitted our sustainability report to limited assurance engagement according to the criteria indicated by the ISAE 3000 Revised principle" (Group CFO).

As an independent board member affirms, the implementation of the sustainability reporting process "allowed us to define a new sustainability journey," leading the

foundation for project planning and improvement in the areas of sustainability risks, environment, personnel and social related issues, human rights, supply chain, and fight against active and passive corruption.

Whereas Biesse mainly conformed to the law in the first year, it matured the idea of the sustainability report as a tool to acquire eligible external tangible and intangible resources (financial resources, talents, and reputation).

"The importance of sustainability aspects is going to grow as investors are more and more interested. We used to present our annual report and discuss financial data with investors, but now, we can arrange ad hoc meetings with Social Responsible Investment funds" (Chief Audit Executive).

Before releasing the sustainability report, Biesse "was already excellent in communicating financial data and business performance, alongside a description of technical projects, development policies and investments in technology" (Group CFO). The Investor Relations and Financial Manager is responsible for financial communication that plays an essential role in the value creation process for the Group. Biesse has always actively worked to establish continuous dialogue with institutional investors, shareholders, and the markets, ensuring a systematic and timely disclosure addressed to the national and international financial community through press releases, meetings and periodic updates of the company's website (financial statements, quarterly and interim reports), as well as participating in all events organized by the Italian Stock Exchange (STAR events in Milan and London).

However, through the sustainability report, the Group made a step forward in addressing its key interlocutors (investors, customers, and employees): "Currently we can disclose to investors also our social and environmental policies (i.e., gas emissions reduction and environmental protection' policies. In addition, the sustainability report provides a more comprehensive picture of BG to employees, 'allowing to attract young talents" (CEA).

"The sustainability report is directly mailed to our top customers and having a formalised sustainability strategy can contribute to enhance our competitiveness and attractiveness." (Group CFO)

In this vein, over time the marketing and communication department is most actively engaged in conveying CSR and sustainability outside the Group by selecting consistent forms of communications, such as multimedia boards, posters, social media, newsletters on the company's intranet, etc., while the IA function disseminates the culture of sustainability reporting within the company in accordance with the Group CFO.

3.1.3 The "Driver" of the Materiality Analysis Process

The Board decided to entrust the internal audit (IA) function to guide the whole process required by the preparation of the first sustainability report (Biesse Group, 2017). The Chief of the "Internal Audit-Compliance-Non-Financial Information" function was appointed in 2014 at the proposal of the Chairman of the Board of

Directors, in agreement with the Control and Risk Committee. Graduated in Business Economics, before entering the Group he covered top positions in large companies (i.e., Datalogic Spa) and audit firms (i.e., PricewaterhouseCoopers) in the areas of auditing; GAAP; corporate finance and financial analysis; due diligence, external, internal, and financial audit; corporate tax; and management accounting. The IA department encompasses a Compliance Specialist (with prior professional experience in auditing firms) in charge from 2017, after covering management control positions in Biesse since 2015.

The choice to appoint the IA rests on its autonomy and professionalism: first, as an independent function it does not hierarchically report to any manager of operating areas; second, it has a great knowledge of the company processes and structure, being able to interact with different departments and branches, having direct access to all relevant information for carrying out his assignment and a distinctive experience in project management. Therefore, although several actors currently were (and currently are) engaged in the sustainability reporting preparation, since the first year (2017) of implementation, the IA department was (and still is) the "owner" of the materiality determination process and the "hub" (Lai et al., 2017) entrusted with the responsibility for coordinating and carrying out the various procedures connected to the release of the NFS, from methodology identification to drafting the sustainability report.

The team is formed by the Chief Audit Executive (the head of the hub), the Compliance Specialist, and the Marketing Manager. During the "phase-in" year, the team was supported and trained by an outside consulting company, to acquire the necessary skills to drive the process of sharing the rationales and the methodology within the whole Group. Unlike the economic-financial disclosure, characterized by well-established procedures, there were no consolidated internal procedures and guidelines to issue the NFS. As the Compliance Specialist argues: "We opted to release the NFS in accordance with the GRI standards (2016, core option), as suggested by the external consultant and because it was diffusely adopted by other companies that manufacture machine tools. The sustainability report was appreciated as the best tool to dialogue with our stakeholders."

"The IA function had a leading role because it kept control of the whole implementing process, since its inception and during all phases" (Chief Audit Executive). Hence, it led:

- The reporting methodology identification (in collaboration with the external consulting firm)
- The methodology sharing among departments and units (headquarters and subsidiaries; CFOs of the Group; and the Administration, Finance, and Control Director—the Group CFO)
- The stakeholder identification and stakeholder mapping (with corporate managers)
- The materiality analysis (actors involved: internal audit team, corporate managers, stakeholders)

– The information gathering (with the support of various corporate departments and subsidiaries)
– The drafting of the sustainability report (actors involved: internal audit team, marketing and communication department)

The IA periodically meets the Risk and Control Committee to submit technical proposals, as well as new procedures to be approved by the Board (in the absence of a specific Sustainability Committee). The Group CFO does not play a similar "gatekeeper" or "brokerage role" (Schaltegger & Zvezdov, 2015; Egan & Tweedie, 2018) within the different phases of the sustainability reporting process. His involvement was limited to participating in periodic meetings, providing financial information and quantitative data to be included in the report, and sharing (informally) feedback information flows.

The team worked almost full-time for over 6 months to release the first sustainability report "assembling a huge puzzle whose pieces were scattered all over the company departments" (Chief Audit Executive, Corporate Journal/2018), initially in a "narrowed" composition (only the IA and consulting firm were involved in identifying the reporting methodology) to then include the CFOs of the Group and middle managers of the headquarters and subsidiaries so as to ensure a common vision. A time-consuming activity was represented by the meetings aimed at involving company managers, albeit fundamental to operationalize the concept of sustainability (the IA acted as an "educator" to spread the knowledge of sustainability matters among company managers) and create the first materiality matrix based on their perceptions. Both the CAE and his collaborators played a very proactive role, updating and simplifying the language of the GRI standard, whose technicalities created many difficulties for people charged to gather data. Crucial to this stage was the "finance meeting" aimed to meet all CFOs from the subsidiaries and brief them on the various questions/issues.

In the "transition phase," stakeholders' engagement was thus indirect, due to the limited time available, and the first material matrix was based on internal managers' perceptions. This procedure, submitted to the company's Control and Risk Committee for approval, enabled Biesse to firstly assess the relevance of the topics both for the Group and for its stakeholders.

"All functions participated in the drafting of the materiality matrix. Top managers of every company department had to collect data on the processes they govern and estimate the impacts of their actions. Some departments were more active than others." (CAE)

Several problems emerged, due to the inherent complexity of the process, such as difficulties in gathering and linking up information, finding a "common" language to reconcile data and enable information exchange among different areas (i.e., R&D, HR, service, technical, quality control, safety, sales, accounting, and administration), and summarizing both quantitative and qualitative information in an organic manner: "The first year, collecting data was a major problem: everyone delivered information which had been processed in different ways" (Team member).

The team defined the procedures to collect quantitative and qualitative data from all 39 companies of the Group and performed specific follow-up interviews

addressed to middle managers (e.g., responsible for environment and safety issues). In addition, ad hoc procedures were tailored to specific departments (e.g., the HR) to increase the reliability and timeliness of data collection.

"Risks and issues related to sustainability were included within the Enterprise Risk Management process. The mapping of most significant risks linked to sustainability issues was a very demanding activity. Biesse adopted an ERM model since 2012. During 2017, the management and monitoring of risks linked to sustainability became an integral part of business strategy and the Group's approach to sustainability," which led to the first internal materiality analysis." (CAE)

The IA guarantees the reliability of data, as it supervises the company's internal processes together with the statutory auditing company.

After the "phase-in" report, the team launched two initiatives to improve the materiality matrix process, namely, aimed at strengthening the stakeholder engagement and assessing the eventual gap affecting the first materiality matrix implementation. "Firstly, a questionnaire was sent by e-mail to over a hundred external stakeholders (a stratified purposive sample of customers, suppliers, employees, top branches managers, a selected group of managers belonging to the parent company and members of the board, banks, the financial community, media, researchers and university professors) to ask them which topics of sustainability they consider most relevant and what are their expectations. Secondly, 35 company managers (both from national and foreign branches) were involved and interviewed, in order to refine the materiality matrix" (Compliance Specialist).

It should be noted that the questionnaire answers did not reveal significant differences compared to the expectations previously identified by managers:

"The materiality matrix made in the first reporting year based on internal investigations with Biesse's managers was not too different from the one made in the second year. None of the stakeholders claimed unexplored issues. However, stakeholders, even if with different emphasis, highlighted the need for additional in-depth information about Biesse's strategy" (Compliance Specialist). This result allowed the IA to actively sensitize the Control and Risk Committee and the Board driving the reflection on how CSR and sustainability should be integrated into the 3-year strategic plan (Biesse Group Strategic Plan 2020–2022).

Moreover, as the Group CFO argues, Biesse started negotiating with some institutional investors' and clients' specific requests and provisions (e.g., IKEA) about sustainability issues, making efforts to strengthening communication tools (e.g., the *Corporate Journal* that was complemented by a "sustainability" section) and participating in national and international competitions (i.e., Best Performance Award 2018; Deloitte "Best Managed Companies").

Currently, the materiality analysis process rests on three phases: the analysis of sustainability frameworks recognized internationally,[2] the quantitative and qualita-

[2]The UN Global Compact, the SGDs reporting, the European Commission Communication "Guidelines on non-financial reporting" 2017/C 215/01, "Your guide to ESG reporting" issued by the London Stock Exchange Group

tive analysis of identified topics, and the preparation and update of the materiality matrix. In the course of 2019, a survey was undertaken to update the degree of materiality attributed by Biesse Group's stakeholders to the identified sustainability topics, matching both to the areas indicated by the Legislative Decree 254/2016 and the risks identified by Biesse and aligning to the SDGs most impacted by the Group.

3.1.4 Leading and Complementing the Materiality Process: Further Perspectives

Drawing from the case, we acknowledge the key role of the IA function, both in initiating and improving the materiality process and, more generally, in implementing the non-financial reporting (Aureli et al., 2020). Instead of acting as an inspector, the IA covered multiple and proactive roles acting as "a teacher" (Sarens & De Beelde, 2006), by providing technical advice and favoring meetings within the company to circulate the sustainability culture; a "gatekeeper" of sustainability information (Zoni & Pippo, 2017; Schaltegger & Zvezdov, 2015; Egan & Tweedie, 2018), by selecting sustainability information produced by functional managers, exchanging and diffusing data among the different managers and toward the top management; and a "brokerage role" (Lantto, 2014) with respect to other company functions. By contrast, both the role of CFOs and the Group CFO—who entered the Group in September 2020 (after covering top finance positions in Societè Generale, Fiat Group, and Iveco) and is responsible to edit the consolidated financial statement—were not pivotal in releasing the materiality matrix or preparing the prospects of value added creation and distribution. Therefore, they can be considered as "nodes" of the hub whose head rests on the IA department. A low involvement and a "narrow" role of CFO in sustainability reporting—attributable to the lack of the mindset needed to support sustainability practices with other organizational actors—were pointed out in previous research (Schaltegger, 2017; Egan & Tweedie, 2018).

However, Biesse Board is currently oriented to implement a Group reorganization and transformation project and to progress the CSR and sustainability journey, thus eliciting new challenges that could imply the creation of a dedicated function (i.e., a Sustainability Officer) and the release of an integrated report. Therefore, the case mirrors a possible future involvement of the CFO in the integrated reporting process that could rely on broadening the existing/traditional domain of expertise, by acquiring knowledge and developing skills and competencies traditionally pertaining to other fields of expertise, such as the case of IA.

3.2 Case Study 2: Iren[3]

Iren is a leading company operating in a multiregional basin in Northwest Italy of over 7,000,000 inhabitants, a portfolio of 1815 million customers served in the energy sector and over 5 million inhabitants served in the water and environmental cycle.

Iren is listed on the Milan Stock Exchange and operates as a multi-utility with a diversified business model, characterized by a balance of free activities (30%) and regulated activities (46%).

The role of the CFO in the materiality matters of the company is to be analyzed in the context of its duties within different areas of the governance of sustainability. In particular, the following aspects were examined:

- The governance structure with particular regard to the risk management
- The definition of the company's strategic integrated plan
- The organizational structure and responsibilities

The corporate decision-making process in which roles and responsibilities are defined and which guarantees that the risks and opportunities deriving from the economic, social, and environmental context are considered is based on a model that comprises the Board of Directors; the Control, Risk, and Sustainability Committee (CRSC); and the Local Committees (Mio et al., 2020; Fasan & Mio, 2017). These actors should formulate, execute, and supervise the company's CSR strategy as part of corporate board duties (Velte & Stawinoga, 2020). Their goal is to critically review business practices, analyze environmental and social needs, and formulate strategies that align sustainable development with financial results (Uyar et al., 2021).

Within Iren's governance, the Board of Directors (BoD) defines the strategic approach and approves the guidelines and objectives, also with particular attention to sustainability objectives. The BoD defines the nature and the level of risk compatible with the company's strategic objectives, evaluating the suitability of the organizational structure with particular reference to the internal control and risk evaluation system. The BoD is assisted by the Control, Risk, and Sustainability Committee (CRSC), which provides a prior opinion for the performance of the tasks entrusted to the Board of Directors with regard to internal control, risk management and sustainability.

The company's Board of Directors assigned the CRSC some duties related to sustainable business management as monitoring sustainability policies and compliance with the conduct principles adopted by the company and its subsidiaries and examining the periodic reports on the implementation of structured dialogue with stakeholders in the local areas where Iren operates, in particular through the Local Committees. The consultations concerning sustainability between the interested

[3]The author gratefully acknowledges the availability of the interviewee, dr. Massimo Levrino CFO at Iren, for all the support provided during the research.

parties are carried out by the Deputy Chair who is responsible for maintaining an open dialogue with the internal and external stakeholders on these topics.

The enterprise risk management (ERM) supports the risk control committee and reports to the Chairman also considering sustainability matters related to climate change and risks and opportunities that these entail from a strategic point of view.

Iren has adopted a business plan with a 5-year horizon which defines its strategic orientations and the related industrial objectives. The strategic integrated plan defines some strategic lines and integrates main goals in terms of efficiency, development, and growth with sustainability and ESG (environment, social, governance) targets. The strategic integrated plan includes sustainability objectives and targets, also in relation to climate change and Iren's commitment to transparent reporting in this regard, with particular focus on the four areas outlined by the Task Force on Climate-related Financial Disclosures (TCFD).

The objectives defined within the strategic integrated plan are monitored annually through the budgeting system and the sustainability report. The will to achieve the sustainability objectives is reinforced by the incentive system (through MBO) applied to the top management and to the main directors of the BUs.

At the organizational level, the responsibilities for sustainability-related issues are spread with different roles and scopes between the "Corporate Social Responsibility department and Local Committees" function and two supporting inter-organizational bodies, playing an integrating role within the organization (the Strategic Integration Committee and the Sustainable Finance Committee).

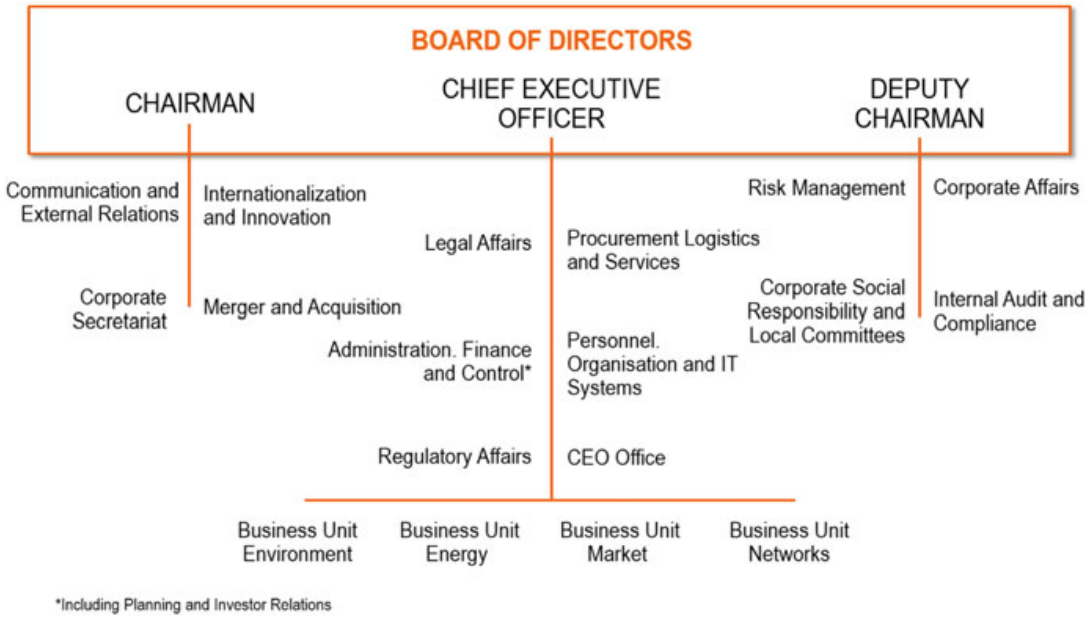
Iren's organizational structure provides a specific Corporate Social Responsibility department and Local Committees referring directly to the Deputy Chairman (see Table 1).

The *Strategic Integration Committee*, chaired by the CFO, is composed by the heads of specific functions (CSR, investor relations, finance, personnel, IT systems, purchasing and internal communications) and by the heads of the BUs. Its purpose is to favor the integration of strategic choices at the various levels of the organization. One of its main commitments is to create the conditions for the strategic guidelines on sustainability to pervade the entire organization and for the SDGs to become integrated in the operations. The committee coordinates the drafting of the integrated strategic plan.

The *Sustainable Finance Committee* is an internal committee that identifies sustainable investments and monitors them. It is chaired by the CFO, with the following functions: CSR, strategic planning, management control, finance, and investor relations. The committee leads the procedures and the process of disclosure related to the emission of "green" bonds in line with the recommendations of the GPB (Green Bond Principles).

It is possible to say that the CFO's role in corporate governance has been put to full display (Zhang & Gao, 2006). The CFO's role is not limited to the area of accounting systems because he plays its traditional role as controller and supplies support for decision-making also in the sustainability area and on materiality matters (Green & Cheng, 2019).

Table 1 Iren's organizational structure



3.2.1 Iren's Sustainability Reporting Processes and the Materiality Analysis

Iren prepares and publishes a sustainability report using GRI principles from its birth. Starting from 2017 the document serves as a non-financial statement (NFS) pursuant to Italian Legislative Decree 254/2016, which is prepared annually to provide information relevant to performance in the environmental, social, and economic context, to transparently communicate compliance with the commitments undertaken, future commitments, and the ability to meet stakeholder expectations.

The preparation of the document involves various subjects with different responsibilities:

- The Corporate Social Responsibility department and Local Committees prepares the report.
- The Control, Risk, and Sustainability Committee supports the assessment of the risks and of the economic, environmental, and social performance.
- The BoD approves the report in a Board of Directors' meeting after the assessment of the completeness and consistency.

A materiality analysis for the purposes of preparing the non-financial report is performed annually as a dynamic process through which Iren and its stakeholders assess the significance of the topics reported carrying out in various stages:

- Identification of relevant issues based on their ability to influence value creation ("desk review")

- Assessment of the importance of relevant issues in terms of their known or potential effect on value creation
- Prioritization of the issues based on their relative importance and development of the materiality matrix that defines the topics reported
- Determination of information to be disclosed on material matters

The "desk review" is aimed at identifying the spectrum of potentially significant topics reflecting the legislative requirements, the GRI standard, the sustainable development goals (SDGs) of the UN, Iren's strategic integrated plan, customer satisfaction surveys, the Group risk map and considering media analysis and peer and competitor sustainability topics.

The assessment of the importance of relevant issues considers both external expectations and internal perspectives. In particular, the external engagement is aimed at sharing and assessing potentially significant topics by Iren Local Committees in order to focus interests and identify economic, social, and/or environmental topics relevant to stakeholders. The associations and institutions which participate in the Local Committees represent the main categories of stakeholders of Iren: consumers/customers, employees, suppliers, institutions, shareholders, environment, local communities, NGOs, world of research and university, and future generations.

The internal engagement is aimed at sharing and assessing potentially significant topics by the first line of the management, in order to identify relevant topics for Iren.

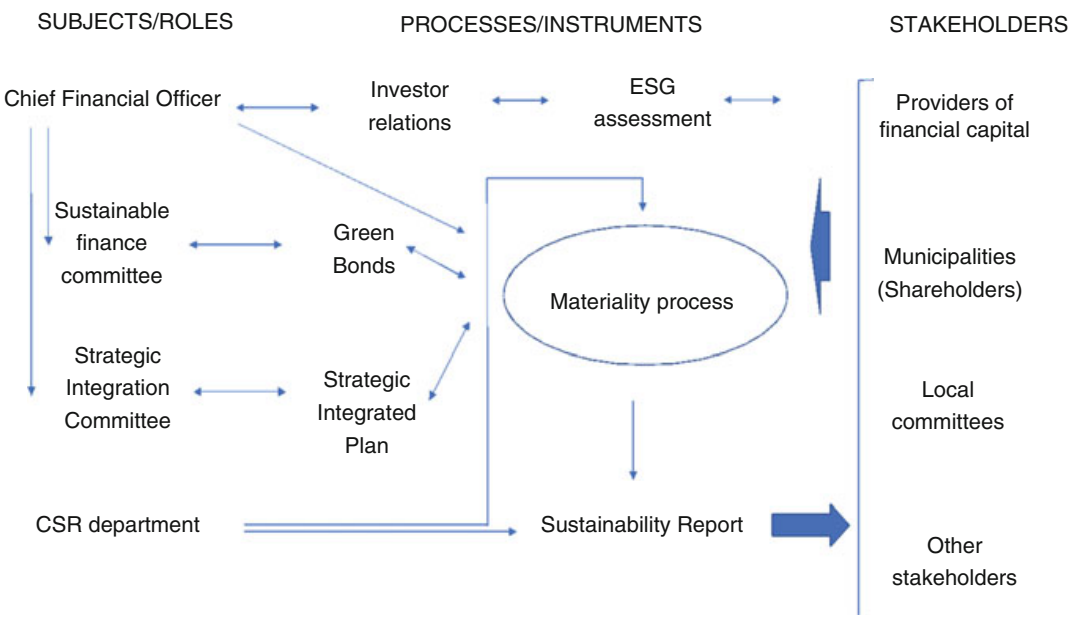
The process aimed at defining the material topics to be disclosed in the sustainability report, as described, is led by the CSR function. For Iren, besides industry-specific factors, some firm-specific elements influence the decisions on materiality. For instance, the public shareholding gives a push to focus on the returns in terms of impacts (positive and negative) on local communities, as well as the green financing strategy boosts toward considering a profound connection with the SDGs and to focus on sustainable investments.

3.2.2 The Role of the CFO in the Process

In Iren the CFO has extensive powers that go beyond the typical responsibilities in the field of administration and finance, embracing a wide range of activities from strategic planning to budgeting and control and to investor relations (IR). Within sustainability management in Iren, the CFO has a "support" function though it cannot be considered as "passive."

As represented in Table 2, the CFO plays an active role in the definition of the strategic integrated plan, not only because of his role as preparer but mainly because of his responsibility as coordinator of the Strategic Integration Committee. Moreover, acting in the field of his proper charges, the CFO leads the processes related to the Green Bond Financing, within which many decisions are taken through the Sustainable Finance Committee (leaded by the CFO) consistently with the company's sustainable goals.

Table 2 The role of the Iren's CFO within the sustainability management



A particular role for the CFO is connected with the recommendation for the Green Bond's issuers for a clear process of disclosure based on transparency, accuracy, and integrity of information that is due to stakeholders. In this sense, the issuers with the ability to monitor achieved impacts are encouraged to include those in their regular reporting.

A related task of the CFO is devoted to meeting the information needs coming from investors that are always more engaged with ESG assessments with the scope of identifying risks and opportunities in terms of sustainability in their investment portfolio.

If, from the one side, the CFO is involved in the materiality process together with the first line of the management in order to identify relevant topics for Iren within the internal engagement processes, from the other side, some factors under the control of the CFO play a role in the materiality process itself.

To be more effective, the materiality determination process is integrated into the organization's management processes and includes regular engagement with financial capital providers realized by the CFO. In this context, the CFO brings to the materiality analysis, the feedback from investor relations, and all the aspects related to the ESG evaluations and the CDP rating.

A summary of the role of the CFO in the materiality process is provided in Table 3.

Table 3 The CFO and the materiality process

CFO	L	Integrated strategic plan	D	Materiality process
	L	Green bond financing	I	
	L	Investor relations	D	
	L	Preparation of financial reports	I	
	L	Budgeting and control system	I	
	P	CDP rating	I	
	P	Assessment of the importance of relevant issues	D	
	A	Enterprise risk management	I	

L = CFO leads the process; P = CFO is part of the process; A = CFO's work is audited by the process; I = CFO's indirect contribution to materiality; D = CFO's direct contribution to materiality

3.2.3 Conclusions

The purpose of the analysis of the Iren case study is to identify the contribution that the CFO brings, in general, to the management of sustainability and, in particular, to the materiality process. The company has some peculiarities that are linked to its industry (multi-utilities) which highlights significant sustainability issues, to its capital shareholding which is for the most part made of public entities (municipalities), and to the fact of being listed and having accessed to "green" financing.

The emphasis of the analysis has been devoted to the direct or indirect contributions of the CFO's role on the main processes related to sustainability management. A supporting role seems to prevail, but at the same time the CFO is the one from whom many of the decisions on sustainability come or through which they unwind (Barth et al., 2017).

The role of the CFO in the processes described seems to be instrumental in supporting the other functions (CSR management *in primis*, strategic planning—for integrated plan, etc.), but it has been clarified that it is not "passive." That is not only because of the corporate sustainability objectives included in a "systemic" evaluation and therefore are always evaluated "transforming" them into financials but also for the key responsibility played by the CFO in creating the conditions for the strategic guidelines on sustainability to pervade the entire organization and for the SDGs to become integrated in the operations.

In defining the role of the CFO in the materiality determination process, two variables need to be considered. On the one hand, the organizational structure plays a fundamental role: the wider the responsibilities of the CFO are, the deeper is its contribution to the processes (Gerwanski et al., 2019). With particular reference to the topic of materiality, it can be said that, even if the process owner is someone else, the CFO plays an important role when it has extended powers such as those going beyond the finance function, like strategic planning function, management control, and investor relations. On the other hand, the shareholders structure and the complexities of being a listed company jointly with the financial strategies driven by a sustainable finance approach give to the CFO a key role in the materiality process.

4 Discussion and Conclusions

4.1 Discussion About the Findings and Practical Implications

This research stream focuses on the dynamics of board decision-making process (Forbes & Milliken, 1999; Pye & Pettigrew, 2005) and draws attention to a CFO's characteristics, its deliberation process, and its effectiveness in the development of NFD. These features affect how CFO engages in reflective decision-making and thus whether the CFO can work effectively to make the voices in company debate about the NFD. The CFO's characteristics, experience, experimentation, professionalism, and transparency, in addition to control competence, are proposed as enabling company performance as well as future design of strategic and operational control mechanisms (Wouters & Wilderom, 2008).

The outcome of interviews with key organizational actors involved in the NFD process coupled with the analysis of secondary sources allowed us to answer the research questions.

Using two pilot case studies of NFD implementation, we traced some insights on the potential role of CFOs in the materiality process. We highlight different engagements of the top managers (controller, internal auditor, and CFO) in determining materiality.

With respect to RQ1, it was found that the key organizational actors involved in the NDF and materiality determination process and their roles (including the CFO's role) are different between the two companies. In particular, the role of internal actors is critical to address NFD impact and effectiveness in the broader organizational and external context, even though the key organizational actors involved in the NDF process are different in the two cases. The study highlights their commitment to and involvement in a variety of non-financial communication. In our chapter, these organizational efforts appear not to be similar, and CFO efforts are actually aligned with organizational strategies, but it is not clear how far these measures are relevant in NFD. IR and Management Control System aim to monitor and steer an organization's functioning and decision-making process, including those relating to sustainability issues. They also typically aim to influence people's behaviors. We sought to bring together state-of-the-art research on management accounting and materiality process. So we call for stimulating contributions to study the streams of research in this field of materiality but also to highlight the qualified practices coming from listed companies in Italian context. To be more effective, when the materiality is present, the following determination process is integrated into the organization's management process and include regular engagement with financial capital providers.

The first case study (Biesse Group) sheds new light on the likability bias in the internal audit (IA) function to the development of performance evaluations and materiality. Regarding RQ1, it pinpoints the role of IA team managers in the development of the materiality; while the role of the CFO is "lateral," this is of particular interest, because the gatekeeper and owner of the NFD process are the IA

function which has the role of "moral suasion" and "educator" of the CFO. The IA function played a key role in the materiality process with respect to the complementary-collateral role of the CFO, thus suggesting the need to broaden the CFO traditional domain of expertise, by developing skills and competences tied to other fields and areas. In fact, in the case of Biesse, CFO performs just a single step during the materiality process.

The second case study (Iren) reveals, according to RQ1, that the CFO is involved in the NFD and materiality process in a support capacity, while the owner of the process is the Corporate Social Responsibility, assisted by the Control, Risk and Sustainability Committee for the assessment of risks and of the economic, environmental, and social performance. In this case the CFO coordinates managers to be innovative in reporting and develops new measures. So the role of CFO in the governance and relationship among stakeholders and shareholders is prominent. The role of the CFO in the Sustainable Finance Committee is also interesting, and it can be defined "almost atypical." The case shows the "desk review" role and pinpoints the spectrum of potentially significant topics reflecting the legislative requirements, the GRI standard, and sustainable development goals (SDGs). Another relevant aspect is the internal process of engagement that shows the materiality topics, identifying the scoring and its evolution in the years 2015–2019. It is an internal assessment and scoring management that can be fundamental to develop the corporate values and communicate the information useful "to make sustainability decisions in situ." The case is a paradigmatic Italian practice in a complex organization, and therefore it is useful to highlight the advantages or criticalities of the CFO in the materiality in a mixed private and public organization.

Regarding RQ2, the main addressees of NFD are in both cases the providers of financial capital; thus one may argue that the process of NFD and the related materiality assessment is mainly driven by the information needs of capital providers. It should be noted in this regard that both companies produce a sustainability report following the GRI standards. According to Mio et al. (2020), the GRI approach to materiality should cover a wider audience of stakeholders than investors. Our findings contradict this previous work indicating that investors are given prominence in the materiality process.

We trace some insights on the role of CFOs in the materiality process. Table 4 compares the main drivers of the two case studies.

The practical implications for the materiality process to remark without leading to generalize are:

- The complexity of the stakeholders that orbit around the company: although the case companies are both listed on the stock exchange, they still have stakeholders with divergent priorities. In some cases, the glue fed by qualified majority shareholders and socioemotional wealth (SEW) preservation of entrepreneur families already create a selection and convergence of intentions among stakeholders.
- An evolutionary process of the CFO's skills and internal sensitivity of the management control framework: a "broken" evolution as it can only be decisively

Table 4 Drivers of materiality process, heterogeneous information needs, and CFO role

	Biesse	Iren
Complexity of relationship among shareholder and industry stakeholders	Low relevance	High relevance
Role of CFO in the formalized process of materiality	Medium relevance	High relevance
Extension of managerial proxies of the CFO in the evolution process of materiality	Low relevance	High relevance
Complementary role of other proactive professional actors	High relevance	Low relevance
Evolution of the CFO's skills	High relevance	High relevance

conditioned by the obligation to disclose, by the financial market where gurus and operators heavily affect corporate sustainability and integrated thinking and which make the materiality process in some ways profoundly different in the method (GRI, IIRC, or more customized and relevant in decision-making in situ) and in the time.

– Characteristics of the sector but in part this point is affected by the CFO's ability to learn and replicate and also by the pressures of institutional actors.
– Extension of managerial proxies to the CFO: the extent of the proxies is relevant but is it the independent variable or is it the result of what is described above? Is it given or requested by the CFO? How much does the CFO's skills play a role?

4.2 Limitations and Direction for Further Research

As previously mentioned, there is a training gap to fill on the side of top managers about the 17 sustainable development goals (SDGs). Further regulatory provisions on disclosure, on the integration of risks for ESG, and on the increasingly concrete methods of corporate communication are expected at local and European level as well as at international one. This is why the two chapters of this section investigate the importance of the financial "advice" that the CFO may give to the company in terms of NFD in its various forms. The role of the CFO can be crucial in developing responsibilities toward stakeholders for the creation of sustainable value and in promoting qualified, sustainable, and "responsible" investments. It is useful related to the experiences gained in the field of CSR and sustainability that the role of management (and CFO in particular) and its participation is fundamental to share the corporate values and make the information useful "to make sustainability decisions in situ" (Marelli, 2015). It is the combination of formal control (conceptualized in the formalized system design) and control in situ (based on its reception and use by system users in a given context) that require attention when theorizing NFD. This is because NFD is not merely the product of organizational controls embedded into system design but also individual sustainability values. Thus, it theoretically

explains on the potential of employee use of intra- and extra-organizational information to make sustainable decisions "in situ." Consequently, in the materiality, "control in situ" does not mean that specific controls are designed in the systems for each CFO. Rather, it means that through the design of flexible or "enabling" systems, CFO has the opportunity to control in their daily organizational activities by making autonomous decisions based on NFD information and broader organizational-level experience and knowledge, thus affecting the development process of the NFD. Therefore, conceptualizations of the IR take on an extra-organizational and intergenerational dimension where the CFO can be a key actor.

Specifically, the concept of social control as pertaining to organizational actors' values, rather than merely a reflection of guiding organizational values and system design, is brought forward. This is deemed necessary for the successful development process of NFD, as well as sustainable futures more generally. Hence, these chapters contribute by connecting perspectives on system characteristics, performance outcomes, and individual corporate actors. Such extended conceptual, analytical, and theoretical contributions can offer managerial insight into the value of individual "control" for corporate sustainability but also open to further topics and research. Particularly, as corporate sustainability practices become internalized in the minds of all employees regardless of position, the sustainability discourse transcends temporal and spatial dimensions. Gond et al. (2012) theorize various forms of system integration and the ways in which they affect the level of integration within organizations. There is a view that NFD ought not to be treated as standalone systems. Even if not fully integrated as proposed by Thomas and McElroy (2016), they may be acknowledged as part of a management control package (Grabner & Moers, 2013; Malmi & Brown, 2008).

In order to suggest further studies about the evolutionary process of NFD, the two chapters highlight the relevance of the relationship between control with its system design characteristics and its use in situ. Adler and Borys (1996) and Johnstone (2019) used this frame on accounting enabling tool to study the "dual role of control." In this framework there co-exist design system producing behavioral or attitudinal effects on the management itself and, on the other hand, the "social" process characterized by experience, professionalism, experimentation, transparency, and sustainability competence (Wouters & Wilderom, 2008; Johnstone, 2019). Following this frame NFD may (or may not yet) address environmental and social issues following only financially oriented formalized and coercive controls. As a matter of fact, Chaps. 25 and 26 contribute to the existing research in two main ways. First, the study demonstrates a clear indication of how existing practices' differences influence the organizational outcomes. Second, these chapters propose research problems and future research directions. At the same time, these cases show the capacity to manage changes in a way to play a role in the materiality process itself with different actors and in different phases. Despite its limitations we hope that our research will stimulate further research related to the disclosure of these mechanisms.

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