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INTEGRATED REPORTING TO FOSTER SUSTAINABILITY IN THE FASHION INDUSTRY: INDITEX, MONNALISA & KERING CASES

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INTRODUCTION

In the last decades the world of business has been characterized by the huge financial crisis of 2008 and by many corporate scandal, such as the *dieselgate*.[1] Is it not by chance that I have cited the Volkswagen scandal, indeed the last years has been also characterised by an always increasing awareness of the public opinion on environmental matters. This socio-economic situation impose, at least theoretically should impose, the companies to rethink their way of conducting business in order to embrace a sustainable development.

Of course, this new approach to business had strong implication on the companies' reporting and communication system, that during this period underwent a radical change. Companies start to adopt tools that allows them to disclose on non-financial information in particular on environmental and social matters with the aim of providing a 360° snapshot of the business' activities. Thus, the annual disclosed documents are no longer addressed to the use of the sole investors but to a wide and heterogeneous group of interest bearers. Stakeholders are now interested in knowing, in addition to the financial results, the company's strategy to create value in short, medium and long term; which is the impact that the operations of the company have on the environment; how the company is helping the community, that is no more intended with a local perspective but with a global one.

To satisfy the new willingness of stakeholders, companies need to disclose a growing quantity of information, start editing voluntarily an increasing number of reports. For example, Inditex, one of the company analysed in this dissertation, in 2005 published three different reports each of it targeting a specific group of interest bearers.

This wave of innovation was supported by academics and legislator that created and introduced several tools, standards and guidelines on how companies should disclose on this non-financial information.

This agitation creates a sense of chaos and disorganization in the field of corporate reporting deriving from the excessively heterogeneity of the several approaches and tools appeared. Moreover, as a reaction to the awareness and knowledge that the stakeholder developed companies edits reports more and more copious. These two

[1] In 2015 Volkswagen has been founded guilty of manipulating the emission of its engines with the aim of eluding the environmental laws for what concern the pollution deriving from diesel.

phenomena, chaos derived from the abundance of tools and copiousness of contents in the reports, are on the contrary harmful for the satisfaction of the aim of corporate reporting: clear and easy to understand disclosure of information.

Here the needs to find a unique approach for the future of corporate reporting towards which companies can integrate financial and non-financial information.

This work identifies the Integrated Report, as outlined by the International Integrated Reporting Council (IIRC) in 2013, as the tool that could became a best practice in the future. The Integrated Report is still in is embryonic phase but own all the necessary requisites to fulfil the changed needs of corporate reporting.

The focus of this dissertation is on the clothing industry, not only because is the major of my M.Sc., but because perfectly fits with the environment delineated in the first lines of this introduction for what concern corporate scandals, awareness of consumers and of stakeholders in general of the urgent needs to shift production and consumption system.

The two case studies presented in the third chapter of the work are a clear representation of how companies can embrace what in the second chapter will be called the *fashion revolution.* I hope that the forward-looking companies, object of the analysis, will be taken as a role model in the next future by the whole industry both from huge business such as Inditex and from small companies like Monnalisa, that still can play a crucial role in the transition towards a sustainable world.

In conclusion, the last chapter deal with the third case study presenting a prototype of Integrated Report for a company that does not use it. The aim is to demonstrate the implementing the IR is not a utopia and its necessary components can be satisfied using the information that companies already publishes in separate reports.

"We cannot solve our problems with the same mindset we used to create them."

Albert Einstein

CHAPTER ONE

The first chapter will introduce the topic of corporate reporting, providing a review of the evolution that it went through: starting with the traditional reporting system and its limitations, guiding the readers through the several improvements that the reporting has been subjected to.

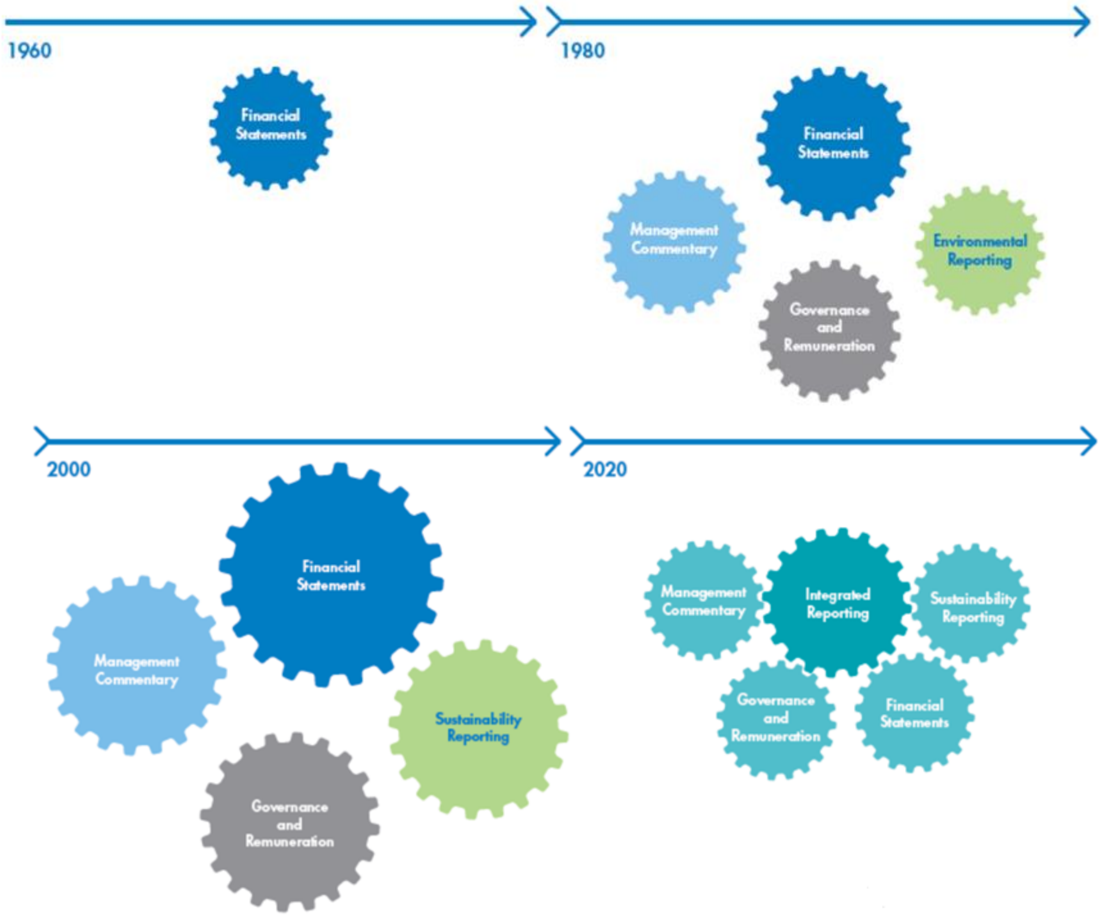
1.1 Corporate reporting

The process of corporate reporting has always played a crucial role in the business landscape because as stated by the OECD *"A strong disclosure regime can help to attract and maintain confidence in the capitals markets. By contrast, weak disclosure and non-transparent practices can contribute to unethical behaviour and to a loss of market integrity at great cost, not just to the company and its shareholders but also to the economy as a whole"*.[2]
Searching on the vocabulary the word "definition" one of the meanings associated to it is: "the complex of the elements devoted to characterize and circumscribe an entity". Therefore, will always exist the entity before, intended as an object, phenomenon or anything interpreted in the Latin sense of res, at which only after will be conferred a definition.
This is the *iter* that all the word follows, the word "corporate reporting" included. Traditionally this term refers to the financial information that a company was obliged to disclose. As often occurs with the pass of time the *iter* of the language continue with the evolution of the entity given the mutation of the socio-economic context while the term used to identify it is still the old one.
Indeed, today the term corporate reporting identifies a wider and comprehensive range of information that the companies voluntarily or mandatorily disclose.
Academics have always point out that the firms are a social and open system,[3] thus has to satisfy the needs of all its interlocutor. This awareness caused the recent phenomenon of the enlargement and innovation of the reporting tools.
This paper will go through the evolution of corporate reporting analysing the different type of documents utilized by companies to disclose information; the three

[2] OECD, (2004), "Principles of Corporate Governance", pp.49-50
[3] Golinelli G.M, (2011), "L' Approccio Sistematico Vitale al Governo dell'Impresa", CEDAM

milestones are the Traditional corporate reporting consisting in the Annual Report (AR),[4] the Sustainability Report (SR) and Integrated corporate reporting (IR).
As the representation below shows until the 80s the only reporting tool used by the company was the Financial Statement (AR); then emerged other instrument like the Management Commentary, the Report on Governance and Remuneration and the Environmental Report that sometimes were included in the Annual Report but considered ancillary and secondary to the Financial Statement. Only in the 2000s the corporate reporting experienced the rise of the Sustainability Report, that year after year gained more relevance; the last step of the evolution process of the reporting system is what we will live in the next future: the development of one unique report that can incorporate all the necessary information.

Table 1: Evolution of corporate reporting



Source: IIRC, (2011), "Towards Integrated Reporting– Communicating Value in the 21st Century –Discussion Paper"

1.2 The Traditional Corporate Reporting

[4] In this dissertation traditional corporate reporting and AR will be treated ad synonymous

The first tracks of corporate reporting can be found in the early years of the 20th century when the big US corporations (banks, oil and steel companies) started to disclose financial information addressed to their financial investors: precisely, the first official annual report date back to 1903 when U.S Steel published its AR certified by PriceWaterHouseCoopers[5].

Today, listed companies are obliged to compose an Annual Report, defined as “a publication issued to a company's shareholders, creditors, and regulatory organizations following the end of its fiscal year. […]”[6].

As the definition shows, the target of the AR are the shareholders and investors to which the company must provide information on the economic condition and performance of the company in the previous years.

The core information of the Traditional Corporate Reporting is the Financial Statement for the past year. This tool internationally is mainly regulated by IAS/IFRS and US GAAP which define the elements, contents and form of the AR.

Usually the Financial Statement is composed of 4 statements:

- balance sheet: a snapshot at a given time, the end of the fiscal year, of a company’s assets, liabilities and equity
- income statement: also known as P&L is a resume of a company’s revenues and expenses over a period of time
- cash flow statement: explains a firm’s cash flow changes due to operating, financing or investing activities
- statement of changes in equity: reports on the changes occurred to the share capital, accumulated reserves and retained earnings in the period of interest

This allowed to reach a quite high level of standardization of the reporting system of different companies with the result of a high level of comparability among ARs and a low possibility of individual or industry customization.

The law also requires an audit of the financial statement that usually is executed by an external independent entity with the aim of certifying the accuracy, quality, and veracity of the reported information.

Traditionally the three major conceptual frameworks for the AR are those of the US Financial Accounting Standards Board (FASB), the International Accounting Standards Boards (IASB) and the UK Accounting Standards Board (ASB); from

[5] “Introduction to Financial Statements”, www. tutor2u.net
[6] www.accountingtools.com

their publication can be easily understood which is their idea of corporate reporting: “the information provided by financial reporting is primarily financial in nature”[7] and “financial statement do not necessarily provide non-financial information”[8]. It is clear that they tend to focus exclusively on financial information.

1.2.1 Limitations of The Traditional Corporate Reporting

At least since two decades academics started criticizing the traditional corporate reporting system revealing its limitations. In particular, the disadvantages of the AR can be clustered in 3 main categories: complexity, exclusive exhibition of financial information, past and short-term orientation:

Exclusive exhibition of financial information (Incompleteness)

Knowledge is valuable only if it can lead to a monetary benefit, that is why there is the belief that the only relevant information is a firm’s financial information, that are the only one, or the majority, included in the AR.

At this point a doubt arises spontaneously: if the financial information is the only relevant one why was they not able to predict the hundreds of corporate scandals that stud the 90s and the first decade of the 2000s? Maybe they are not enough.

Just to mention few examples, the 3rd of November 2017 The Business of Fashion reported the news that: “[…] workers were employed by the manufacturer Bravo, Zara suppliers, left tags inside garments that read: “I made this item you are going to buy, but I didn’t get paid for it.” […]”.

Always in November H&M, another fashion giant, was accused of burning tons of unsold clothes instead of disposing them correctly[9].

Now it can be strongly, and correctly, argued that to disclose only financial information is not enough. A company must account also for non-financial information like: strategy, environmental and social performance, human rights and so on; both for the preservation of all other stakeholders, except for the shareholders, and for the latter’s protection because these scandals also have

[7] FASB, (1978), “Statement of Financial Accounting Concepts”

[8] IASB, (1989), “Framework for the Preparation and Presentation of Financial Statement”

[9] Starn J., (2017), “Swedish power plant ditches coal to burn H&M clothes instead”, www.independent.co.uk, 24 November 2017

financial impact, so they are still relevant in the monetary point of view of information.

Complexity

The passing of time ratifies a constant increase in the complexity of corporate reporting, several reasons that affected the actors interested in the corporate reporting process:

- Companies that continuously increase their dimension
- Regulator that requires always more and more precise and detailed information from the corporation with the aim of protecting the customers and investors
- Financial market which saw an increase in the variety and complexity of the financial instrument available
- Customers and investors that developed a higher interest in knowing companies' information

These factors combined together spurred the corporations to gather and disclose a huge number of information in overwhelmed and cryptic AR.

As written by Hirst & Hopkins "[…] psychology research predicts that information will not be used unless it is both available and readily processable […]"[10], thus may exist a negative correlation between the AR's complexity and the usefulness of it.

Past and short-term orientation

As above stated by its definition, an AR is a backward oriented document that investigates on the performance of the year ended comparing it with the previous years. Moreover, it is commonly used to make forecasts on the financial performances for the next one or two. Thus, can be affirmed that the traditional corporate reporting has a past and short-term orientation. Of course, this is given from the fact that making financial prediction for the long term is highly unreliable because of the uncertainty.

So, how to infer on a firm's long-term performance? As supported by academics there is a positive correlation between non-financial performance and long-term company's performance.

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[10] Hirst, D. Eric And Hopkins, Patrick E., (1998), "Comprehensive Income Disclosures and Analysts' Valuation Judgments", pp. 8-11

Let's take the R&D as an example. The R&D process is a medium-long term process, that until it is not finished does not reveal any financial benefit for the company that undertook it. This means that in the short term it is a bad investment. Using a short-term orientation, inherent in the AR, will lead to a misleading vision of the R&D expenses by the shareholders that will see it as a damage for the company's performance. Instead using a long- term approach and disclosing also non-financial information can generate a deeper understanding on the company's actions creating benefits in the long run[11].

1.2.2 Ancillary Non-Financial Documents

As above mentioned, since the 80s commenced to emerge several documents, mandatorily or voluntarily, that accompanied the Financial Statement in the Annual Report, especially in the one published by the large corporations. For completeness sake, in this paragraph a brief explanation of these documents will be provided.

Management Commentary: also known as Management Discussion and Analysis (MD&A) is a narrative section thanks to which the management can explain and comment on the financial performance of the previous year, adding something to the numbers reported by the Financial Statement and outlining how the impact of the decision taken by the board influenced the firm's performance.
The usefulness of the MC is particularly high when the actual results of a company differs from the expectation, so the managers need to provide valid reasoning to explain what happened.

Governance Report: the Governance Report reveals information on the governance structure of the company, on the internal system of control and risk management.

Remuneration Report: the Remuneration Report is a document which exposes the company's policy on the remuneration of the board and the salary received by each component of the board both in its fixed and variable part.

[11] Busco C., Frigo M.L., Quattrone P., Riccaboni A., (2013), "Integrated Reporting: Concepts and Cases That Redefine Corporate Accountability", Springer, pp. 44

Environmental Report: was the first attempt by companies to report on their sustainability, intended just as an environmental matter and was a mere action of greenwashing activity for those firms involved in high polluting industry (such as chemical and oil industry) to rehab their reputation showing how they were acting to reduce their impact on the environment.

1.3 Corporate Social Responsibility

Already in the 60s an Italian economist, Giancarlo Pallavicini, wrote about the importance of non-financial performance of companies. In particular he believed that firms, although profit oriented, do not have to neglect, but deeply pay attention to several aspects concerning the human being and its social, cultural and natural environment[12]. He developed the methods of breakdown of parameters (*metodo della scomposizione dei parametri*) to calculate parameters to measure the non-financial results of a firm. These parameters deal with aspects such as: human relationship, environmental impact, firm's social activity etc. At the end these parameters were added to the economic result of the company to calculate the *net result (Pallavicini,1968).*

This theory has been the base on which John Elkington developed his Triple bottom-line concept (Elkington,1994). Usually in economics, bottom line refers to the last line of the P&L where a company's result for that year is showed. Elkington wants to add to this traditional bottom line (the Economic one) other two elements: the Social and the Environmental bottom lines, with the aim of providing a comprehensive and exhaustive resume of a company's performance.

These authors together with E.R Freeman can be considered pioneers in Corporate Social Responsibility (CSR), that nowadays is a very hot and thorny topic in the international debate but that until thirty years ago was almost unknown.

Among several definitions attributed to the CSR I would like to use the one coined by the European Commission that defines corporate social responsibility as "the responsibility of enterprises for their impacts on society". And to be socially responsible, enterprises "should have in place a process to integrate social, environmental, ethical human rights and consumer concerns into their business

[12] Pallavicini G., (1968), "Strutture integrate nel sistema distributivo italiano", Giuffrè

operations and core strategy in close collaboration with their stakeholders[13]". In doing so businesses should generate positive outputs for all its stakeholders (environment, consumers, employees, communities, etc).

CSR was, or even better is, presented as the sole tool that can help to rebuild the trust of people towards businesses after the financial crisis of 2008 and many other corporate scandals above mentioned. Because as a statistic conducted by Edelman in 2013 only 58% of people have trust in business[14]. This is a scary data, more than it seems, given that businesses are what we eat, the car we drive, the toys children play etc; so to re-establish trust in businesses should be a primary objective of the firms and of the governments.

1.3.1 CSR Pyramid

According to Archie Carroll's point of view, Corporate Social Responsibility can be sub-segmented in four types of responsibilities that enterprises have against the society: "Corporate social responsibility encompasses the economic, legal, ethical, and discretionary (philanthropic) expectations that society has of organizations at a given point in time"[15].

A study conducted by the academic interviewing corporates' executives revealed that the segmentation was valid, as the executives were able to distinguish between the different types of responsibility; moreover, also discover that for the executives the four components have different relevance, identifying its weights as follow: economic = 3.5; legal = 2.54; ethical = 2.22; and discretionary/philanthropic = 1.30. Thus, the later idea of representing the four parts of the CSR as a pyramid to reflect the different weights of each part.

Economic Responsibility

It can seem inconsistent but the first and basic social responsibility that the companies need to accomplish is the Economic Responsibility. This is because

[13] Samuel O. I, Rene S., (2015), "CSR, Sustainability, Ethics & Governance: Dictionary of Corporate Social Responsibility", Springer, pp. 124-125

[14] Edelman., (2013), "Global deck: 2013 Edelman trust barometer"

[15] Archie B. C., (2016), "Carroll's Pyramid of CSR: Taking Another Look", International Journal of Corporate Social Responsibility, pp. 2-3

from the society enterprises are seen as the entities that produce the goods and services that it needs. So it is in the interest of the collective that companies exist and endure, producing always more and innovative products/services. To ensure that this happen it is necessary that organizations are able to produce a profit to sustain themselves and to spur its employees, owners and investor to continue and improve its operations.
The only way that a company has to survive in today's hypercompetitive environment is to outperform the other in one of the two drivers of the demand: price or quality, thus providing more value to its customers. This explains why the society benefits, and must require, from the economic responsibility of enterprises.

Legal Responsibility

To regulate the existence of companies and to protect the consumers, humans have developed laws and regulations that enterprises must respect as a necessary requirement to allow them to operate.

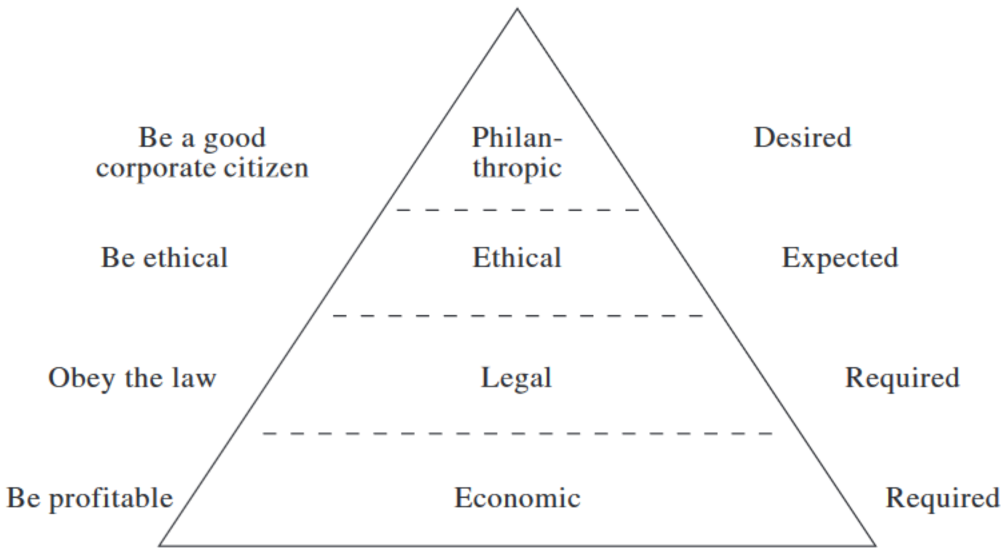
Ethical Responsibility

As it is valid for human beings often laws are necessary but not sufficient to regulate their existence and interactions, also for businesses there are other *non-written laws* that are as important as the codified one. According to these non-written laws, society expects that companies behave in an ethical manner, respecting the standards and practices based on universal principles such as fairness and justice.

Philanthropic Responsibility

This type of responsibility includes all the giving back activities that a company can embrace such as monetary, services or goods donations, volunteering and many other initiatives that involve the participation of a company in the life of the community. This responsibility has to be intended as completely voluntary and has been the most controversial and discussed topic of Corporate Social Responsibility because many looks at it as an attempt by the companies to increase their reputation and that in doing it they have a hidden agenda and not because they guided by a noble purpose.

Table 2: CSR Pyramid



Source: Archie B. C., (2016), "Carroll's Pyramid of Csr: Taking Another Look", International Journal of Corporate Social Responsibility, pp. 5

However, this interpretation of the Corporate Social Responsibility is very useful to understand what it and its components is can be misleading. As a matter of fact, CSR must be seen as a unique integrated philosophy of doing business according to which each action undertaken from a company should fulfil simultaneously the four responsibility that have not to be intended as separate entities to satisfy alternately.

The increasing awareness of the limitations of the traditional corporate reporting supported by the continue growing spread of CSR theories spurred companies, non-profit organizations, and regulators to undertake the innovation of the reporting system to fix the deficit of the AR, proposing new innovative tools and promulgating legislation to encourage organizations to disclose more and more information.

1.3.2 New Tools for Corporate Reporting

An accurate list of the new reporting instrument developed between the 90s and the 2000s was elaborated by the ICAEW (Institute of Chartered Accountants in England and Wales) that presented eleven proposals for new reporting tools among

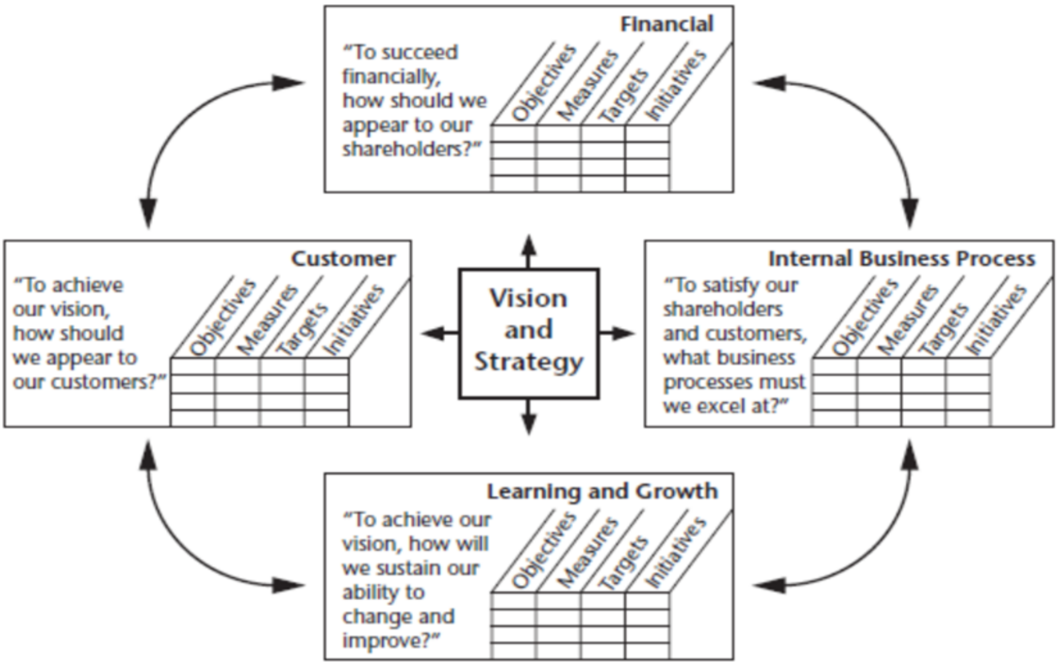
which the most embraced are: the Balanced Scorecard, the Value Reporting Framework and the Sustainability Report.
Worthy to be added to this list for the approval that during the years gained is the Corporate Social Responsibility Report.

1.3.2.1 Balanced Scorecard

Kaplan and Norton, the creators of the Balanced Scorecard, starting from the assumption that at the time management decision and processes were excessively financial focused developed this new managerial tool to measure a firm’s performances considering four perspectives:

- Financial: focuses on the financial performances of a company answering the question *“To succeed financially, how should we appear to our shareholders?”*
- Customer: supported by the recent studies that confirmed the relation between indexes such as customer satisfaction, brand awareness and net promoting score and the success of a company, the authors affirms the importance of measuring the performance in this field answering the question *“To achieve our vision, how should we appear to our customers?”*
- Internal Business Process: focuses on assessing how the business internally works answering the question *“To satisfy our shareholders and customers, what business process must we excel at?”*
- Learning and Growth: refers to measuring of the intangible sphere of the organization answering the question *“To achieve our vision, how will we sustain our ability to change and improve?”*

Table 3: Balanced Scorecard



Source: Institute of Chartered Accountants in England And Wales, (2010), "New reporting models for business - Information for Better Markets initiative", pp.25

Although it is a management tool, thus used for internal purposes, the Balanced Scorecard must be listed in the innovative tools for external reporting because as its creators "the best financial reporting policies will eventually be derived from the best internal reporting policies… As senior executives become more experienced and confident about the ability of scorecard measures to monitor strategic performance and predict future financial performance … they will find ways to communicate these measures to outside investors, without disclosing competitively sensitive information"[16].

1.3.2.2 The Value Reporting Framework

The Value Reporting is a framework developed by a bunch of PriceWaterHouseCoopers (PwC) managers in the US and UK which has the aim of spreading transparency in the reporting system.

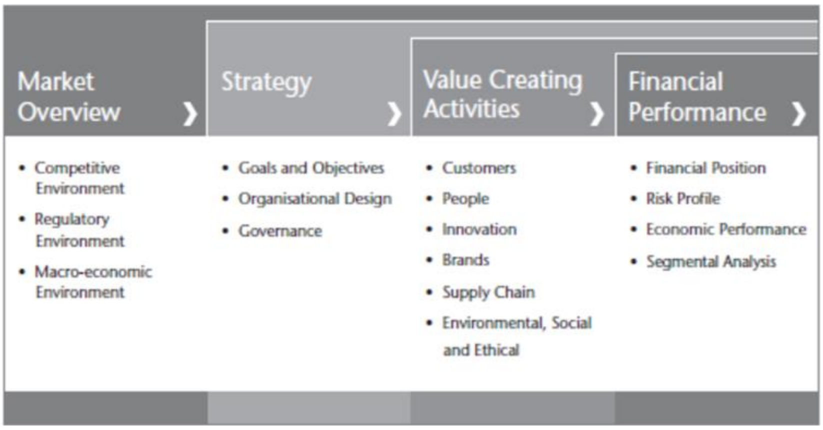
[16] Kaplan R.S., Norton D.P., (1996), "The Balanced Scorecard: Translating Strategy into Action", Boston, Harvard Business School Press

Its authors, starting from the belief that the information that the traditional reporting system discloses was too short-time oriented, was causing an incorrect pricing of the stocks in the capital markets. In particular they underlined the *Earnings Game* as the too much attention that managers and investors put on quarterly earnings and meeting the expectations, sometimes also seeking help to accounting tricks; attributing the entire fault of this situation and of the consequent high volatility to the fact that the market doesn't have enough information.

In response to these problems they developed a new reporting tool in which information will be divided in four dimensions:

- Market overview: where the external market forces were described, both industry related one and the overall economy related.
- Strategy: which exposes how a company compete in the market, describing its strengths and weaknesses; giving insight to the company's objectives and targets.
- Value Creating Activities: illustrating the key activities and relationship that the company carries out during its daily existence with several subjects such as customers, suppliers, community, environment etc.
- Financial Performance: presenting the financial results of the company linking it with its strategy.

Table 4: The Value Reporting Framework



Source: *Institute Of Chartered Accountants In England And Wales, (2010), "New reporting models for business - Information for Better Markets initiative", pp.59*

1.3.2.3 Sustainability Report

The Sustainability Report was introduced in 1997 by the Global Reporting Initiative (GRI), an independent international organization, founded in Boston, that has as its mission "to empower decisions that create social, environmental and economic benefits for everyone".[17]
The Sustainability Report as defined by the GRI is "an organization's practice of reporting publicly on its economic, environmental and social impacts, and hence its contribution towards the goal of sustainable development."[18].
After almost 20 years of incessant research and innovation the GRI launched the *GRI Standards,* the first global standards for Sustainability Reporting as a baseline for that company that wants to disclose on their environmental, social and economic performance.

1.3.2.3.1 Reporting Principles

The GRI that helps the company to adopt this new way of reporting also published the Reporting Principles; they are divided into two groups: principles for defining report content and principles for defining report quality. The first one helps the firms to choose which content to include in their report, while the latter assists corporations in providing high quality information.

- Principles for defining report content

Stakeholder Inclusiveness: the firm should identify all its stakeholders and explain the way it has responded and will respond to their interest. Stakeholders are defined as "entities or individuals that can reasonably be expected to be significantly affected by the organization's activities and vice versa".[19]
Sustainability Context: the report has to show the firm's performance in the topic of sustainability, intended in a wider context. Of course, a unique and comprehensive definition of sustainability does not exist; one that I personally like

[17] "About GRI", www.globalreporting.org
[18] Global Reporting Initiative, (2016), "GRI 101: Foundation", pp. 3
[19] Global Reporting Initiative, (2016), "GRI 101: Foundation", pp. 8

is one of the first one attributed to this word by the Brundtland Report for the World Commission on Environment and Development, which in 1992 defined it as " Development that meets the needs of the present without compromising the ability of future generations to meet their own needs", but we know that sustainability should be intended in a broader sense.
Materiality: this principle affirms that information should have economic, environmental and social significance for the stakeholders.
Completeness: the report should cover the material topics in a thorough manner that will allow the stakeholders to assess the performance of the firm.

- Principles for defining report quality

Accuracy: granted that information can be expressed in many different ways, this should be done in a sufficiently accurate and detailed manner.
Balance: in order to give to stakeholders a comprehensive snapshot of the company's performance both negative and positive aspect must be showed.
Clarity: with the aim of making the information completely understandable and valuable for the stakeholders the report should be presented in an easily accessible manner.
Comparability: the reporting system of the organization should be consistent over time to allow the comparison and assessment of reports of different periods; consistency should be kept also among various corporations to permit comparison also between different entities.
Reliability: the report and the data gathered should be easily examined by stakeholders to check its veracity.
Timeliness: report must be disclosed with a scheduled periodicity in order to permit the stakeholder to take informed decisions.

1.3.2.4 Corporate Social Responsibility Report

The concept of Corporate Social Responsibility Report is as broad as the concept of CSR is; in this work they will be defined as any reports that portrays the

relationship between the company and the society (intended as the full range of stakeholders).[20]
This can cause the fact that every company has its own understanding CSR and the manner it communicates its performance.
In the last decades a huge number of companies embraced the CSR Report publishing it annually, but the practical experience revealed that this tool has more limitations than advantages. In particular, its opponent argues that almost every CSR report provides a too rosy snapshot of the company' situation including only the positive achievement reached without pointing out also the failures. As a study conducted by KPMG and SustainAbility found, readers are looking for willingness of companies to report on bad news. When also bad news is published, greater credibility is attributed to the report, and it is perceived as more unbiased. Thus, the low validity of CSR reports for its readers.
Other limitations can be found in lack of a framework for CSR reports resulting in a high degree of freedom for each company on how to structure it and what topics include in it.

1.5 Legislation

Institutions always looked at corporate reporting with particular attention given its social utility; this attention increased during the last decades due to the pressure that institutions received from multiple subjects to innovate and legislate on the reporting system. This paragraph will deal with two of the most powerful initiatives undertaken by institutions in the recent past: the Directive 2014/95/EU and the UN Sustainable Development Goals.

1.5.1 Directive 2014/95/EU

One of the most relevant and recent action taken by legislators towards the innovation of the reporting system is the one by the European Union which, with the Directive 2014/95 obliged certain kinds of companies to include in their Annual Report non-financial information from 2018.

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[20] Boston College Center For Corporate Citizenship, (2010) "How to Read A Corporate Social Responsibility Report", pp. 5-6

The idea on which the Directive is founded is simple and emerges from the first lines of the "Communication from The Commission: Guidelines on non-financial reporting)": «Greater transparency is expected to make companies more resilient and perform better, both in financial and non-financial terms. Over time this will lead to more robust growth and employment and increased trust among stakeholders, including investors and consumers. Transparent business management is also consistent with longer-term investment ».

The firms affected by this law are large companies (with more than 500 employees and/or assets in the balance sheet of more than € 20,000,000 and/or revenues of more than € 40,000,00) and all other firms considered by the authority as public interest. Approximately the organizations touched by this Directive will be around 6,000 all over Europe.

Companies are required to disclose relevant, useful non-financial information that is necessary to understand their development, performance, position and the impact of their activity; by the EU non-financial information are clustered in three macro groups: environmental, social and governance-related.

Pursuing the intent of helping companies disclose high quality, relevant, useful, consistent and more comparable non-financial information[21], in July 2017 the Commission released its guidelines on non-financial reporting using as base already existing frameworks, among others: the Sustainability Report issued by the Global Report Initiative (GRI) and the International Integrated Reporting Framework amended by the IIRC. It is important to underline that the EU guidelines are non-binding and do not constitute a technical standard and that any documents prepared in application of a law deriving from the Directive 2014/95 must be respectful of European or national standards. The guidelines are articulated in two categories: key principles and contents. As already mentioned the EU was inspired by other frameworks in editing its guidelines and given that some of them as the Sustainability Report (SR) and the Integrated Report (IR) are deeply described in this dissertation, in this part of the work the content elements and key principles outlined by the EU will be only listed because largely analysed in other sections. Six are the key principles outlined in the Directive 2014/95: materiality of the

[21] Official Journal of the European Union, (2017), "Communication from The Commission: Guidelines on non-financial reporting (methodology for reporting non-financial information)", pp. 1-18

information; fair, balanced and understandable; comprehensive but concise; strategic and forward looking; Stakeholder orientation; consistent and coherent. For what concern the suggested content elements, these are: the business model; policies and due diligence; outcome; principal risk and their management; key performance indicators; thematic aspects (environmental protection, social responsibility and treatment of employees, respect for human rights, anti-corruption and bribery, diversity on company boards).

Seeking flexibility, the directive allows firms to present information in the way they prefer with the precondition that this must be done in accordance with European or national standards. In particular, there is no specific recommendation on the tool to use; companies can include it in the Annual Report or create a separate report for it. This is probably one of sole inconsistency of the Directive that, in theory affirms the importance of the connectivity of information but that in reality do not spur it allowing the companies to isolate non-financial information in a separate report.

1.5.2 UN Sustainable Development Goals

In September 2015 the General Assembly on behalf of the 194 Member States adopted the resolution on Sustainable Development consisting of 17 Sustainable Development Goals (SDG), articulated in 169 targets, that all the countries belonging to the UN are expected to reach by 2030. As it is known the resolutions of the UN are not binding on the Member States but as declared by the General Assembly "governments are expected to take ownership and establish national frameworks for the achievement of the 17 Goals"[22], therefore each State has the responsibility to follow-up the SDG resolution with national laws and implement it.

Sustainable development has been defined as development that meets the needs of the present without compromising the ability of future generations to meet their own needs, this must be done accomplishing three key objectives: economic growth, social inclusion and environmental protection[23].

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[22] United Nations, (2015), "Resolution A/RES/70/1 25 September 2015: Transforming our world: the 2030 Agenda for Sustainable Development", pp. 11

[23] "Sustainable development goals", www.un.org

Table 5: The 17 SDGs

Goal 1.	End **poverty** in all its forms everywhere
Goal 2.	End **hunger**, achieve food security and improved nutrition and promote sustainable agriculture
Goal 3.	Ensure **healthy** lives and promote well-being for all at all ages
Goal 4.	Ensure inclusive and equitable quality **education** and promote lifelong learning opportunities for all
Goal 5.	Achieve **gender equality** and empower all women and girls
Goal 6.	Ensure availability and sustainable management of **water** and sanitation for all
Goal 7	Ensure access to affordable, reliable, sustainable and modern **energy** for all
Goal 8.	Promote sustained, inclusive and sustainable economic growth, full and productive **employment** and **decent work** for all
Goal 9.	Build resilient **infrastructure**, promote inclusive and sustainable **industrialization** and foster **innovation**
Goal 10.	**Reduce inequality** within and amongst countries
Goal 11.	Make **cities** and human settlements inclusive, safe, resilient and **sustainable**
Goal 12.	Ensure **sustainable consumption and production** patterns
Goal 13.	Take urgent action to **combat climate change** and its impacts*
Goal 14.	**Conserve** and sustainably use the **oceans, seas and marine resources** for sustainable development
Goal 15.	Protect, restore and promote **sustainable use of terrestrial ecosystems**, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss
Goal 16.	Promote peaceful and inclusive societies for sustainable development, provide access to **justice** for all and build effective, accountable and inclusive institutions at all levels

Goal 17. Strengthen the means of implementation and revitalize the **Global Partnership** for Sustainable Development

Source: "Sustainable development goals", (2015) www.un.org

The United Nations explicitly indicates the enterprises as a key player in the Sustainable Development, as affirmed by Ban Ki-moon, former Secretary-General of the United Nations: "Business is a vital partner in achieving the Sustainable Development Goals. Companies can contribute through their core activities, and we ask companies everywhere to assess their impact, set ambitious goals and communicate transparently about the results" inciting them in applying their creativity and innovation to solve the SD challenges; reiterating their indispensability for the world in achieving the Sustainable Development.

For this reason, almost 20 years ago the UN launched the UN Global Compact, a platform for business engagement on Sustainable Development that today counts on 9,704 companies from 161 countries. The UN is aware that incorporating sustainability into core business and strategies require a complete change in their business model and it is not an easy process; that is why he calls to action top managers and boards to undertake the right way of sustainability, describing it as the only one that can lead to a long-term success.

The companies participating in the Global Compact are required to publish an annual report (COP, Communication on Progress) in which they disclose their progress in pursuing a sustainable development and how they are integrating sustainability in their strategies.

Until today the UN has gathered 51,800 reports, a quite good result… but the road ahead is still long.

1.6 The Future of Corporate Reporting

After this analysis of the evolution that corporate reporting experienced, it is clear that today we are far beyond the Traditional Corporate Reporting, but the future is not yet defined.

The willingness of corporations, legislators, NGO to innovate the reporting system lead to a proliferation of new reporting tools that created a sense of confusion where too much proposals and initiatives were taken.

What is needed today is a unique accepted tool thanks by which companies can disclose enough information to fulfil the needs of all the stakeholders giving them a comprehensive and exhaustive snapshot on the company's activities.
Currently the tool that has the right stuff to satisfy this requirement seems to be the Integrated Reporting, but its success is still a topic of strong debate between academic, companies and legislators.
This dissertation now will continue providing a deep presentation and analysis of the Integrated Reporting.

CHAPTER TWO

The second chapter can be divided in two parts. In the first part will be deeply described the Integrated Reporting following the guidelines of the IIRC that according to many academics will play a central role in the corporate reporting of the future. In particular, will be explained which are the guiding principles and content elements that should be present in an IR and the integrated thinking that must drive the company in editing the report. Nonetheless the tool also receives critics related to its biggest limitations at which is dedicated a specific section.

After introducing the fashion industry, the second part, will identify the major issues that the industry is facing in the last years mainly related to the treatment of the workers of the garments sector and to the environmental impact.

At this point the Integrated Report is presented as the possible tool to solve the above listed problems.

2.1 Integrated Reporting

An Integrated Reporting is, as defined by the IIRC, "a concise communication about how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long term"[24].

Its aim is to give to the stakeholders, intended in the broader way as possible, a 360°-degree vision on the company's performance.

Nowadays this tool seems the only one able to respond to the pressures which arose after the financial crisis and the corporate scandals of the last decade.

2.1.1 Brief History Towards Integrated Reporting

The road towards Integrated Reporting started on August 2010, when the Prince's Accounting for Sustainability Project (A4S) and the Global Reporting Initiative (GRI) formed the International Integrated Reporting Council (IIRC): a global coalition of companies, regulators, NGOs and accounting professionals that has the

[24] International Integrated Reporting Council, (2013), "Prototype Framework", pp. 3

aim of promoting communication about value creation as the next step in the evolution of corporate reporting[25].

The IIRC sets its mission as to "establish integrated reporting and thinking within mainstream business practice as the norm in the public and private sectors".[26]

Since 2011, the IIRC launched a Pilot Programme, a two-year initiative which involved 44 companies (The Coca-Cola Company, KPMG International, HSBC Holdings plc among others) with the scope of exchanging information and knowledge to help the Council in developing the IR framework. In September 2011, the IIRC published its first paper entitled "Towards Integrated Reporting – Communicating Value in the 21st Century" where they defined the IR as "a company's primary reporting vehicle that brings together material information about an organization's strategy, governance, performance and prospects in a way that reflects the commercial, social and environmental context within which it operates. It provides a clear and concise representation of how an organization demonstrates stewardship and how it creates and sustains value"[27] and its main underlying values.

A year later, on 11th July 2012 the Council released the "Draft Outline of the International IR Framework" that for the first time established the basic structure of the Framework.

After around 4 months the "Prototype IR Framework" was published with the aim of demonstrating the progress that the Organization had, defining the key principles and concept at the base of the Integrated Reporting to help interested organizations in producing their IR.

All this introductory work led to the preparation of the "Consultation Draft of the first Integrated Reporting Framework" that was published on 16 April 2013.

Finally, in December of the same year the Council released the "International IR Framework", the final version of the framework to which the companies that want to embrace the IR can refer.

The aim of the framework is to define fundamental concepts, guiding principles and content elements that rule the compilation of an Integrated Report

[25] "The IIRC", www.integratedreporting.org
[26] "The IIRC", www.integratedreporting.org
[27] International Integrated Reporting Council, (2011), "Towards Integrated Reporting. Communicating value in the 21st Century", Discussion Paper, pp. 3

Moreover, the IIRC highlight that the Framework is principles-based, meaning that it draws only the grounds on which each company has to build its individual report according to its judgment, considering its specific organization. Thus, the Framework does not specify specific KPI or measurement methods but leaves to individuals a quite high level of flexibility, still preserving a sufficient degree of comparability.

2.1.2 Fundamental Concepts

According to the vision of the IIRC three are the fundamentals concept at the base of the IR: the value creation over time, the capitals that an organization uses and its business model.

Value Creation

The final aim of an organization is to create value for itself, for its customers, for its shareholders and in a broader sense for all the stakeholders. The capability of a company to create value for itself is strictly related and dependent on the value created for the others.

The resources and the relationship used to create this value in the Framework are called capitals and the value generated by an organization can be expressed as an increase, decrease or transformation of these capitals.

Furthermore, the IIRC rebate the strong interdependence that exist between the organizations and the external environment due to the high level of influence that they have on each other.

The Capitals

In the Framework are listed six kinds of capitals, intended as “resources and relationships used and affected by the organization”: financial, manufactured, intellectual, human, social and relationship, and natural.

This list is not to be seen as exhaustive and mandatory to follow, but each organization is free to outline the capitals that it considers relevant for its activity.

The six capitals listed are:

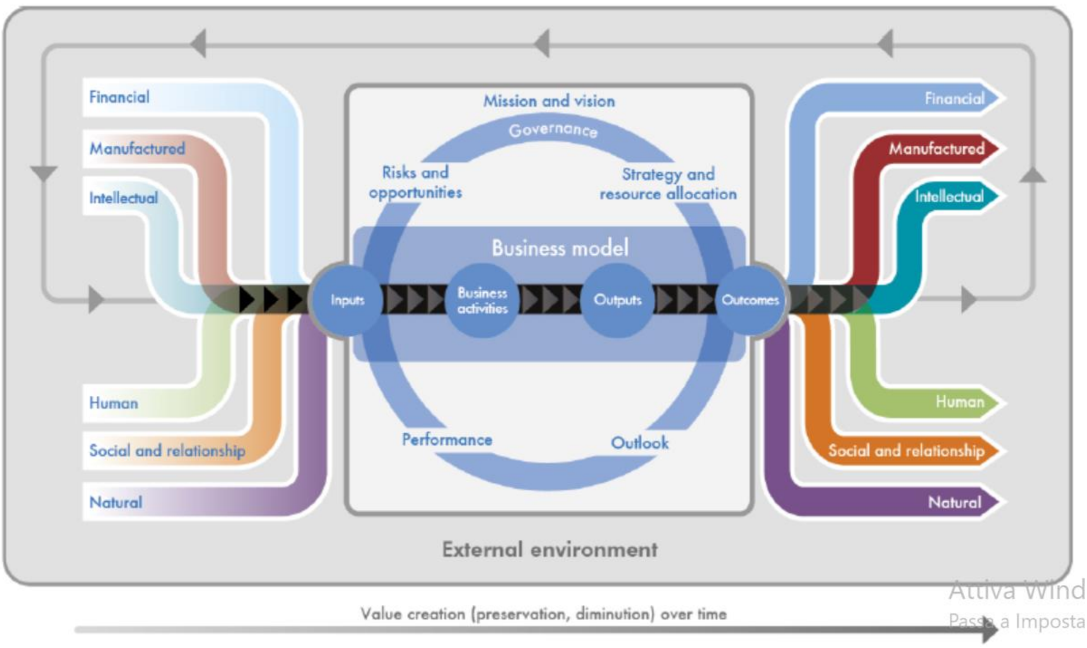
- Financial capital: the funds that an organization uses to carry out its activities received through financing or produced as income.

- Manufactured capital: physical goods that a corporation use during its activities (building, equipment, etc).
- Intellectual capital: intangible knowledge-based assets of a company (intellectual property, tacit knowledge, etc).
- Human capital: stock of employee’s knowledge, personality attributes and experience.
- Social and relationship capital: the social relationships that a company has with the stakeholders and the value network in which it operates.
- Natural capital: intended as all the environmental resources that are involved by the process of value creation with a past, current and future horizon.

The Business Model

The IIRC define the business model as a system of inputs, business activities, outputs and outcomes involved in the creation of value over time. The business model is the representation of the process of value creation: everything starts from the capitals that represents the stores of value from which the inputs are taken; these inputs are then used in the company’s activities that generates outputs, which at the last stage becomes outcomes and goes to affect the capitals increasing, decreasing or transforming them.

Table 6: The Business Model



Source: International Integrated Reporting Council, (2011), “Towards Integrated Reporting. Communicating value in the 21st Century”, Discussion Paper, pp. 10

2.1.3 Guiding Principles

As already mentioned above the Integrated Reporting Framework is principles based, for this reason the IIRC published a list of seven guiding principles that companies must follow in editing their IR.

Strategic Focus and Future Orientation

According to the IIRC an IR should provide information about a company's strategy, it's relation with the use of capitals and impact on the value creation among the three different time horizon. Additional information should regard the market positioning, relationship between past and future performance etc.

Connectivity of Information

This principle spurring the integrated thinking invite the organizations to give a holistic and comprehensive snapshot of the relation and interdependence of all the factors that influence the value creation in the IR. The key forms of connectivity of information include the connectivity between: the past, present and future; the capitals; financial and non-financial information; quantitative and qualitative information.

Stakeholder Responsiveness

Starting from the premise that an organization creates value interacting with other entities (the stakeholders) this principle expresses the importance of building good and fruitful relationships with the stakeholders on a daily basis that can help the organization to understand their needs, understand future trends and develop and evaluate strategies.

Materiality

The information reported in the IR should be relevant and important, meaning that they have, or may have, an effect on the organization's process of value creation.

Conciseness

To help the understanding of who is interested, the Integrated Report should include sufficient information but without being too heavy of data; thus, concept must be expressed in a clear way and in as few words as possible.

Reliability and Completeness

For the provided information to be considered reliable, it must be checked both via an internal audit process and from an independent external committee; while with completeness the principle suggest that the information disclosed must be both positive and negative, with the aim of providing a complete picture of the organization.

Consistency and Comparability

The IR of an organization should be consistent over time to help the better understanding and the comparison of reports of different time periods, this can be reached for example by including the same KPI across different reporting periods; moreover the IIRC worried about the comparability between reports belonging to different organizations highlight that this process will be ensured by the Content Element, which are equal for all the companies and give some advice as to using benchmark data (industry or regional benchmarks) or presenting information in form of ratios to help the comparison with others organizations.

2.1.4 Content Elements

With Content Element the IIRC refers to the inevitable content that must be included in an Integrated Report. In the Framework there is a list of seven contents; it is also specified that it is not mandatory to list the content in separate sections but that the contents have to be intended as elements that permeate the whole report.
In the Framework the contents are stated in form of questions at which the IR should provide answers, this dissertation for accuracy sake will report the question as formulated by the IIRC:

Organizational Overview and External Environment

Question: *What does the organization do and what are the circumstances under which it operates?*

According to the IIRC stakeholders should be informed of the organization's key features such as: vision, mission, ownership structure, principal activities and markets in which operates; and on the basic features of the external environment providing information on the political, legal, social and environmental context that can affect the value creation of the company.

Governance

Question: *How does the organization's governance structure support its ability to create value in the short, medium and long term?*

An IR also needs to provide insights on the organization's leadership structure and on the process of decision making; and how the remuneration system is aligned with the creation of value over the time.

Business Model

Question: *What is the organization business model?*[28]

Risks and Opportunities

Question: *What are the specific risks and opportunities that affect the organization's ability to create value over the short, medium and long term, and how is the organization dealing with them?*

An IR has to identify the most relevant risks and opportunities related to the organization and to the industry in which it operates and that can probably affect its ability to create value in particular describing: the sources of this phenomena both internal and external, its probability to occur and how the company is prepared to face it.

Strategy and Resource Allocation

Question: *Where does the organization want to go and how does it intend to get there?*

[28] See paragraph 2.1.2 of this dissertation

This content element deals with the strategic objectives of the organization and which are the strategies the company undertook to reach it, providing information on the resources allocation to implement it.

Performance

Question: *To what extent has the organization achieved its strategic objectives for the period and what are its outcomes in terms of effect on the capitals?*

Stakeholders must to be informed if the organization was able to reach the desired targets and how its result of the year affects the capitals along the value chain.

Outlook

Question: *What challenges and uncertainties is the organization likely to encounter in pursuing its strategy, and what are the potential implication for its business model and future performance?*

The IR should disclose information about the future changes (in the short, medium and long term) that can affect the environment in which it operates, how these can influence the organization activities and how the company is at present inclined to manage it.

Basis of preparation and presentation

Question: *How does the organization determine what matters to include in the integrated report and how are such matters quantified or evaluated?*

To help the understanding of the reports, stakeholders should be aware of the underlying logic that drove the editing of the Integrated Report in particular: a summary of the organization's materiality determination process and a description of the frameworks and methods used to analyse and measure the tracked indicators.

2.1.5 Integrated Thinking

In its papers the IIRC frequently talks about the Integrated Thinking, defining it as "The active consideration by an organization of the relationships between its various operating and functional units and the 'multiple capitals' that the organization uses or affects. Integrated thinking leads to integrated decision making and actions that consider the creation of value over the short, medium, and long term."[29]

It has been long discussed if Integrated Thinking is a cause or a consequence of the implementation of the Integrated Report; it is not the aim of this dissertation to consider if it is at the top or at the bottom of the IR process. Surely, I can affirm that the IR is just the tip of the iceberg while what is behind the water surface is the Integrated Thinking, a necessary element to sustain the implementation of an effective and efficient IR in the long term.

Only through Integrated Thinking can managers have a broad and holistic vision of the company, use it as a guide towards Integrated Decision and thus provide integrated information.

2.1.6 Benefits and Limitations of Integrated Report

Although the IR is a quite new tool and there are not much empirical studies on it, to have a complete assessment of it the dissertation will now provide an analysis of its benefits and limitations.

Such a revolution, as the Integrated Reporting is, can create several benefits which affect the implementing company. The deriving benefits can be clustered in four categories:

Internal Business Process Benefits

- Integrated Reporting helps to break down silos and create more connected teams across an organization, creating a holistic view of the company for the employees.
- Concretely inclusion of sustainability in the company's culture and strategy, giving to Non-financial matters the same relevance as Financial information
- Better understanding of the relation between Financial and Non-financial performance
- A clearer identification of the area to improve in the measurement and control system.

[29] International Integrated Reporting Council, (2013), "The International <IR> Framework", pp. 3-4

- Improve internal resource allocation decision due to a better understanding of the business value creation process.
- Better engagement with all stakeholders resulting from an increased comprehension of who they are and their needs.

External Market Benefits

- Better understanding of the company by the investors and customers
- Enhance corporate and brand reputation within the investors and customer both, increasingly worried about Non-financial information.
- Giving the company the credibility to require that its counterpart along the supply chain respect certain requirements.

Economic and Financial Benefits

- Higher corporate reputation generates economic benefits such as higher negotiation power with governments and institutions; attraction of best employees, business partners and customers; credibility to charge a premium price for the products.
- Studies have shown the negative correlation that exist between the disclosures of the IR and the cost of capital.[30] Thus having a positive impact on profit, earning per share and stock price.

Benefits Deriving from Managing Regulatory Risk

- Have a seat at the open table of the debate on the Integrated Reporting, that is still a tool in developing with an undefined framework and structure; thus, a possibility to be an active player in its formation.

Of course, as any disruptive innovation, the Integrated Reporting is welcomed with a lot of scepticism by the majority worried by the challenges deriving from its implementation, highlighting its limitations:

- Lack of a globally accepted framework and of a set of standards for measuring non-financial information.

[30] Zhou, S., Simnett, R., Green, W., (2016), "Does Integrated Reporting Matter to the Capital Market?", pp. 13-15

- The companies see the size of the report as an issue; the unique report coming from the merging of the information that they already disclose separately in the Annual Report and in the Sustainability Report could be a voluminous file. If this happen, for conciseness sake the most probably information to be cut are the Non-financial one.
- The high difficulty of assessing the reliability of non-financial information and then the low possibility of third party assurance
- Who will "sign off" the Integrated Report if a lot of departments are interested in its composition?[31]
- The monetary and non-monetary costs deriving from the transition to the IR and its implementations.

2.2 Comparison Among AR, SR and IR

After a large description of different several types of reporting systems, it can be affirmed that among them three have been or will be the predominant ones, these are the Annual Report, the Sustainability Report and the Integrated Reporting. At this point of the dissertation a brief comparison between them is needed. In particular five areas are investigated: target of the report, status of mandatoriness or voluntariness, comparability between reports belonging to different years and different companies, level of possibility of industry customization, assurance level.

Table 7: Comparison Among AR, SR and IR

	AR	SR	IR
Target	Shareholders & Investors	Several stockholders	All stakeholders
Mandatory/ Voluntary	Mandatory	Voluntary*	Voluntary*
Comparability	High	Medium	Low
Industry Customization	Low	Medium	High
Assurance Level	High	Low	Low

Source: Busco C., Frigo M.L., Quattrone P., Riccaboni A., (2013), "Integrated Reporting: Concepts And Cases That Redefine Corporate Accountability", Springer, pp. 45-50

[31] Solstice, (2005), "Integrated reporting - issues and implications for reporters", pp. 8-9

**Voluntary except some few exception: Sustainability Report is mandatory in France, Denmark, Sweden; Integrated Report is mandatory in South Africa*[32]

2.3 Actual Scenario

The innovation path undertaken in the last decades has shown astonishing results and nowadays both companies and institutions are well aware that something more than Annual Reports is essential to pursuing a long-term success.

Today, as found out by a KPMG study, 72% of the companies included in the N100[33] reports somehow annually on Corporate Social Responsibility topics, where this percentage was 12% in 1993 and 53% in 2008.[34] This statistic clearly shows the huge progress made by enterprises in the corporate reporting field in the last twenty years.

For what concern the two main reporting frameworks presented in this dissertation the situation is a bit more worse: till today 11,964 companies published a Sustainability Report following the GRI guidelines while 1,600 companies used the scheme developed by the International Integrated Reporting Council to produce their IR. This is a good number considering that everything started with 44 companies participating in the pilot program but is still a poor number considering the whole landscape of organizations around the world.

The road towards the Integrated Reporting, or even better towards an integrated thinking, has just begun and lot of improvements are still needed as much as progress has been done. What is urgently required to develop an effective tool through which companies can disclose and integrate financial and non-financial information is:

- Unification and harmonization of the different frameworks and guidelines of different entities with the creation of a unique tool (that can be the Integrated Reporting or any other framework, but nowadays IR seems to be the chosen one).

[32] Busco C., Frigo M.L., Quattrone P., Riccaboni A., (2013), "Integrated Reporting: Concepts and Cases That Redefine Corporate Accountability", Springer, pp. 354

[33] The N100 refers to a worldwide sample of 4900 companies comprising the top 100 companies by revenue in each of the 49 countries researched by the KPMG study "The road ahead: the KPMG survey of corporate responsibility reporting 2017

[34] KPMG, (2017), "The road ahead: the KPMG survey of corporate responsibility reporting 2017", pp. 57

- Customization of the tool for different industries with precise guidelines to satisfy and address the issues of specific businesses.
- Shift from a voluntary to a compulsory regime for the disclosure of this unique tool, not only for the biggest or listed companies but also including the SME35 that, for example, in Europe accounts for the 99% of enterprise and for more than 2/3 of the employment.36
- Determination of basic KPI's, different for several industries, that the organizations must measure and be accountable for
- Building of an independent and reliable system that allows to check and test the validity of the disclosed information

2.4 Fashion Industry

2.4.1 Industry Overview

With the term *fashion industry* in this work I will refer to all the activities involved in the manufacturing and sales of clothing and garments.[37]

By many academics clothing is considered a human's basic need for two main classes of reasons: physical and social; the physical reasons are protection, modesty and safety, while the social reasons are identification, status and decoration. For these reasons it has always been at the centre of the human's life, since the Stone Age.

In addition to its huge functional and social relevance, the clothing industry also has a very high relevance from an economic point of view.

In the year 2017 the global apparel market was valued at 2.4 trillion dollars, accounting for 2% of the world's Gross Domestic Product (GDP). Just to give an idea of the magnitude of the industry if it were ranked alongside individual countries' GDP, represent the world's seventh largest economy, after France and before India.[38] It is estimated that the people employed in the *fashion industry* are around 60 million worldwide accounting for around 2% of the world active population.[39]

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[35] Small Medium Enterprise
[36]www.ec.europa.eu, (2018), "Statistics on small and medium-sized enterprises"
[37] Fashion industry, apparel industry and clothing industry are used as synonymous
[38] Business of Fashion, McKinsey, (2018), "The State of Fashion 2017"
[39] www.fashionunited.com

The industry is facing a recovery period after the tough years following the financial crisis of 2008 and according to the McKinsey Global Fashion Index will experience a growth in sales of 3.5/4.5% in the next year. [40] The projections using a long-term horizon are even more positive, mentioning a study made by BCG and GFA, by 2030 the worldwide apparel annual consumption will rise by 63%, from 62 million tons to 102 million boosted by the increase of the world population by 8.5 million and the growth of the GDP per capita at a pace of 2% in the developed countries and of 4% in the less developed nations.[41]
Reading this number, it is clear why the fashion industry matters in the worldwide economic landscape.
According to what is discussed in the previous chapter, in order to have a complete assessment of a business three main aspects (3 bottom lines theory or 3P)[42] must be considered. If for what concern the profit we have seen the magnitude and the solidity of this industry, the next paragraph will analyse the features pertinent to the other two Ps.

2.4.2 The Fashion Industry Issues

To quote William Shakespeare *"All that glisters is not gold"*, in fact despite its flourishing economic results the apparel industry has always been associated with the image of a non-sustainable industry, affected by some big issues along its supply chain.

People

One of the main effect of the globalization process is the delocalization of the production in developing countries with the main purpose of exploiting the lower labour cost. Also the apparel industry followed this trend, delocalizing its production mainly in Asian developing countries; today in the picture of the major exporters countries of clothing figures eight Asian countries out of ten, with the remaining two that are US, that occupies a residual slice of cake and the EU, that

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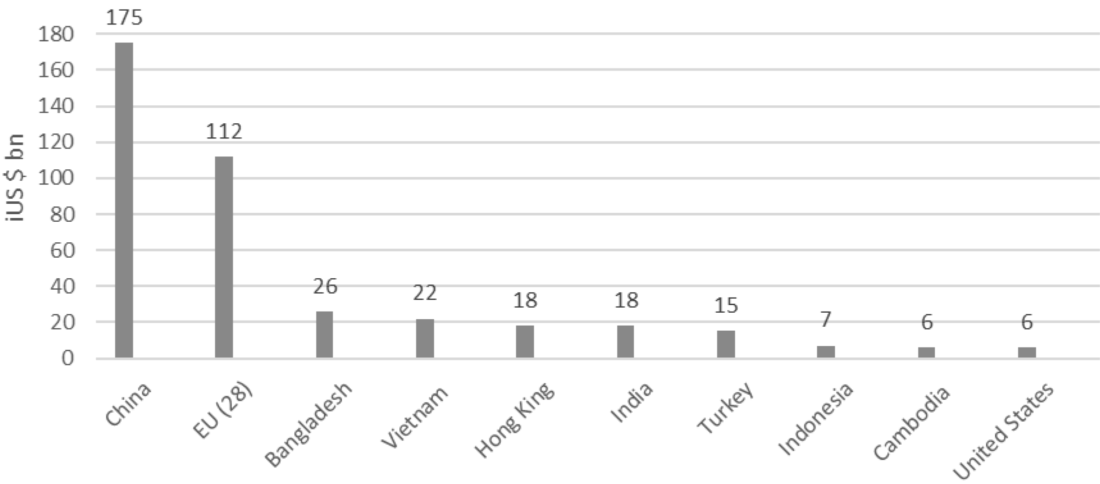
[40] The McKinsey Global Fashion Index (MGFI) is composed of almost 500 public and private companies spanning different geographies, segments and product categories. It was created to track the industry's performance providing a holistic benchmark for the global industry.
[41] Global Fashion Agenda & The Boston Consulting Group, (2016), "Pulse of the fashion industry 2017", pp. 8-10
[42] The three Ps stands for People, Planet and Profit

with its main exporters (Italy, France and UK) is mainly involved in the trade of luxury and high value added products. Thus, it is clear that the vast majority of clothing, in terms of quantity, is produced in the eight Asian nations.

Table 8: Top Ten Exporters of Clothing, 2015



Source: WTO, (2016)

In these nations the sector's minimum wages are less than half of what can be considered a living wage; for example, Bangladesh (the third world's exporters of clothing) is characterized by one of the world's lowest wages and garments workers are paid 68 US dollars per month. This salary is often the proceeds of extremely long working hours that can arrive to fourteen hours per day in sweatshop factories without any kind respect for the workers' rights.

A sad, but truthful, summary of the situation is offered from a catastrophe news known as the *Rana Plaza Collapse*: on 24 April 2013 a five-floor commercial building in Dhaka, the capital of Bangladesh, collapsed causing the death of 1,134 and injuring 2,500 people: men, women, children employed by suppliers of Western fashion brands such as Primark, Benetton, Mango and maybe many others that thanks to the subcontracting procedure are untraceable. Moreover, it was also difficult, requiring some weeks, for some brands to understand if their production at any stage passed through the Rana Plaza factories for their negligence to know who their suppliers are.

The most shocking aspect of this disaster is that before the collapse some cracks where founded in the building, for this reason banks and apartments located in the building were evacuated while the employees of the garments factory were forced to continue working in that unstable building.

Planet

The apparel industry has been at centre of controversy for what concern the environmental impact of the business and a lot has been argued about its practices. Issues starts with the raw materials used in the industry. According to The Fibres Benchmark developed by Made-by the most common fibres used in the garment industry such as cotton, wool, silk and leather are the least sustainable. The study was conducted on twenty-eight fibres using six parameters (greenhouse gas emissions, human toxicity, eco-toxicity, energy, water and land use) to rank it.[43]
Just to give an example it is estimated that to produce one kilogram of cotton, equivalent to one t-shirt and one pair of jeans, you need 20,000 litres of water; another issue related with the cultivation of cotton, and all the natural fibres, is the constant growing quantity of material that the industry requires that spur the farmers to use chemical fertilizers, harmful for both humans and the environment.
The environmental problems caused by the apparel industry does not finish with the production of the raw materials, indeed issues arise also with the disposal of the clothes. Americans alone throw away approximately 14 million tonnes of garments each year, that is over 36 kg per person. According to the Environmental Protection Agency (EPA), 84% of unwanted clothes in the United States goes into either a landfill or an incinerator; globally it is estimated that, only 20% of clothing is collected for reuse or recycling.[44]

Philanthropic Activities

As already mentioned above often corporations are involved in philanthropic activities guided by noble purposes, or just to offset their negative impact towards society and environment and clean their reputation. It is not the aim of this work to understand which the real intent of these activities is, but surely can be affirmed that, whatever it is, giving back activities are good for the collective.

[43] "About the benchmark for fibers", www.made-by.org
[44] Global Fashion Agenda & The Boston Consulting Group, (2016), "Pulse of the fashion industry 2017", pp. 10-11

According to what was ratified by the UN Development Goals the world's wealthy nations should contribute with the 0,7% of their GDP to the assistance of less developed countries. Of course, companies and governments are not comparable, but knowing the relevance that companies have in the reaching of the UN SDG it is correct to infer that firms should be required to contribute for the same percentage in philanthropic activities. Unfortunately, apparel's brands spend on average only around 0.2% of sales on Corporate Social Responsibility's activities, that is far below the average of the pharmaceutical and mining industry that score 1.2% and 0.4% respectively.

These and many other facts contribute to make the apparel industry the second most polluting industry in the world, after the oil industry and one of the less developed industry for social responsibility.

2.4.3 The Fashion Revolution

"Today, both people and the environment suffer as a result of the way fashion is made, sourced and consumed. It's time for a *Fashion Revolution*, and we believe that the beginning of this process is greater transparency".[45]

Where, for transparency, is meant public disclosure of company's policies, goals, procedures, performance, progress and real-world impacts on workers, society and the environment. Transparency is the only possible way to make companies accountable for the events and impacts that occurs along all the supply chain in which they operate. Thus, once they are accountable they can really care for what happens and promote good practices, starting the revolution.

Table 9: The Fashion Revolution Process

TRANSPARENCY → **ACCOUNTABILITY** → **CHANGE**

Source: reworking from "Fashion transparency index 2017", Fashion Revolution

If until today non-transparency was the status quo, a spark to trigger the revolution is needed. In a society where the businesses are guided from the conscience of the

[45] Fashion Revolution, (2017), "Fashion transparency index 2017", pp. 1

executives the Rana Plaza's 1,134 dead should be enough but given that managers are more sensible to the reactions of investors to quarterly performance disclosure an external spark is needed. The actual system can be compared to the *state of nature* conceptualized by Hobbes as the situation in which humans without any system of law and guided by antisocial passions (desire for power, prosperity, glory) cause a general decrease of welfare. According to the philosopher the only option to solve this situation is the introduction of a system of laws, with the individual losing a bit of his freedom in favour of a general increase of welfare.[46]
Contextualizing this thought with the topic of this dissertation, what the apparel industry urgently needs to trigger the revolution is a system of laws that oblige the companies to be transparent. This can be only achieved through a system of reporting that allow companies to disclose a comprehensive set of information regarding its activities. That is why, no one has no excuse anymore… the fashion industry must embrace the Integrated Reporting as soon as possible.

2.4.4 Top 100 Listed Companies Reporting Analysis

To understand at what point of the fashion revolution is I have done an analysis of the reporting system of the top 100 listed fashion companies for market capitalization. Of these hundred companies was analysed the type of reports they draft using five categories: Annual Report (AR) identified as a report which includes the financial statement plus few general information on the company; Annual Report + CSR information if the AR also includes information on Corporate Social Responsibility of the firm; Sustainability Report (SR) if the company discloses a report according to the GRI standards ; CSR report identified any other additional type of report that firms disclose focusing on CSR topics ; Integrated Report (IR) if a firm publishes just one report in which they include all the relevant information following the IIRC standards.
The complete output of the research can be found in the Appendix A at the end of the work.
N.B For five companies was not possible to find data
The results of the analysis reveal that the actual scenario is not flourishing, with only four companies out of one hundred using the Integrated Reporting as a tool to

[46] Hobbes T., (1651), "Leviatano"

divulge annual firm’s information, while all the others adopt the Annual Report in its simple or complex form. In particular there are sixty-six companies that publishes the AR in its simple format, meaning that it contains exclusively financial information. Of these companies twenty-five publish an additional separated report on CSR topics while the rest stop at publishing only the simple AR.

Then there are other twenty-five companies that published the Annual Report, in what I called the complex format, meaning that they also insert non-financial information in it.

In total out of our poll of one hundred firms it has been found that fifty-four disclose on corporate social responsibility matters somehow.

CHAPTER THREE

After largely described the Integrated Report as outlined by the IIRC and provided evidence on why the fashion industry urgently needs it, in the third chapter of this dissertation will deal with the analysis of two case studies. Towards them will be highlighted the flexibility that characterizes the IR that allowed the company to interpret the tool in a different way but still in accordance with the guidelines designed by the IIRC.

The chosen companies are Inditex S.A and Monnalisa S.p.a: the first one is one of the biggest fashion retailer in the world, considered the creator of fast fashion and owner of brands such as Zara; while the latter is an Italian SME specialised in the production of childrenswear targeting the high-end of the market.

The two identified companies are different, indeed are different also the reasons that drove me in choosing them: the main cause why I took Inditex is that being a giant of the fashion industry can be a guide and trend setter for the whole sector that as emerged from the top 100 analysis is still sceptical about the IR, moreover being a giant its commitment towards transparency and sustainability can create wealth for the world starting from the 1.5 million workers employed by its suppliers; on the other hand Monnalisa given its status of not listed company and SME is not obliged to publicly disclose any kind of information but its culture and willingness to establish a transparent and long-lasting relationship with the stakeholders spur the company to adopt and disclose the Integrated Report, thus an example of how also voluntarily companies can embrace the change in their corporate thinking creating growth and advantages for all the interest bearers.

The case studies are carried out comparing companies' reports with the concepts, principles, elements of the Integrated Report Framework elaborated by the International Integrated Reporting Council. The chapter also provides a comparison between the two companies highlighting their similarities and differences.

3.1 Inditex Case

3.1.1 History and Company Overview

Inditex, acronym of Industria de Diseño Textil, is one of the world's largest fashion retailers that in the ranking for market capitalization above presented occupies the 2nd place only after Nike with $114.58 b.

Today the company has 7,504 stores, mainly corporate-owned, operating in 94 different markets employing 162,450 employees in the five continents producing €23.3 billion of sales last year, through a diversified strategy articulated in eight different brands.[47]

The path for this astonishing success started more than forty years ago when in 1975 Amancio Ortega, after many years working in the clothing industry, opened the first Zara store in La Coruña producing and selling pop-fashion at low prices. The holding Inditex was officially created in 1985 to manage the growing number of stores that Zara owned all across Spain, logistic centres and manufacturing plants. To support the growing number of items needed the CEO at that time implemented a new design and distribution method that exceptionally reduced the company's time to market. Still today, this is the point of strength of Inditex that is considered the creator of the fast-fashion.

In 1988 the company began its gradual and constant global expansion commencing from Portugal, arriving to be present in all the continents.

In 1991 the Inditex portfolio started growing via both greenfield investment and acquisition with the creation of Pull and Bear and the incorporation of Massimo Dutti. Today the holding owns eight brands: Zara; Pull and Bear Casual providing laid-back clothing and accessories for teenagers; Massimo Dutti offering high-end lines that appeals to the urbane, independent and cosmopolitan men and women; Bershka aimed at young people; Stradivarius targeting young and dynamic customers with the latest trends; Oysho specializing in lingerie, gym wear, beachwear and home wear for women; Zara Home that produce and sells interior design products; Uterqüe specialises in high-quality women accessories and leatherwear.

[47] "Our Model", www.inditex.com

In 2001 with the aim of providing financial support to the expansion and diversification strategy the company decided to go public, selling the 26% of the ownership on the Madrid Stock Exchange.

The rest of the recent history was devoted to the continuing of the expansion strategy that lead Inditex to the 7,504 stores of today and to the consolidation of its business model aimed to design and produce a *right to wear fashion*, stating that "We want to create value through beautiful, ethical, quality products with a complete cycle of life. We act precisely and responsibly in every stage of the fashion process from design and sourcing, to manufacturing and quality control, logistics and sales."[48]

3.2 Towards Integrated Reporting

In pursuing their aim of creating a right to wear fashion Inditex embrace sustainability in all its sides putting it at the core of its strategy. According to the vision of the company *right to wear* mean right for our customers, but right for the people who work for us, right for communities and right for the environment.[49] To reach this noble goal the company's operations grounded on two pillars: traceability and transparency.

Today Inditex is known worldwide for being a sustainable company and in 2016 was recognized as group leader for the retailing industry in the Down Jones Sustainability Index (DJSI) and top Greenpeace's Detox.

These achievements are fruits of a long path that the company undertook two decades ago and that is reflected by the improvements in the reporting system.

Analysing the documents disclosed by the company, I divided the history of Inditex into four periods characterized by different reporting approach.

First period 1998 - 2001

Since data are available till 2001 the company adopted a traditional corporate reporting system disclosing only an Annual Report in its simple format, in other words only containing financial information.

[48] "Our Model", www.inditex.com
[49] "How we do business", www.inditex.com

Second period 2002 – 2005

Since its listing in 2001 the company laid the groundwork for its sustainability strategy. In this year in fact they issued the Code of conduct for manufacturers and suppliers and joined the DJSI.

In the Code of Conduct the company highlights the norms and minimum standards of ethical and responsible behaviour that all Inditex's manufacturers and suppliers must respect, touching topics such as: no forced labour, no discrimination, safe and hygienic working conditions, traceability of production, health and safety of product.

This new philosophy of the company had radical implication also on its reporting system. Indeed, starting from 2002 Inditex published another separate report to accompany the Annual Report; arriving in 2005 to publishing three different reports: the Annual Report, the Sustainability Report and the Corporate Governance report. Since its comparison in 2001 the Sustainability Report was written in accordance with the G3 guidelines defined by the Global Reporting Initiative, being Inditex among the first adopters of the newly amended framework.

Third period 2006 – 2011

Another step towards the Integrated Report was made in 2006 when the company launched its first Environment Strategic Plan, formalizing their intention to develop environmentally responsible and sustainable business operations.

This year coincided with the shift from the disclosure of three separate reports to the publishing of one single report that covers all the topics. This was made always following the GRI standards and is a clear proof of the company's awareness of the equivalent relevance that financial and non-financial information have.

In this direction, in December 2011 Inditex signed on to the Integrated Reporting Pilot Programme, actively participating in the testing and development of a framework of integrated reporting.

The Annual Report 2012 represents a key turning point for the company's reporting system. First of all because as stated in it, Inditex *tried* to prepare that report in line with the recommendations of the IIRC. In particular there are explicit references to the *six capitals* and the company defines it as "the different resources used by the company in its value creation processes"[50].

[50] Inditex, (2013), "2012 Annual Report", pp. 48-49

The big innovation of this report is about its formation process that aimed to ensure that the various approaches of the different stakeholders are taken into consideration and relies on the following principles: strategic sustainability context, materiality, stakeholder inclusiveness, completeness: of which three of them are IIRC guiding principles.

Fourth period 2013 – on going

Finally, the 2013 Annual Report is the first Inditex's report that the company divulged as an Integrated Report, in line with the principles established in the IIRC Framework. The opening lines of the report explain its purpose and vision: "*Transparency* is the fundamental principle that inspires Inditex in its relations with its interest groups, all the stakeholders who have some kind of relationship with the company […] The Annual Report sets out the most important *social, economic and environmental* developments of the year, allowing *stakeholders* to assess the *value created* and performance of the Group over the year".[51]

3.1.3 Inditex's Integrated Reporting

To provide the best analysis of the company's Integrated Reporting system I will refer to the latest uploaded annual report, 2016 Annual Report, that is the best expression of Inditex's integrated thinking till today.

Already with the opening sentence the 2016 Annual Report stresses the full alignment with the IR Framework stating that "The purpose of the Annual Report is to communicate to all stakeholders how Inditex *creates value in the short, medium and long term*. It is therefore presented as an Integrated Report".[52]

Their Annual Report is composed of six parts: Year Review, Sustainable Strategy, Our Priorities, Sustainability Balance Sheet, Annual Accounts, GRI Content Index.[53]

Therefore, below I will analyse all sections of the IR in the sequence that they appear in the report, considering the concepts, principles and elements illustrated by the IIRC in the Framework.

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[51] Inditex, (2014), "2013 Annual Report", pp. 6
[52] Inditex, (2017), "2016 Annual Report"
[53] The six parts will also be called chapters

3.1.3.1 Year Review

The report opens with a section called "main indicators" where the key indicator both financial and non-financial of Inditex for the last year and for the previous four years are presented. These two pages outline the *performance* of the company allowing the readers to compare it with the past performances in a very clear and short manner, thus satisfying the principles of *conciseness, consistency and comparability*. The topics touched in this section are turnover, sales by geographic area, stock market performance and other relevant information such as number of stores, investment in social programs and number of suppliers.

Then follows the "letter from the chairman" that directly addresses the element of the *performance* describing the year ended as a year of growth that the CEO measures with the € 1.43 billion investments in expansion, innovation and CSR initiatives, the net opening of 279 stores, the increase of the online presence thanks to 14 new markets and the reaching of 4,519 eco-efficient stores. From the view of the chairman it is clear that the *strategy* of the company has at is core other than that of financial objectives. The letter also covers the *future orientation* principle setting some future targets such as the willingness to have 100% of the stores eco-efficient and endowed with the RFID technology with the aim of providing a better customer experience. Pablo Isla used this occasion to thank all the Inditex employees that are the engine that made it possible to reach these flourishing results, stressing the relevance that the *human and intellectual capitals* have for the company.[54]

The first chapter ends with the analysis of the "commercial presence" which listed the number of stores for each continent divided by brand and by the "retail formats" section where the *performance* of each brand is presented.

3.1.3.2 Sustainable Strategy

This chapter opens with the representation of the *business model* of the company with at its centre the customers surrounded by the other four pillars: stores, logistics,

[54] Pablo Isla is Inditex's CEO

design, production and a sentence that summarizes Inditex's *strategy*: "Inditex aims to offer fashion that complies with the highest environmental, health and safety standards. Sustainability underpins all our business decisions based on respect and promotion of Human Rights, transparency and ongoing dialogue with our stakeholders" and a brief description of the company that builds a complete and exhaustive *organization overview*.

According to what is expressed in this chapter, but not explicitly stated, the company considers the *social and relationship capital* a fundamental component of its business, defined as crucial "to comply with our objective of creating value in a sustainable way […] and constitutes a fundamental tool for facing the challenges and opportunities that arise in the course of our activities".[55] The company's stakeholder relations process starts with the identification and classification of the group of interest at which follows the development of a relation strategy and setting of dialogue tools for each set of stakeholders. To determine which are the issues relative to each class of stakeholders Inditex uses a materiality analysis to show how these impacts its business model and viceversa. For what concerns 2016 the company identified six classes of stakeholders: our people, customers, suppliers, community, shareholders, environment and 32 relevant topics.

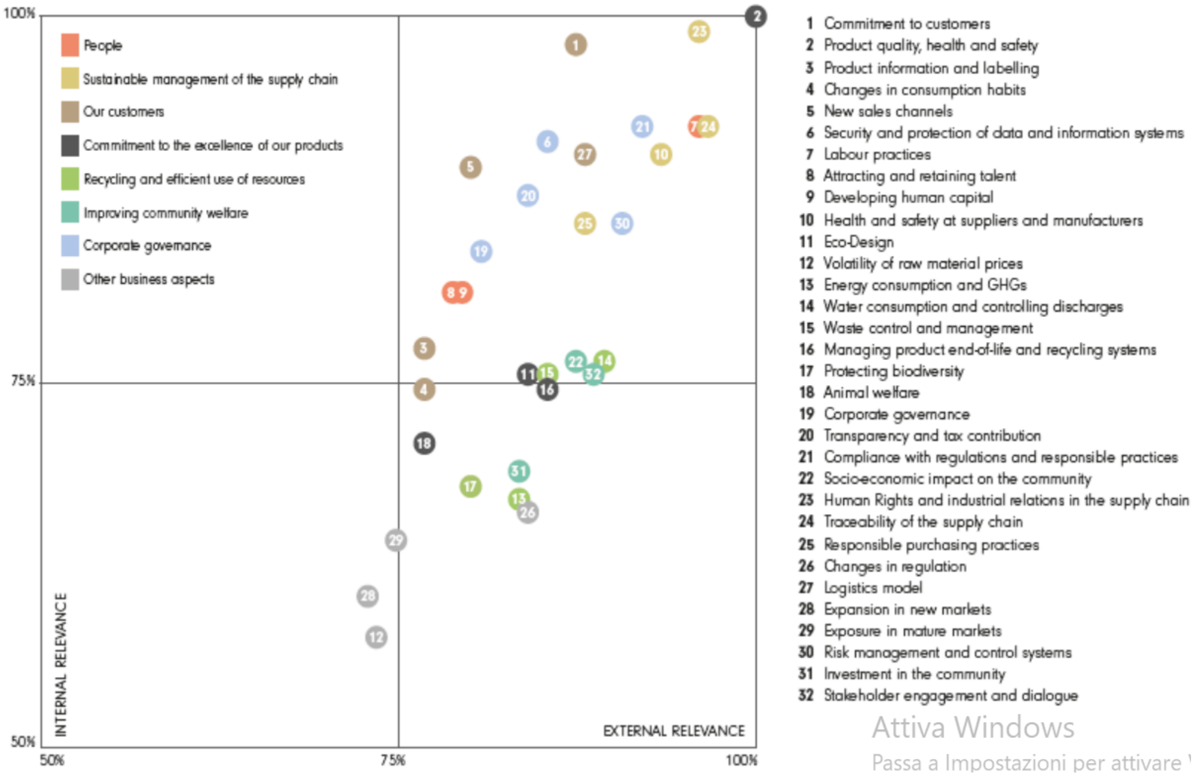
The entire process is reviewed periodically to ensure a high degree of adequacy of the company's policy to the external environment in which it operates. Moreover, the procedure is validated both by Inditex's management and by the Social Advisory Board.

This section fully fulfils the IR's principles of materiality, stakeholder inclusiveness, reliability and completeness.

The chapter is concluded with the explanation of the company's commitment to the UN Sustainable Development Goals and the presentation of its Human Rights policy.

[55]Inditex, (2017), "2016 Annual Report", pp. 26

Table 10: Inditex's Materialiti Matrix



Source: 2016 Inditex's Annual Report

3.1.3.3 Our Priorities

The third chapter of Inditex 2016 Annual Report deal with an in-depth analysis of the topics founded by the materiality analysis, grouped into seven sub-categories: people, sustainable management of the supply chain, customers, commitment to the excellence of products, recycling and efficient use of resources, improving community welfare, corporate governance.

People

As already mentioned before Inditex considers *human capital* fundamental and necessary for its success, in fact in this chapter more than twenty pages are dedicated to the employees. Stating that "Inditex's growth is sustained by 162,450 people" this section demonstrates the *connectivity* and interrelatedness between the employees and value creation (in particular between human and financial capital).[56] To strengthen the relation between employees and financial results Inditex in 2016 implemented its first employee profit-sharing plan.

[56] Inditex, (2017), "2016 Annual Report", pp. 35

Furthermore, the company's human resource policies aimed at developing a safe and professional work environment are described broadly. To support fact with data the company developed internal measures to assess the quality of its employment system such as the rate of employees that return to work after maternity or paternity leave, which for the Spanish employees last year scored 98%. To ensure the health of the human capital stock the company is committed to attracting the best talents and in providing adequate promotion plans for its current employees.

Sustainable Management of the Supply Chain

In this section are presented all the information regarding the supply chain and Inditex commitment to creating a sustainable production environment. For the reasons stated above, for what concern the fashion issues related to People and Planet it is evident how the topic of supply chain is thorny for a fashion company. This is even more accentuated for a company of the magnitude of Inditex that has 1,805 suppliers in 53 counties, of which around 50% are located in Asia, accounting for a total of 6,959 factories employing around 1.5 million workers.

The peculiarity of this section is that the *performances* of the company are reported even if they are not positive with the aim of providing a truthful and complete picture of the situation, thus respecting the principle of *reliability and completeness.* For example, it reports the number of suppliers that were founded breaching sensitive aspects of the Code of Conduct and how the company is facing this issue.

Customers

In asserting that Inditex's main goal is to satisfy customers, this section highlights which is the company *strategy* to reach this objective. For this reason, it offers an overview of the latest initiatives such as digital tags, interactive fitting rooms etc.

Commitment to the Excellence of Products

The paragraph focuses on the above mentioned Right to Wear philosophy (RtW) that permeates all the company's operations that has as its aim the production and commercialization of a 360° sustainable product.

The company adopting a long-term orientation, thus satisfying the *future orientation* principle, is integrating the concept of circular economy in its *business model*. One of the project implemented in this direction is the Closing the Loop initiative, that provide for the collection of used garments with the aim of reusing or recycling, avoiding the harmful landfill, via the installation of containers in Inditex's offices and stores. In 2016 the programme reached 349 Zara stores collecting 7,102 tonnes of garments, footwear and accessories. Moreover, the company giving a preview of its *future strategy* explain that it is its intention to expand this initiative also for the other brands, starting with Oysho and Massimo Dutti arriving to 2000 containers.

Recycling and Efficient Use of Resources

In this section the company illustrate its *strategy* to reduce its impact on the limited resources of the Planet, in particular how its facilities and operations are designed to be sustainable. It highlights the performance Inditex experienced in 2016 and the 2020 Strategic Environment Goals, such as the already mentioned target of 100% of the stores respecting the Eco-efficient label. Thus, conforming with the guiding principle of *strategic focus and future orientation*.

Improving Community Welfare

This paragraph focuses on Inditex commitment towards the community, one of the six stakeholders recognized in the introductory chapter. The company, being a gigantic multinational, intend community in a very broad manner having and partnering in initiatives all over the world. Before a detailed list and explanation of all the actions taken, the section starts with a short and clear illustration of the evolution of investment in social programmes in the period between 2014-2016, satisfying the IIRC requirement of *comparability* among different periods and *conciseness*. Again, noteworthy is the fact that the company also insert data that are not positive or that at least can be seen in a negative manner by the readers, thereby providing a truthful and unbiased snapshot. This is the case of the inclusion of the charitable gifts provided by Inditex that shows a decreasing trend since 2014. This increase the *reliability* and credibility of the report. However, the overall picture of 2016 company's commitment towards society, is more than positive with 40 million of euros invested in CSR programmes executing 519 different projects.

Corporate Governance

This paragraph deal with the *governance*, one of the content elements designed by the IIRC Framework. According to Inditex 2016 Annual Report the Board of directors shall perform its duties in accordance with the corporate interest, with the aim of the maximization of company's *value in the long term* for the common interest of both shareholders and all stakeholders. Showing an *integrated thinking* deeply embedded in the company's culture the report stated that "directors should proceed diligently, ethically and with transparency".[57]

Moreover, the section provides information about the company's leadership structure, top management responsibilities, remuneration and incentive policies.

3.1.3.4 Sustainability Balance Sheet

The forth chapter focuses on the company's performance in sustainability. It opens with a "summary of sustainability indicators" that shows the company's achievement for topics such as employees, management of the supply chain, community welfare etc.

Then follows three sections: the first one analyses the company commitment toward the traceability of the supply chain divided by country and geographical area; then follows a snapshot of the investment in social programmes by the company listed for type of contribution, category and geographical area; the third section deal with environmental indicator such as energy consumption, greenhouse gas emission and disposal of waste.

The data are shown for the year ended and for the previous years, thus to help the comparability of Inditex performance.

The willingness of the company to embrace sustainable business is confirmed by the following paragraph titled "Sustainable Development Goals in Inditex's Strategy" summarized in the list of the seventeen SDG and the indicators with the related achievements reached by the company for each Goal.

[57] Inditex, (2017), "2016 Annual Report", pp. 166

3.1.3.5 Annual Accounts

This is the heaviest chapter of the Annual Report, counting around one hundred pages of which the majority are occupied by the "Economic and Financial Report" fulfilling the principles of *consistency, comparability, reliability* and *credibility* supported by the certification of the consulting firm Deloitte that opens the section and by the ICFR section that provide insights on the internal control system.
The fifth chapter include the paragraph "Systems for Control of Risk" in which is exposed the risk management policy of the company that is described as a process incumbent on every member of Inditex with the aim of "protecting the value created".[58] The report outlines twenty different risks categorized into nine categories: business environment, regulatory risk, reputation, human resources, operations, financial, information for decision making, technology and information systems, corporate governance touching the content elements of *governance, external environment* and *risks.*
The process starts with the identification of the risks defined as "any potential event which might have a negative impact on the achievement of Inditex business objectives"[59], then follows the assessment of their likelihood and potential of the impact and the level of preparedness of the company to address them.

3.1.3.6 GRI Content Index

The last chapter of Inditex 2016 Annual Report opens with the independent external verifications by SGS and KPMG that lend to the report *credibility* and *reliability*. Furthermore, it gives information on the *basis of preparation and presentation* of the document, affirming that it has been prepared in accordance with the GRI Standards. Follows the listing of the content index according to the GRI and the indication of where to find that information in the report with the aim of increasing the *conciseness* and the understanding of the paper by the interested.

[58] Inditex, (2017), "2016 Annual Report", pp. 308
[59] Inditex, (2017), "2016 Annual Report", pp. 310

3.2 Monnalisa Case

Monnalisa SpA is a family owned Italian fashion SME operating in childrenswear positioned in the high-end of the market, with a turnover of €40 million in 2016, a market presence in sixty-four countries and employing 171 people.

3.2.1 History and Company Overview

Monnalisa was founded in 1969 in Arezzo by Piero Iacomini that since 1975 was flanked by Barbara Bertocci as creative director. Since its beginning the company focused on the total look offering coordinated articles of clothing, targeting the high-end segment of the market.

In 1988 Monnalisa reached €2.5 million of sales and on the wave of success started its internationalization process; in only two years exports accounted for 20% of the total turnover. The international markets always played a fundamental role for the economy of the company arriving to participate for the 65% of the sales in 2014.

Today, the company is present in 64 countries all around the world via four typologies of stores: direct owned stores (DOS), partnership wholesale, independent wholesale and e-commerce.

The mission of the company is to "create value and values over time"[60] with the aim to accomplish its vision to excel in innovation and creativity to gain new markets; drive a diffused managership inside the company to take on the challenges of the business successfully; and expand worldwide, while maintaining the company's values and identity, to spread a culture of social responsibility.

According to the company culture four are the key values: *respect* for skills and competencies, diversity, pace of life and work; *equity* interpreted as the acknowledgement of everyone's dedication to their relationship with Monnalisa, and also transparent decisions; *dialogue and participations* meaning a stimulating work environment, connection with the territory, and growth together with the related industries and services; and *responsibility* towards customer satisfaction, efficient and effective use of all resources as well as transparent reporting of policies and strategies.

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[60] "About us", www.monnalisa.eu

Monnalisa produces seven product lines: *Monnalisa* which target girls from 2 to 12 years*; hitch-hiker* dedicated for boys from 3 months to 14 years*; Monnalisa Bebè* suitable for infants up to 36 months*; Jakioo* a trendy streetwear line for ladies from 6 to 16 years*; Monnalisa Fun* the sportive collection for those 3 months to 16 years of age*; Chic Monnalisa* sophisticated and refined targeting girls from 4 to 16 years*; Monnalisa Couture* which produce high value added items for special occasions for those 2 to 14 years old.

3.2.2 Towards Integrated Reporting

The peculiarity of being a family business and the strong territorial attachment of the company towards its birthplace has always supported a deep sense of devotion in Monnalisa for the environment and the community. This culture consequently influenced an innovative approach to corporate reporting. In this paragraph we will pass through the most relevant phase that led to the 2016 Annual Report.

The journey started in 2003 when the company for the first time published its Social and Environmental Report, disclosing information and performances related to the relationship with its key stakeholders.

The turning point is the 2005 report where Monnalisa integrates financial and social-environmental performances on the assumption that the company's financial performance depends directly on the social responsibility policies that are implemented, and vice versa.[61] For this report the company was awarded with the Italian annual report Oscar, a prize that is given to companies that distinguish themselves for excelling in corporate reporting. This was the motivations provided by the FERPI's (The Italian Federation of Public Relation) for Monnalisa's victory: *"The report is clear, complete, transparent and well structured. The integration of documentation providing all the necessary information both of an economic-patrimonial and socio-environmental nature was particularly appreciated. […] The document is exhaustive and proportioned, with clear graphics, preceded by an index which facilitates easy consultation".*[62]

[61] Busco C., Frigo M.L., Quattrone P., Riccaboni A., (2013), "Integrated Reporting: Concepts and Cases That Redefine Corporate Accountability", Springer, pp. 279

[62] Busco C., Frigo M.L., Quattrone P., Riccaboni A., (2013), "Integrated Reporting: Concepts and Cases That Redefine Corporate Accountability", Springer, pp. 279-280

Another milestone is the year 2009 when in the annual report economic, social and environmental performance were reported and illustrated by using a particular approach: the areas of interest and the perspectives of the stakeholders. This was realized on the basis of the principles of materiality and correspondence of the AA1000 international standards. These standards suggest combining the stakeholder's requests with the mission and the values of the involving company.
Overall, seven issues were identified. They currently represent the chapters of the IR, as well as its key of interpretation. These seven issues are: maintain a strong identity, guarantee economic sustainability, guarantee a high quality, excel in innovation, promote valorisation, communicate and involve in a transparent and effective way, and contribute to the development of the territory.
In 2011, for the second time, Monnalisa was awarded the Italian annual report Oscar. In this case, the process of integration was considered a fundamental element for awarding Monnalisa's annual report. As the jury commented, Monnalisa's 2010 Integrated Report is an "*excellent example of integrated reporting in which economic and sustainability information exists together and find the right space*"[63].
Today, Monnalisa's Annual report, as described by the company's website, include both the financial report and the sustainability report. Their integration is to be intended not just as mere merging but as a connection of strategic objectives and value created over time keeping in mind the external factors that influence the company, the risks and the relationship with the several stakeholders.

3.2.3 Monnalisa's Integrated Reporting

To provide the best analysis of the company's Integrated Report I will refer to the latest uploaded annual report, the 2016 Annual Report. This report, as the previous one, is divided into chapters, each of which is dedicated to a relevant issue for the stakeholders.
The analysis will follow the content of the report as they appear in the document and will highlight the alignment and satisfaction of the concepts, principles and elements outlined by the IIRC Framework.

[63] Busco C., Frigo M.L., Quattrone P., Riccaboni A., (2013), "Integrated Reporting: Concepts and Cases That Redefine Corporate Accountability", Springer, pp. 280-281

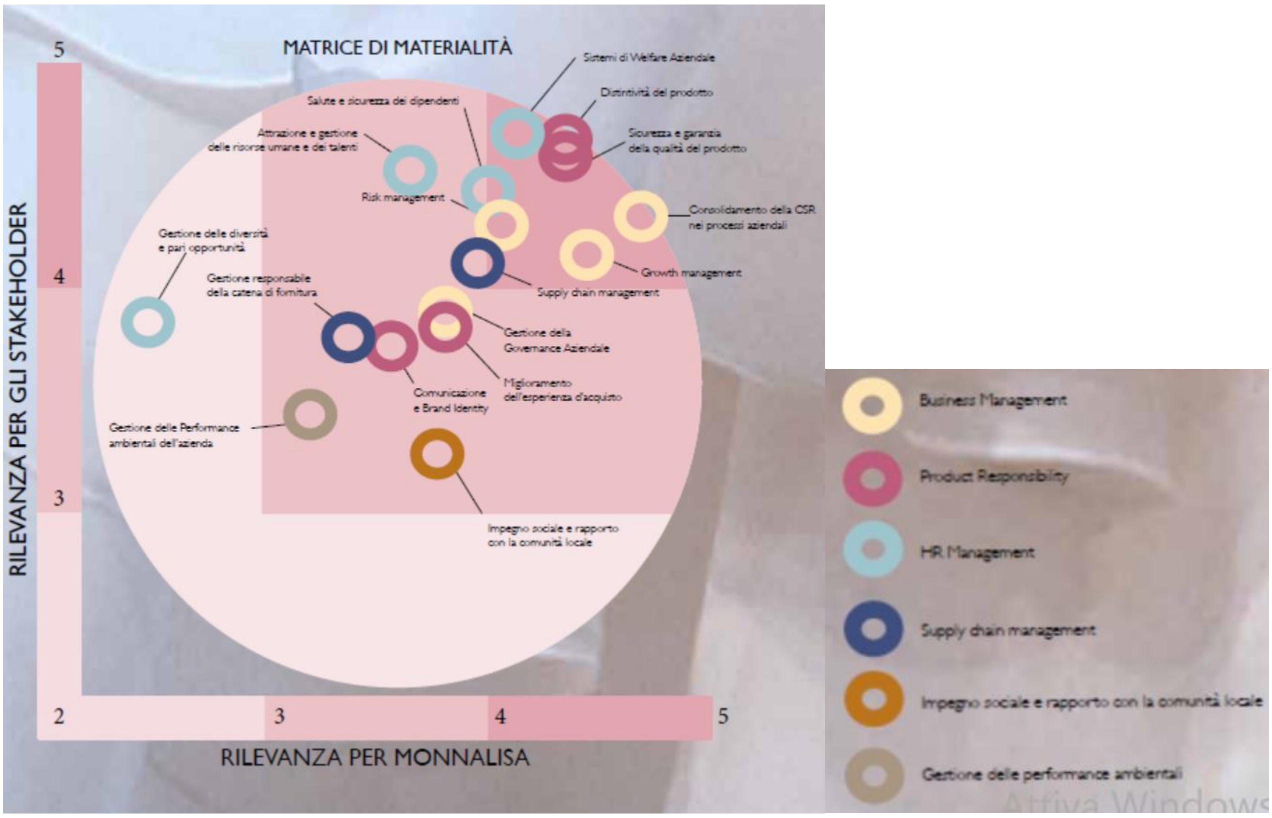
3.2.3.1 Letters

The Annual Report of Monnalisa starts with the letters of the Board’s President and CEO. In these short messages the two executives highlight the relevance that the *human capital* consistent in the 171 employees has for the *creation of value* over time.

3.2.3.2 Methodology

This chapter describes Monnalisa’s annual report as an Integrated Report as above done in this dissertation as an integration of the financial report in the EEC format and the triple bottom line characteristic of the sustainability report. The company specify that the *basis of preparation and presentation* of the report are in accordance with the GRI Standards.
The follows the *materiality analysis* where for material topics the company means the aspects that have relevant economic, environmental and social impact on the organization. The identified issues are illustrated on the materiality map, drawn on two drivers: relevance for the company and relevance for the stakeholders with a scale that goes from two to five. Thus, permitted to identify six key material topics (Business Management, Product Responsibility, HR Management, Supply Chain Management, Social Commitment and Relation with the local community, Environmental Performance Management) that are composed of sixteen different issues. This section fully fulfils the guiding principles of *materiality*.

Table 11: Monnalisa's Materiality Matrix



Source: 2016 Monnalisa's Annual Report

Then in the "Management Approach" section are outlined the key company policies for what concern: the risk management aimed at identify the potential *risks* that can affect the eight class of stakeholders; the compliance with the main sustainability standard (ISO 26000, SA8000, ISO 9001, ISO 14001) conferring more *reliability* to the reported non-financial information; the attention in producing safe and healthy products, given the fragility of the served segment; the supply chain management, a crucial activity for a company lacking of production facilities consisting in the identification and selection of the best suppliers and in the building of long lasting relationship. This introductory preamble satisfying the principle of conciseness and completeness outline Monnalisa's *strategy* regarding key aspects of the business.

3.2.3.3 Maintain a Strong Identity

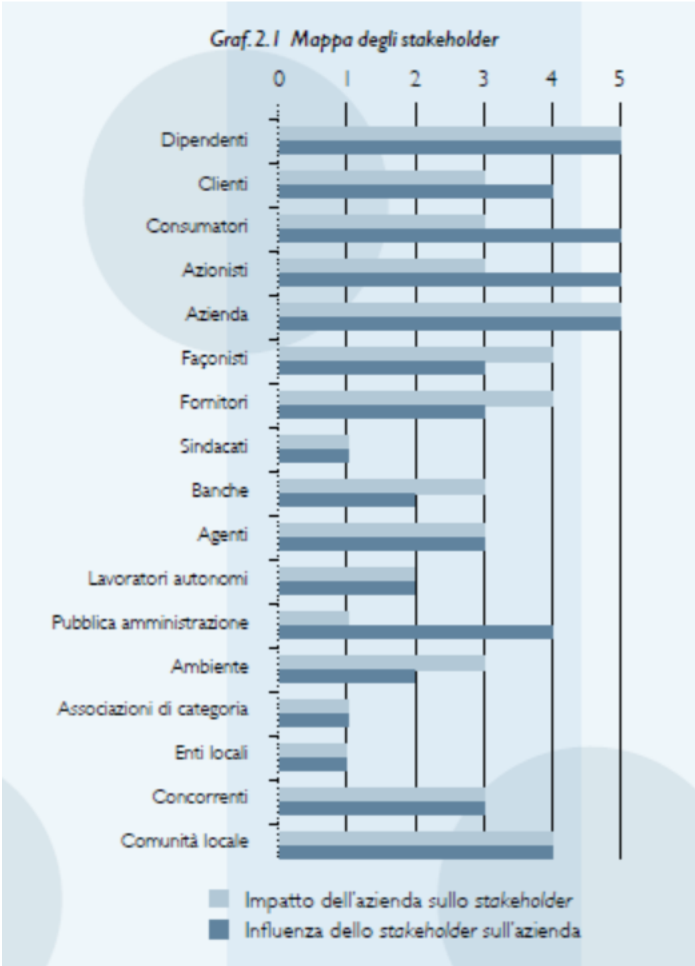
This section starts by describing the mission, vision and values of the company as above presented and some key *performance* indicators such as the turnover, assessment of the service offered, valuation of the quality of the working environment and relationship with suppliers and community. This *organizational overview* is enriched with information regarding the board of directors, the *governance,* and the remuneration policy. Since February 2010, when Piero Iacomoni, the founder, officially retired, the company started an "opening process" accepting into the board members not belonging to the family. This proves the willingness of the company to grow also from a managerial point of view. For what concerns the remuneration it is peculiar the decision not to use stock options; the motivation is to increase Monnalisa's sustainability avoiding a manager's potential opportunistic behaviour aimed at the maximization of the short-term objectives. This excerpt satisfies the principle of *future orientation,* that is strongly embedded in the company culture.

The brand identity of the company is transmitted to the customers through an accurate *strategy* which has five pillars:

- Style: the creativity is the cornerstone
- Distribution: articulated in the four channels above identified (today, the company has 45 DOS, an online store, is present in the major department stores such as Harrods and Galeries Lafayette, and 830 wholesalers).
- Production: that it totally outsourced to small artisan studios mainly located in Tuscany and Central Italy.
- Human Resources: the report describes people as the most relevant asset for the company for its development and growth
- Communication: is a fundamental tool for the transmission of Monnalisa's identity and the company measures it with the numbers of free ads that the media dedicates to it.

In conducting its daily operations, Mannalisa comes into contact with several actors establishing more or less lasting relationship with them. Both parties are interested in nurturing it because they earn value from it and affect each other. The company uses the stakeholder map to illustrate the magnitude of the relationship with these different actors, fully satisfying the *stakeholders responsiveness* principle.

Table 12: Monnalisa's Stackeholder Map



Source: 2016 Monnalisa's Annual Report

Peculiar is the fact that the company, intended as an independent entity, considers itself as a stakeholder, because it is the beneficiary of the wealth created from the business. The value added captured by the company will allow it to endure over time. The other stakeholders that receive as score of five (maximum level of influence), in addition to the company, are the consumers, the shareholders and the employees.

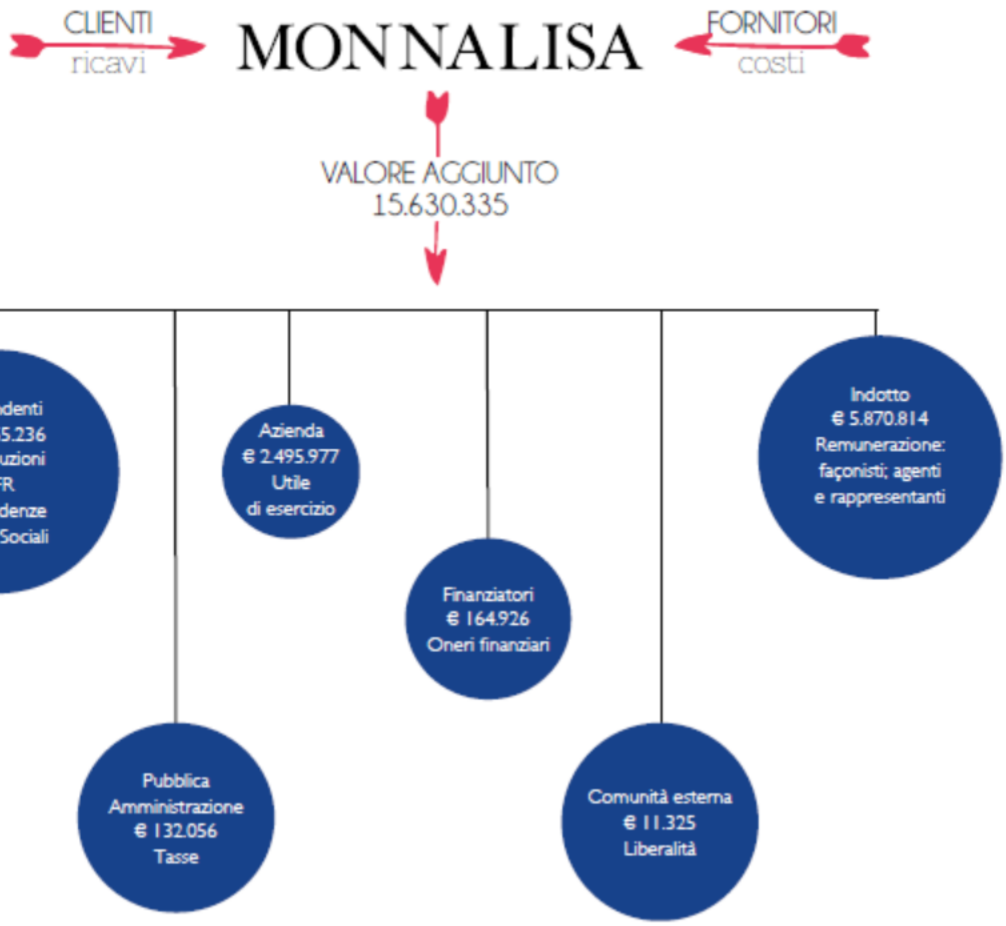
3.2.3.4 Guarantee Economic Sustainability

This chapter of Monnalisa's integrated report offers a deep analysis of the economic, financial and patrimonial situation of the company addressing the content element of the *performance* and satisfying the principles of *compatibility*, illustrating the results of the last three years, and of *reliability* through the relation of the Supervisory Board and of the independent auditing firm.

On the front page of this section the company defines its meaning of sustainability as being the ability to *create value* adopting a forward-looking approach not to compromise the possibility to create value in the *future*.[64] The company uses the value added and its allocation as a measure of the value created; the valued added measures the wealth generated by the company in the fiscal year. The value added is calculated starting from the revenues coming from the sales of products minus the costs related to the purchase of materials and services; then is added the result of the extraordinary management and of depreciation. For 2016 the net global value added generated by Monnalisa is € 15,630,335. Then follows the illustration of the distribution of this value to the stockholders.

The value-added allocation happens as follow: Employee 44.49%; Suppliers, Agents and Representatives 35.56%; Monnalisa (in form of net profit) 15.96%; Financier 1.05%; Public administration 0.84%; Community 0.07%.

Table 12: Monnalisa's Value added Allocation



Source: 2016 Monnalisa's Annual Report

[64] Monnalisa, (2017), "2016 Annual Report", pp. 24

Moreover, this chapter provides an analysis of the risk to which the company is exposed. Also, this analysis follows the per stakeholders approach: once individuated the eight main interest bearers are identified the risks that can occur during the bidirectional relationship between Monnalisa and each stakeholder.
The risks are described using two dimensions: nature (external or internal) and likelihood of occurrence (probable, possible, remote). For each risk are individuated the area of improvement and the action to take to limit it and its consequences and the indicators to measure the efficiency of the action taken.
The identified risks are:

- Risks related to the market (external, possible)
- Reputational risk (external, possible)
- Risks related to the distribution (external, possible)
- Risks related to the relationship with manufacturers and suppliers (external, possible)
- Risks related to the loss of know-how and talents (internal, possible)
- Risks related to the loss of information and data (internal, remote)
- Liquidity risk (internal, remote)
- Patrimonial risk (internal, remote)
- Currency rate risk (external, remote)
- Corruption risks (internal/external, remote)
- Governance risk (internal, possible)
- Risks related to accounting (internal, possible)

This part satisfactorily addresses the content elements of *governance* and *risks* delineated by the IIRC Framework.

3.2.3.5 Ensure high quality

As emerged from this chapter, quality is at the core of Monnalisa’s business and permeates all its operations.
The company pursue quality in the working environment with the aim of ensuring for its employees (*human capital*) a safe, dynamic and exciting environment. Then are highlighted key indicators of the workforce and some company human resources policy.

High quality is also the goal for what concern other capitals that the company implicitly point out such as the *natural* and *social and relationship* (in particular with customers and suppliers) *capital*s.
Supplier's quality is fundamental and necessary to reach high quality in the final product, which for the company is an inalienable objective given the delicacy of the served target (children). For this reason, Monnalisa adopted Chinese regulation, that is the toughest, for requirements of safety and health for the commercialization of childrenswear. To ensure the quality of the product the company carries out an assessment of the suppliers classifying it in five clusters: poor, sufficient, decent, good and excellent; considering decent and beyond satisfactory for its standards. Monnalisa overall in 2016 had 141 suppliers for the summer collection and 139 for the winter one of which 23 and 28 respectively were below the decent level, meaning that for the summer collection 16% of suppliers were not satisfactory, while the percentage for the other collection was around 20%. The disclosure of such data, that reflects a weakness of Monnalisa's business increase the *credibility* of the report providing a neutral illustration of the company's results.

3.2.3.6 Excel in innovation

This chapter describes two of the most relevant component of Monnalisa's culture, fundamental for the *value creation* process: the creativity and the innovation.
Creativity, according to Monnalisa, is the ability to imagine something that does not exist yet. It is the competitive advantage of the company, to preserve and enhance as one of the main components of the intangible assets of the company.
While innovation means change something with the aim of introducing improvements, reducing costs, increase the turnover and competitiveness.
Both of them are phenomenon that should permeate the whole organization and not just the interested department and can only arise thanks to the *human capital* of the organization.

3.2.3.7 Promote Valorisation of Human and Relational Capital

The relevance that the *human capital* has for Monnalisa is testified by the huge pace dedicate to it in this chapter. The purpose of the company human resource policy is to create with the employees a relationship that goes beyond the contractual rapport between worker and employer. For this reason, Monnalisa has put in place several initiatives for what concern retribution, healthcare, business trip reimbursement, flexible benefit and training programme that allow it to reach the higher class in Rating Welfare Index.

Again, noteworthy in the mentioning of a negative issue in the company policy with the disclosure of the statistics according to which the male's salary are on average 5% higher compared with female's one; satisfying the principle of *reliability and completeness.*[65]

For what concern the relationship with the suppliers Monnalisa's approach is based on the willingness to establishing long lasting partnership with them, sharing objectives, thus to reach a mutual satisfaction. Indeed, the company tends to preferer those suppliers who provide collaborations in research and development.

In this approach is embedded the *future orientation* attitude that the company uses with the aim of enduring and creating value over time.

3.2.3.8 Communicate and Involve in a Transparent and Effective Way

Communication

This chapter focuses on the company's communication policy towards all the stakeholders founded on the pillars of transparency, clarity, efficacy and adequacy. The company split the communication into internal and external; for what concern the first one the main tool used is the company's intranet that allows the dedicated department to post information to which the recipients can answer using the section "comment". Regarding the external communication the used tool is the advertising, that targeting babies is created ad hoc with the aim of refusing behaviour and images that can harm them. As a measure for the advertising the company uses the ration between costs for the advertising and the value of the whole advertising on the company (including the free one). In 2016 the company paid for 49 advertising pages while it was present on 205 editorial pages, thus having a ratio of 11,94%. Satisfying the principle of *consistency and comparability* the report shows the company *performance* in this indicator for the two previous years underlying the continuous improvement of the company results.

[65] Monnalisa, (2017), "2016 Annual Report", pp.100

Involvement

To increase the *stakeholders responsiveness* Monnalisa more than ten years ago started a process of stakeholders involvement mainly articulated in periodical workgroup meetings aimed at understanding their expectations and identifying the themes on which they act.

For what concern the internal involvement the company's point of strength is the choice of the company to include the employees in the editing process of the Annual Report. In particular, the manager of each function and key personnel of specific projects participated. The scope of this initiative is, first of all, to build a more precise report gathering information directly from the interested department and to spread the awareness of the company performance to a major number of subjects.

This initiative allows also to permeate the whole process of the creation of the Integrated Report with *Integrated Thinking* allowing a high degree of *connectivity of information.*

For what concern the customers engagement Monnalisa is highly focused on social media, where the company is present with institutional accounts alternating post on products, company news, topics related to babies and children. Social media are a tool that allows the company to monitor the customers feeling around the brand, create value added through the contents and create brand awareness and fidelity.

As of today, the company has 38,000 fans on Facebook, 359,412 views on YouTube and 60,800 followers on Instagram.

About us

In this section are exhibited the results of the analysis on the company mood that shows an overall positive condition. Furthermore, it also, highlights the main outcome of the study, both positive and negative; fully satisfying the principles of *reliability and completeness.* Using a *future orientation,* the company provide its *strategy* to address the area of weakness identified; in particular:

- Rethinking of the organizational structure to spur more communication between different departments
- Development and integration of technology in the organization
- Increase the coordination creating ad hoc project teams

- Human capital development, implementing a system of performance valuation and promotion

3.2.3.8 Contribute to the Development of the Territory

Monnalisa defines itself as a sustainable company, for this reason care of the environment in which operates and wants to contribute to its economic, social and natural development.

This chapter starts by providing a snapshot of the composition and solidity of the work force employed by the company, as well as of the suppliers that work with and for it. The strong connection between Monnalisa and its territory of origin is reflected in the geographical distribution of the suppliers: 38% are from Tuscany (the region of origin of the company), 32% are from the rest of Italy and the remaining 30% comes from abroad.

Monnalisa is committed to reducing the environmental impact originated from its operations. In doing so the company built a system for monitoring its consumption and actions plan to intervene when a parameter goes above the maximum limit. The main environmental issues tracked from the company are related to: deliveries; water, energy and gas consumption; packaging; waste dismission. For these issues the report shows the *performance* for the ended years and a *comparison* with the previous year.

The section is enriched with the summary of the objectives for the 2016 and their degree of achievement and a short and *concise* listing of the targets for the next year (principle of *future orientation*).

In conclusion of this chapter and of the whole annual report the company underline that its objective is not growth but development; stressing the link between sustainable activities and the company efficiency and competition on the market. Thus, recalling the *connectivity of information* described by the IIRC.

3.2.3.9 Letter of Certification

To close the annual report the letter of certification of the independent consulting firm SGS that certifies the application of the GRI Standards and the *completeness* and accuracy of the document.

3.3 Cases Comparison

At this point of the dissertation it is right and proper to make a comparison between the two Integrated Reports above detailed. In particular providing comments on the form in which the reports are presented and on the degree of adherence to the prescription of the IR Framework developed by the IIRC discussed in the second chapter of this work.

3.3.1 Form of the report

The IIRC does not establish a specific format that companies must follow in editing their Integrated Report. Both Inditex and Monnalisa decided to opt for the redaction of a unique and autonomous document which joins traditional financial information with social corporate responsibility topics. This choice is a clear signal of the importance that the companies give to the IR as main document of corporate reporting and disclosure.
A small difference between the two cases is about the reference used for the compilation of their report. Monnalisa draft its report including both the financial statement in the EEC format and the sustainability report; presenting a document in compliance with the GRI Guidelines with a "comprehensive" degree of application. While Inditex, beyond the Comprehensive option of the GRI Guidelines, uses as a reference also the principles established in the Integrated Reporting Framework.

3.3.2 Adherence to the "Fundamental Concepts"

To quickly recap, the three fundamental concepts highlighted by the IIRC are: *value creation, business model, capitals* (financial, manufactured, intellectual, human, social and relationship, nature); where the six capitals are not to be intended as mandatory but can vary according to the industry or to the company.

Value creation
Both the companies consider the value creation as a mission of their operations without limiting it to financial value or for the value created for the customers but gives to value a broader trait that as at its base the satisfaction of all the stakeholders.

Business model

For this concept the two reports have quite big difference. In fact, the Spanish company explicitly cites the business model and describes its feature, while Monnalisa does not. Nonetheless from the disclosed information it is possible to extrapolate the main traits of the company's business model.

Capitals

Peculiar to the two documents analysed is the fact that apparently they do not follow the direction of the IIRC Framework for what concern the capitals; indeed they never mention the word capital, as intended by the IIRC. However, both company talks about something close to "resources and relationships used and affected by the organization"[66], thus we can say that the annual reports fully satisfies the requirement regarding the concept of capitals. In particular, they focus on the *human capital* that is described as the engine that drives the company growth; on the *social and relationship capital* fundamental to build a long-term value creation process; on the *natural capital* that both companies want to preserve and protect. Noteworthy is the focus of Monnalisa on the *intellectual capital* in the chapter "*Excel in Innovation"* where it is explained what the company mean by creativity and innovation and their relevance to its business.

3.3.3 Adherence to the Guiding principles

As already explained in the first chapter the IIRC draws a principle-based framework, rather than a prescriptive one. For this reason, it describes seven principles that should drive the company in the editing of an Integrated Report. The seven guiding principles are: Strategic focus and future orientation, Connectivity of information, Stakeholders responsiveness, Materiality, Conciseness, Reliability and completeness.

The first principle of *Strategic focus and future orientation* is pertinent to the description of the company's strategy both in the short and in the long term. Inditex dedicates a specific section of the report to this topic defining its sustainable strategy affirming that "Inditex aims to offer fashion that complies with the highest environmental, health and safety standards. "Sustainability underpins all our

[66] IIRC definition of *capitals*

business decisions based on respect and promotion of Human Rights, transparency and ongoing dialogue with our stakeholders”[67] and outlining the five elements of its customer centric strategy: customers, stores, logistic, production and design. It is also fully addressed the *future orientation* part starting from the letter from the CEO where he describes the main targets for the future and that permeates then whole document. Similar to the Spanish company also Monnalisa dedicates a section to its strategy, describing the five pillars that compose it: style, distribution, production, human resources and communication.

Surprisingly for me, the *Connectivity of information* principle is fully satisfied in both reports even if there is no a specific section of the document that addresses this issue. Indeed, the principle is embedded in the company thinking and underpin the whole report, revealing a high level of integrated thinking widespread in the organization.

The *Stakeholders responsiveness* topic deal with the identification of the company’s interest bearers and their needs and expectations. Both companies have developed a process aimed at establishing the best relationship as possible with the stakeholders; a point of difference on the two companies is the starting point of this process. For Inditex I can say that the IR is the input for the stakeholders’ analysis, meaning that the company choose to undertake the analysis because it is necessary for the drafting of the Integrated Report; while for Monnalisa it is the opposite, in fact the IR is the arrival point of a more than ten-years dialogue process with the stakeholders. Said this, according to my opinion, Inditex conduct a more in-depth analysis than Monnalisa, even though both clearly identify which are their stakeholders, the Spanish company also highlight the tools for dialogue, frequency, goals, main commitment.

To identify which are the topics to include in the report the IIRC suggests a *Materiality analysis;* both annual reports have a dedicated section in which this is largely debated. The tool used by the two companies is a materiality matrix that has as one internal dimension and one external: for Monnalisa are Relevance for the company and Relevance for the stakeholders, while for Inditex are Internal relevance and External relevance. Thanks to this matrix are identified themes in which all the material issues are clustered. Inditex identified eight relevant topics: People, Sustainable management of the supply chain, Customers, Commitment to

[67] Inditex, (2017), “2016 Annual Report”, pp. 26

the excellence of the products, Recycling and efficient use of resources, Improving community welfare, Corporate governance, and other business aspects; Monnalisa focuses its attention on: Business management, Product responsibility, HR management, Supply chain management, CSR, Environmental performance.

The principle of *Conciseness* is applied in both documents, being they unique, autonomous and comprehensive of all the typology of information a company should disclose. Moreover, they are enriched with charts, tables and visual framework that summarizes at the beginning or at the end of each section where the key relevant information is shown.

The *Reliability and completeness* is not so easy to assess by just analysing the annual reports, but what I can say is that both the companies have an internal process and an external independent firm to certify the veracity of the reported information; moreover, the principle of completeness is satisfied also from the exhibition of positive and negative performance of the companies.

Also, the principle of *Consistency and comparability* is satisfied by the two annual reports. Consistency over time is realized by the comparison the results that the companies experienced in the last year with the performance of the previous years; this comparison is made both for financial and non-financial information. The comparability with other organizations is not explicitly made in the reports but is helped using conventional KPI that can be easily compared with the one of other companies.

3.3.4 Adherence to the “Content Elements”

In this paragraph I will analyse Monnalisa’s and Inditex’s Integrated Report to study if the content elements described in the IIRC Framework are present or not.

The eight content elements to check are: Organizational Overview and External Environment, Governance, Business model, Risks and opportunities, Strategy and resource allocation, Performance, Outlook, Basis of preparation and presentation.

Both documents largely provide an *Organizational Overview* introducing mission, vision and culture of the company, the core activity and information regarding the market presence; what is missing to fully satisfy the firsth content elements are information on *External Environment* in which the firm operates.

The general introduction to the companies are enriched with the sections on the *Governance* were both Monnalisa and Inditex give information on the structure of the leadership and on the composition of the board; on the link between retribution, incentive and performance; and on the decision-making process.

An analysis for what concern the element "*Business model"* has already been provided in the first paragraph of this chapter.

With the aim of taking care of their stakeholders both companies put emphasis on awareness on the *Risks* that can affects their business. In doing so they both dedicate a specific section to this topic deeply describing their origin and how the company is equipped to face it. Remarkable is the practice of Monnalisa that describe every risk according to two dimensions: internal/external and probable/remote. What I found out during the analysis of the reports studied is that both have as a point of weakness the lack of a section dealing with the elements *opportunities.*

Also, the content element of *Strategy and resource allocation* is sufficiently debated in both annual reports, even though none of the companies use a specific section of the documents to talk about. However, the reports are enriched in different parts with several information that directly addresses the question that the IIRC formulated to point out this content element.

The element of *Performance* is faced with two different level of attention from the companies in question: Inditex directly deal with this topic in two chapters of its report (Year review, Our priorities) providing quantitative summaries of the company performances, adding qualitative comments to help the understanding of the readers; on the other hand Monnalisa provide a less detailed description of the obtained results without dedicating specific section to it.

Regarding the element *Outlook*, except for what has been said for the element *risk*, the two companies satisfactorily provide outline about possible future implication for its business model and future performance: Monnalisa, after the audit of the company's mood, describes how it intends to change its internal organization to cope with the identified problems; while Inditex explains how it is moving towards the circular economy model.

Both companies open their reports explaining why they chose to redact an Integrated Report and the principle that underpin the preparation of the documents (GRI Standards for Monnalisa; GRI Standards, IR and Global Company principle for Inditex). Moreover, always with the aim of satisfying the elements of *Basis of* *preparation and presentation* both companies widely discuss their materiality determination process.

CONCLUSIONS

In the fourth and conclusive chapter, I will introduce another case study that is different from the one analysed before and will inspect the actual structure of a company that currently does not use Integrated Reporting as corporate reporting tool to see how far they are from it and how it could be possible to implement it.

4.1 Kering Case

4.1.1 History and Company Overview

The Kering group is a French company operating in the fashion industry, specialised in the luxury segment. As of today, the company occupies the 7th place in the top 100 fashion company ranking for market capitalization, reaching $75.93 billion.

The Kering group was founded by François Pinault in 1963, as a timber and building materials business.

Since its early years the company implemented a strategy focused on M&A to expand its business: first concentrating on the retail market acquiring Conforama and Fnac, then moved towards the luxury segment entering the Gucci Group and towards the sports and lifestyle market by owning Puma.

Nowadays the Group only operates in the luxury segment being the parent company of brands such as Gucci, Bottega Veneta, Brioni and Pomellato, and in the sports and lifestyle market through Puma and Volcom.

In the year of the analysis the Group registered outstanding operational and financial results, outperforming its peers, despite the luxury industry is facing years of moderate growth. In particular, in 2016 its revenues increased by over 8% reaching 12.4 billion euros.

4.1.2 Kering Corporate Reporting System

The choice of Kering as the subject of the analysis of this chapter is not random but driven by specific reasons that I will list below.

First of all, Kering is one of the biggest players in the fashion industry, occupying the 7th place in the top 100 listed ranking, owner of Gucci the hottest fashion brand in 2017.[68] For this reason, the brand is and should be a model for the entire industry. Moreover, going through the various reports of the company analysed in the "Top 100 Listed Companies Reporting Analysis" presented in the second chapter, I experienced that Kering has a highly deep and detailed disclosure system but that is difficult to navigate given the high number of different and separated documents that the company publishes. What I found out is that for the year 2016 the company published five documents that can be of interest to a general investor:

- Annual Report
- Full Year Results
- Financial Documents
- Reference Documents
- Environmental Profit & Loss

This causes a quite high degree of redundancy because some information is repeated in more than one report provoking a sense of confusion in an interest bearer that wants to find a specific information regarding the company with the consequent loss of value of the information.

Therefore, the aim of this chapter is to evaluate an IR prototype for the company in question. First of all, it should be verified how much of the contents elements and fundamental concepts required by the IIRC are disclosed in Kering´s reporting system; then check if and how in the reports disclosed the company apply any of the guiding principles that must be followed to draft an Integrated Report.

[68] Gucci ranked first in the Lyst Index "Hottest Brand" ranking for 2017, that analysed data from over 70 million consumers. The Business Of Fashion, (2017), "Gucci or Balenciaga: Which Was the Hottest Fashion Brand in 2017?", www.businessoffashion.com

4.1.3 Integrated Report Prototype

4.1.3.1 Content Elements

For what concerns the Content Elements, the disclosed documents touches almost all the eight elements delineated by the IIRC, even though not always with full adherence, neglecting only the Basis of preparation and presentation principle. Another observation that can be done is that in the five documents many of the content elements are repeated, often by just copying the same information with the only consequence of making the documents heavier.

Organization Overview and External Environment

This element is largely debated in the Annual Report, Financial Document and in the Reference Document. The main information exposed are the history of the company, the business in which it operates and the brands that the conglomerate owns. The reports also provide insights on the fashion & luxury market with both a past and future orientation.

Governance

The governance topic is addressed in the Reference Document in which are highlighted the company´s policy regarding governance and remuneration matter and where the Board of Directors and the Management Team are introduced.

Business Model

Nonetheless, there is no specific section dedicated to the Business Model, the main feature of which can be extracted from the different documents that provide information on how the company operates.[69]

Risk and Opportunities

The Reference Document also deals with the risk part of the Risk and Opportunities element introducing the company's vision of the concept of risk that is defined as "an event that may occur and could have an impact on people, assets, the

[69] Further information on the Business Model will be provided in the next sub-chapter

environment, the Company's objectives and its reputation".[70] Then the aims of the risk management are presented, among them of course is the central one which is to "create and preserve value, assets and reputation of the Company" [71]; this is done by following a three-step risk management process that includes: identification of the risk, analysis of the risk, action plan.

Strategy and Resource Allocation

Strategy is deeply touched by the following document: Annual Report, Financial Document and in the Reference Document.

According to what is disclosed, the company´s strategy is articulated and based on four pillars:

- Multi-brand model: the Group is composed of several brands, each of them preserving a distinctive identity, particular know-how and a specific positioning. This allows Kering to exploit the full potential of the luxury market with the final goal of pursuing long-term growth.

- Organic growth: Given that the demand in the luxury market is growing at a slower pace than in the past, the Group chose to focus on the organic growth (increase the same-store sales)[72] via two tools: improving the in-store customer experience and the e-commerce.

- Value creation across the Group: to allow each brand to focus on their individual business objectives and support their growth, especially internationally, the Group has several horizontal functions including real estate, ecommerce, indirect purchasing, intellectual property, strategic marketing and media buying.

- Sustainability: the Group´s strategy is founded on the belief that sustainability can be a source of value creation, offering a competitive advantage in the medium to long term. In this direction, the Group developed the Environmental Profit & Loss Account, which is a tool that gives monetary value to each individual impact that the company, making them easier to identify and address. Kering´s sustainable

[70] Kering, (2017), "2016 Reference Document", pp. 210
[71] Kering, (2017), "2016 Reference Document", pp. 210
[72] Kering, (2017), "2016 Annual Report", pp. 31

strategy is structured around three pillars: “Care” which concerns the environment, “Collaborate” which regards social topics and “Create” which deals with innovation.

Table 13: Kering’s Four Pillar Strategy

1 Multi-brand model	• **Balanced portfolio:** - of complementary brands; - built through acquisitions and developed through organic growth. • **Business model and management aimed at leveraging:** - differentiated cycles and degrees of maturity; - growth dynamics specific to each brand.
2 Organic growth	• **Foundation:** secular growth of markets. • **Capital:** attractiveness of the brands. • **Growth lever:** same-store performance. • **Accelerator:** online presence.
3 Value creation by brands and Group	• **Integrated specialised group.** • **Optimisation of processes.** • **Strong generation of free cash flow, from operations.** • **Improving return on capital employed.**
4 Sustainability	• **Social and societal responsability.** • **Environmental responsability.** • **Creativity and leadership.**

Source: 2016 Kering’s Reference Document, pp. 9

Performance

This content element is widely addressed by all the five documents that I am using as reference; but with a different perspective depending on the report.

In the Environmental Profit & Loss report the focus is on the environmental performance of the company, while the Annual Report provides a more comprehensive analysis of the year´s performance, covering topics as: economic, CSR, strategic and positioning performance, also giving insight per each brand. On the other hand the Financial Document and Full Year Results target just and only the financial and economic performance of the Group.

Lastly, the Reference Documents contains all the information regarding this content element contained in the other four documents, in the same form or differently, plus some in-depth analysis on the presented topics.

Outlook

Regarding the Outlook content element the documents are quite lacking because as explained before they also miss the risk part of the risk and opportunities content.

Basis of Preparation and Presentation

As already mentioned before this topic is not contained in any of the five documents analysed.

4.1.3.2 Fundamental Concepts

In this section of the dissertation, I will analyse if and to what extent the reporting system of Kering covers the three fundamentals concepts introduced by the IIRC.[73]

Value creation

Going through the documents object of studying it is clear that the concept of value creation is deeply rooted in the company culture and interpreted in a broad and comprehensive way. Kering´s understanding of value is well summarized in the Message from the CEO that opens the Annual Report: aim of the company is to create value for customers, investors and for the community in the form of economic, social and environmental wealth. Moreover, at centre of the company´s strategy there is the objective of pursuing the creation of value in a medium-long term, even detraining the short-term one.

Below a prototype of a value creation scheme that summarize the Group value creation process.

[73] The fundamental concepts are the Value Creation, the Capitals and the Business Model

Table 14: Value Creation at Kering

VALUE

Type of value	Financial	Emotional	Social	Environmental
How is created	• Organic Growth • Acquisition	• Designing desirable products	• Supporting communities development • Long-term hiring policy • Promoting ethics within the group	• Reducing carbon footprints • Shifting towards circular economy • Protecting biodiversity
To whom	• Shareholders • Investors	• Customer	• Society • Employees	• Environment • Society
Affected capitals	• Financial Capital	• Financial Capital	• Human Capital • Intellectual Capital • Social & Relationship Capital	• Natural Capital

Source: Personal Elaboration; Data from Kering's Reports

As emerged from the graph, according to what is disclosed in the reports, I have identified four main types of values created by the company and distributed to its stakeholders.

In the recent past and in the next future the company uses two ways to create Financial Value for its investors and shareholders:

- Organic growth
- Acquisition

In particular organic growth is pursued launching new product categories and refining existing lines; improving performance in existing sales networks, strengthening distribution channels through the selective expansion of DOS and third party retailers.

On the other hand, there is the external driven growth achieved towards acquisition of other brands. The potential targets that the company looks for are companies with exceptional brand identity, strong values and heritage. Moreover, it is crucial that Kering sees the possibility to broaden their geographic market presence. Another fundamental aspect that the Group values in an acquisition process is the presence and magnitude of synergies, both financial, operational and intellectual.

Of course, the main implications of the financial value relapse mainly on the financial capital itself.

The second kind of value identified is the Emotional Value that has, as main recipients, the customers of the group´s brand and is delivered towards the products produced and commercialized by the company. The aim is to create high-end fashion collections to delight and satisfy customers. The most relevant capital affected by this value is again the Financial Capital through the revenue stream deriving from the products´ sale.

Then follows the Social Value that has as its major triggers the company´s willingness to supporting the local communities' development, in particular the one in which it owns facilities, the promotion of ethical behaviours within the group and the long-term hiring policy. The concerned stakeholders from this value are in particular the Society and the Employees, via the Human Capital, Intellectual Capital and Social & Relationship Capital.

The last identified value is the Environmental one that is generated from the company commitment in reducing its impact on the world´s resources. Who benefits the most from the fourth value of course is the environment and the society as a whole.

Capitals

Not applying the IIRC guidelines, of course, the reports published by the Group do not contain any explicit reference to the concept of capitals, as described in the second chapter of this work. Nonetheless, in them I found quite a lot of information attributable to the six capitals introduced by the IIRC.

One of the capitals on which the company puts more emphasis is the human capital, commencing with the Message from the CEO that thanks the 40,000 employees expressing his gratefulness for helping the company reach the excellent results for the year ended. Then the Reference Document provides an in-depth analysis and description of the company´s human resources. Noteworthy is the new Sustainability strategy launched in 2016 that established new HR priorities: develop talent, preserve craftsmanship, and promote well-being at work and employee commitment. Linked to the human capital is the intellectual capital that according to the company lies both in the employees and in the history and expertise of the brand itself; a meaningful example is the unique tailoring technique that Brioni uses to make its suits with more than 6,000 meticulously hidden stitches.[74]

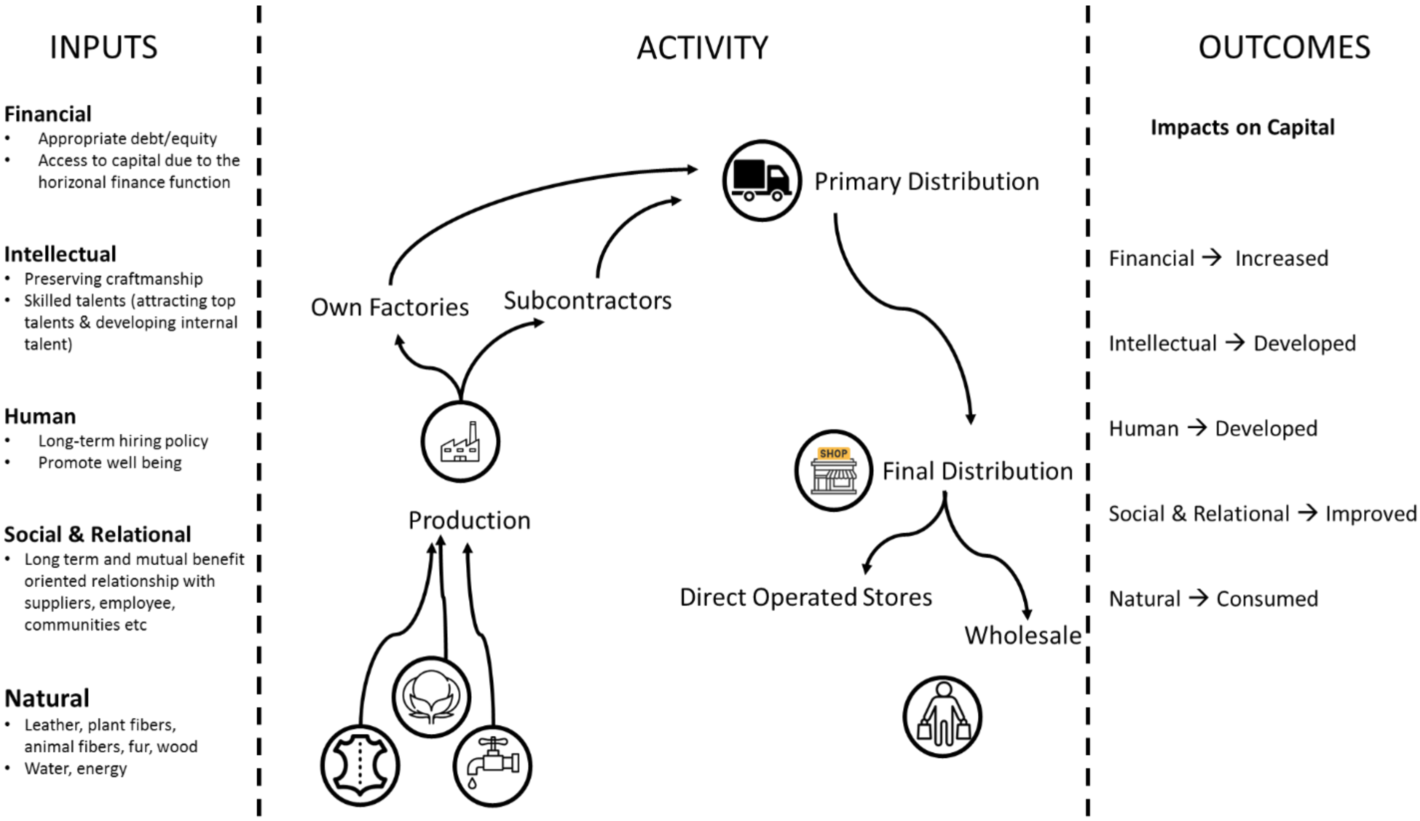
[74]Kering, (2017), "2016 Annual Report", pp. 57

Natural and Manufactured capitals are covered by the Environmental Profit & Loss that measures and monetises the costs and benefits generated by a company's environmental impact, both within its own operations and across all of its supply chains. In 2016 the company created impacts of 77 Euro each 1,000 of revenues, a 10,3 % decrease compared to 2012, the year in which they started measuring their impact. The report also offers a breakdown on the total impact into the major groups of raw materials used for the production.
For what concerns the social and relationship capitals Kering since 2014 is trying to improve its relationship with the stakeholders, that is why it undertook a process of updating its materiality analysis partnership with the consultancy firm BSR. The final aim of this process is to build a quality relationship based on trust with all its partners with a view to gaining a full appreciation of their concerns and expectations, and, as far as possible, incorporating these aspects into its strategy. In particular, the company is committed towards the development of the local community in the regions where its sites are located and in ensuring that both direct and indirect employees receive human and ethical treatments.
As already mentioned before a lot is said also about the Financial capital to which are dedicated two specific documents: the Full Year Results and the Financial Document.

Business Model

As mentioned before, there is no dedicated section on the Business Model but its main traits can be easily understood from the disclosed information. To summarize I can say that Kering´s objective is to have a balanced and diversified business model with the aim of weather changes in the economic environment affecting a specific activity or region; always focusing on sustainability and innovation.
Below is a representation of Kering´s business model made by using the information contained in the documents analysed in this chapter and using as framework the business model dummy drawn by the IIRC.

Tabble 15: Kering Business Model



Source: Personal Elaboration; Data from Kering's Reports

Guiding Principles

In this section it will be checked if, nonetheless not using the IIRC Integrated Report as base, the documentation divulged by Kering is in line with the guiding principles planned from the organism.

Strategic Focus and Future Orientation

Regarding the first of the seven principles, the reporting system of the company is on the right track for the strategic focus. In fact, the reports clearly highlight which is the strategy of the Group, what is lacking is the second part of the principle regarding the future orientation.

Connectivity of Information

Talking about the connectivity of information, which is maybe the most delicate principle to talk about and also the most innovative introduced by the IIRC, Kering's reports has both strengths and weaknesses. Noteworthy is the connection that the company establishes between financial and non-financial information in

particular thanks to the Environmental Profit & Loss. Moreover, in a vision of giving an overall valuation of the yearly results of the company it is often highlighted the link and interdependence between the economic and the market/operational results.
What is missing is the concept of connectivity between different time periods (past, present and future) as suggested by the IIRC.

Stakeholder Responsiveness

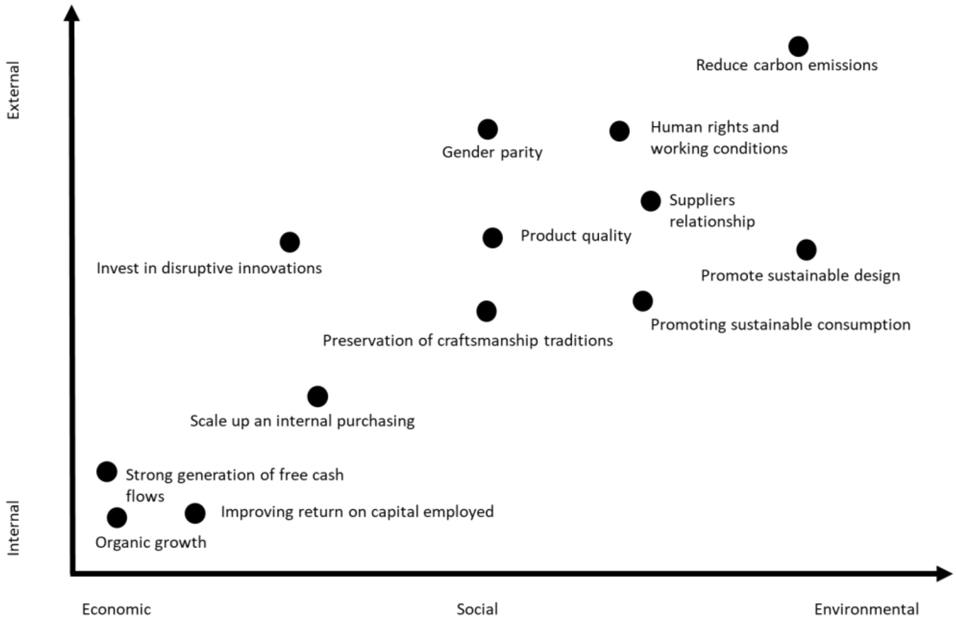
Although not much is said on the company strategy and actions towards stakeholder's relationship and engagement from the reports emerge that in the vision of the company there is the scope of creating value for all its interests bearers. This is also validated from the new path, undertaken in 2014 with the aim of incorporating stakeholders concern and expectation into the company's strategy.[75]

Materiality

The main comments that can be made regarding the materiality principle is that it is missing a proper materiality analysis and the relative materiality matrix, that has been shown in the two previous cases to be a helpful and direct tool to identify and represents material content to be addressed by the company. This does not mean that the company does not carry a materiality analysis or that the information treated in the reports are not relevant; to the contrary, the information disclosed by Kering's reporting system are all quite relevant and covers all the aspects related to the business.
In an attempt to fill this gap, I will propose a materiality matrix using information extrapolated from the reports. First of all, the variable of the matrix should be identified: the horizontal axis, gleaning from the definition of materiality provided by the IIRC, distinguishing between economic, environmental and social significance while on the vertical one will be measured the external or internal relevance of the matter. The main source of information are the company's strategy (four pillars), the sustainability strategy (Care, Collaborate, Create) and the Environmental Profit & Loss.

[75] See "Capitals" subparagraph in paragraph 4.1.3.2 "Fundamental Concepts"

Table 16: Materiality Analysis



Source: Personal Elaboration; Data from Kering's Reports

Conciseness

Probably this is the principle on which, in the optic of an Integrated Report, the company has to improve the most. With the initial intent of preciseness and meticulousness seeking, for the year 2016 Kering published five separate reports, which in total accounts for more than 700 pages, often running into repetition and redundancy. However, the numerical and statistical data present in the documentation are recapitulated in tables or charts that help its understanding.

Reliability and Completeness

All the documents are certified by both internal and external audit processes, this confer to them veracity and authenticity. Moreover, the set of documents can be considered complete in the sense that they cover all the aspects that are material to the business and to the interest bearers.

Consistency and Comparability

Also, the principle of consistency and comparability is satisfactorily applied in Kering's reports, divulging the company the same type of documents in the last years and keeping its content almost fixed. Moreover, the use of widespread KPI allows the reader to compare the company's performance and features with other firms operating in the fashion industry without big difficulties.

4.1.4 Final Comments

At the end of the analysis of Kering’s reporting system final comments are a must. First of all it is essential to remember that the company, is a company that as of today does not embrace the Integrated Report and that the aim of the study was to investigate if, with the information that the company currently discloses, was possible to compose an IR.

The final conclusion is that, although not all the prescriptions delineated by the IIRC are expressed to the best in the current documents disclosed, with the available information it could be possible to develop an Integrated Report. This will also solve the above mentioned problem of redundancy of information that characterize the reporting system of the Group and thus providing to the stakeholders a unique and comprehensive report.

This third case is an example and a proof that despite very few companies in the fashion industry today adopt the IR the situation is not so deteriorated, and that transparency and a better reporting system are not a utopia.

APPENDIX A

Top 100 Listed Companies Reporting Analysis

NAME	AR	AR (+ CSR info)	SR (GRI)	CSR R	IR
LVMH		x		x	
Inditex					x
Nike	x				
Dior		x			
Hermès		x			
TJ1	x			x	
Kering		x		x	
adidas		x	x		
Richemont		x	x		
H&M		x	x		
Fast Retailing		x		x	
Lu1ottica	x				
VF	x		x		
Ross Stores	x			x	
Swatch Group	x				
Zalando	x				
Tiffany & Co.	x		x		
Coach	x		x		
Chow Tai Fook	x			x	
L Brands	x				
PVH HQ		x	x		
Burberry	x			x	
Gap	x		x		
Hanes	x			x	
Prada Group	x		x		
Ne1t		x		x	
Nordstrom	x			x	
Lululemon	x				
Michael Kors	x				
Gildan	x				
Moncler		x	x		
Under Armour	x				
Marks & Spencer (M&S)				x	x
Belle International		x			
Lojas Renner					x
Macy's	x			x	
PUMA		x			
ASOS		x			
Hugo Boss	x			x	
Ralph Lauren	x			x	
Vipshop Holdings	x				
Foot locker	x				
Salvatore Ferragamo	x		x		
Carter's	x				
Skechers	x				
Columbia Sportswear	x			x	
Semir	N/A	N/A	N/A	N/A	
Lao Feng 1iang Jewelry	N/A	N/A	N/A	N/A	
Boohoo.Com		x			

Dick's Sporting Goods	**x**				
Asics		**x**		**x**	
Sports Direct		**x**			
YOO1 Net-a-Porter Group	**x**		**x**		
Guararapes	**N/A**	**N/A**	**N/A**	**N/A**	
Grendene	**N/A**	**N/A**	**N/A**	**N/A**	
Wolverine	**x**			**x**	
Steve Madden	**x**				
Urban Outfitters	**x**				
Kate Spade	**x**				
TOD'S	**x**				
American Eagle Outfitters	**x**				
Alpargatas - Havaianas	**x**				
Pantaloons		**x**			
Children's Place	**x**				
Deckers Outdoor	**x**		**x**		
Dillard's	**x**				
Brunello Cucinelli	**x**				
Hudson's Bay	**x**		**x**		
Supergroup		**x**			
Arvind	**x**		**x**		
DSW	**x**				
Metersbonwe	**N/A**	**N/A**	**N/A**	**N/A**	
Li Ning		**x**		**x**	
Cia Hering		**x**			
Ted Baker		**x**			
Guess	**x**		**x**		
G-III Apparel Group	**x**				
Onward Holdings		**x**			
J.C. Penney	**x**			**x**	
Caleres	**x**				
Jimmy Choo	**x**				
Esprit		**x**	**x**		
O1ford Industries	**x**				
Chico's	**x**			**x**	
United Arrows					**x**
GEO1	**x**				
Abercrombie & Fitch	**x**				
JD Sports		**x**			
Mulberry	**x**				
Bosideng	**x**			**x**	
Buckle	**x**				
Van de Velde	**x**				
Gerry Weber	**x**				
E1press	**x**				
Genesco	**x**				
Fossil	**x**				
Ascena Retail Group	**x**				
Cato Fashion	**x**				
Vera Bradley	**x**				
Francesca's	**x**				

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SUMMARY

Introduction

In the last decades the world of business has been characterized by the huge financial crisis of 2008 and by many corporate scandals, such as the *dieselgate.*[76] Is it not by chance that I have cited the Volkswagen scandal, indeed the last years has been also characterised by an always increasing awareness of the public opinion on environmental matters. This socio-economic situation impose, at least theoretically should impose, the companies to rethink their way of conducting business in order to embrace a sustainable development.

Of course, this new approach to business had strong implication on the companies' reporting and communication system, that during this period underwent a radical change. Companies start to adopt tools that allows them to disclose on non-financial information in particular on environmental and social matters with the aim of providing a 360° snapshot of the business' activities. Thus, the annual disclosed documents are no longer addressed to the use of the sole investors but to a wide and heterogeneous group of interest bearers. Stakeholders are now interested in knowing, in addition to the financial results, the company's strategy to create value in short, medium and long term; which is the impact that the operations of the company have on the environment; how the company is helping the community, that is no more intended with a local perspective but with a global one.

To satisfy the new willingness of stakeholders, companies need to disclose a growing quantity of information, start editing voluntarily an increasing number of reports. For example, Inditex, one of the company analysed in this dissertation, in 2005 published three different reports each of it targeting a specific group of interest bearers.

This wave of innovation was supported by academics and legislator that created and introduced several tools, standards and guidelines on how companies should disclose on this non-financial information.

This agitation creates a sense of chaos and disorganization in the field of corporate reporting deriving from the excessively heterogeneity of the several approaches and

[76] In 2015 Volkswagen has been founded guilty of manipulating the emission of its engines with the aim of eluding the environmental laws for what concern the pollution deriving from diesel.

tools appeared. Moreover, as a reaction to the awareness and knowledge that the stakeholder developed companies edits reports more and more copious. These two phenomena, chaos derived from the abundance of tools and copiousness of contents in the reports, are on the contrary harmful for the satisfaction of the aim of corporate reporting: clear and easy to understand disclosure of information.
Here the needs to find a unique approach for the future of corporate reporting towards which companies can integrate financial and non-financial information.
This work identifies the Integrated Report, as outlined by the International Integrated Reporting Council (IIRC) in 2013, as the tool that could became a best practice in the future. The Integrated Report is still in is embryonic phase but owns all the necessary requisites to fulfil the changed needs of corporate reporting.
The focus of this dissertation is on the clothing industry, not only because is the major of my M.Sc., but because perfectly fits with the environment delineated in the first lines of this introduction for what concern corporate scandals, awareness of consumers and of stakeholders in general of the urgent needs to shift production and consumption system.

Chapter One

The process of corporate reporting has always played a crucial role in the business landscape because as stated by the OECD *"A strong disclosure regime can help to attract and maintain confidence in the capitals markets. By contrast, weak disclosure and non-transparent practices can contribute to unethical behaviour and to a loss of market integrity at great cost, not just to the company and its shareholders but also to the economy as a whole".*[77]
Academics have always point out that the firms are a social and open system,[78] thus has to satisfy the needs of all its interlocutor. This awareness caused the recent phenomenon of the enlargement and innovation of the reporting tools.
This paper will go through the evolution of corporate reporting analysing the different type of documents utilized by companies to disclose information; the three

[77] OECD, (2004), "Principles of Corporate Governance",
[78] Golinelli G.M, (2011), "L' Approccio Sistematico Vitale al Governo dell'Impresa", CEDAM, pp. 578

milestones are the Traditional corporate reporting consisting in the Annual Report (AR),[79] the Sustainability Report (SR) and Integrated corporate reporting (IR).
Until the 80s the only reporting tool used by the company was the Financial Statement (AR); then emerged other instrument like the Management Commentary, the Report on Governance and Remuneration and the Environmental Report that sometimes were included in the Annual Report but considered ancillary and secondary to the Financial Statement. Only in the 2000s the corporate reporting experienced the rise of the Sustainability Report, that year after year gained more relevance; the last step of the evolution process of the reporting system is what we will live in the next future: the development of one unique report that can incorporate all the necessary information.

The Traditional Corporate Reporting

Today, listed companies are obliged to compose an Annual Report, defined as "a publication issued to a company's shareholders, creditors, and regulatory organizations following the end of its fiscal year. […]"[80].
As the definition shows, the target of the AR are the shareholders and investors to which the company must provide information on the economic condition and performance of the company in the previous years.
The core information of the Traditional Corporate Reporting is the Financial Statement for the past year. This tool internationally is mainly regulated by IAS/IFRS and US GAAP which define the elements, contents and form of the AR. Usually the Financial Statement is composed of 4 statements: balance sheet, income statement, cash flow statement, statement of changes in equity.

Limitations of The Traditional Corporate Reporting

The disadvantages of the AR can be clustered in three main categories: exclusive exhibition of financial information, complexity, past and short-term orientation:

- Knowledge is valuable only if it can lead to a monetary benefit, that is why there is the belief that the only relevant information is a firm's financial information, that are the only one, or the majority, included in the AR.

[79] In this dissertation traditional corporate reporting and AR will be treated ad synonymous
[80] www.accountingtools.com

At this point a doubt arises spontaneously: if the financial information is the only relevant one why was they not able to predict the hundreds of corporate scandals that stud the 90s and the first decade of the 2000s? Maybe they are not enough.
A company must account also for non-financial information like: strategy, environmental and social performance, human rights and so on; both for the preservation of all other stakeholders, except for the shareholders, and for the latter's protection because these scandals also have financial impact, so they are still relevant in the monetary point of view of information.

- The continuously increase in the companies' dimension, the always more demanding requirements of the regulators, the increase of the variety and complexity of the financial instrument available, among others led to the situation in which corporations gather and disclose a huge amount of information in overwhelmed and cryptic AR. As written by Hirst & Hopkins "[…] psychology research predicts that information will not be used unless it is both available and readily processable […]"[81], thus may exist a negative correlation between the AR's complexity and the usefulness of it.

- As above stated by its definition, an AR is a backward oriented document that investigates on the performance of the year ended comparing it with the previous years. Moreover, it is commonly used to make forecasts on the financial performances for the next one or two. Thus, can be affirmed that the traditional corporate reporting has a past and short-term orientation. Using a short-term orientation, inherent in the AR, will lead to a misleading vision company's situation.

Corporate Social Responsibility

Already in the 60s an Italian economist, Giancarlo Pallavicini, wrote about the limitations of the financial reporting and importance of non-financial performance of companies. His theory has been the base on which John Elkington, considered one of the fathers of the Corporate Social Responsibility, developed his Triple bottom-line concept. Among several definitions attributed to the CSR I would like

[81] Hirst, D. Eric And Hopkins, Patrick E., (1998), "Comprehensive Income Disclosures and Analysts' Valuation Judgments", p34

to use the one coined by the European Commission that defines corporate social responsibility as "the responsibility of enterprises for their impacts on society". And to be socially responsible, enterprises "should have in place a process to integrate social, environmental, ethical human rights and consumer concerns into their business operations and core strategy in close collaboration with their stakeholders[82]". In doing so businesses should generate positive outputs for all its stakeholders (environment, consumers, employees, communities, etc).

CSR was, or even better is, presented as the sole tool that can help to rebuild the trust of people towards businesses after the financial crisis of 2008 and many other corporate scandals above mentioned.

New Tools for Corporate Reporting

The growing spread of awareness of the relevance of CSR is one of the main factors that caused the proliferation of a big number of new reporting tools between the 90s and 2000s. Among these the most relevant and embraced are: the Balanced Scorecard, the Value Reporting Framework, the Sustainability Report, the Corporate Social Responsibility Report.

At the base of the Balance Scorecard there is the assumption that at the time management decision and processes were excessively financial focused, fpr this reason Kaplan and Norton developed this new managerial tool which measures a firm's performances in a more comprehensive way, considering four perspectives: financial, customers, internal business process, learning and growth.

Also, the mechanism of the Value Reporting is founded on the purpose of providing a 360° degrees report, that is why considers four types of information: market overview, strategy, value creating activities and financial performance. The starting point of the reasoning of its creators was that at that time the current reporting system was not transparent enough.

The Sustainability Report as defined by the GRI is "an organization's practice of reporting publicly on its economic, environmental and social impacts, and hence its contribution towards the goal of sustainable development."[83]. The GRI also outlined a series of reporting principles: stakeholder inclusiveness, sustainability

[82] Samuel O. I, Rene S., (2015), "CSR, Sustainability, Ethics & Governance: Dictionary of Corporate Social Responsibility", Springer, pp. 603

[83] Global Reporting Initiative, (2016), "GRI 101: Foundation", pp. 29

context, materiality, accuracy, balance, clarity, comparability, reliability, timeliness.

The concept of Corporate Social Responsibility Report is as broad as the concept of CSR is; in this work they will be defined as any reports that portrays the relationship between the company and the society (intended as the full range of stakeholders).[84] This caused the fact that every company has its own understanding CSR and the manner it communicates its performance.

At this point should be clear which was the aim of these new corporate reporting tools: provide a comprehensive and exhaustive analysis of the situation of a company satisfying the needs of each stakeholder.

Legislation

Institutions always looked at corporate reporting with particular attention given its social utility; this attention increased during the last decades due to the pressure that institutions received from multiple subjects to innovate and legislate on the reporting system. The two initiatives undertaken by institutions in the recent past are: the Directive 2014/95/EU and the UN Sustainable Development Goals.

The first one emended by the European Union oblige large companies and all other firms considered by the authority as public interest to include in their Annual Report non-financial information from 2018.

The Sustainable Development Goals are seventeen objectives developed by the United Nations with the aim of spurring sustainable development, where Sustainable development has been defined as development that meets the needs of the present without compromising the ability of future generations to meet their own needs, this must be done accomplishing three key objectives: economic growth, social inclusion and environmental protection[85].

Chapter Two

It is clear now which is the environment in which the idea of Integrated Reporting has been conceived: both institution and public opinion were aware of the

[84] Boston College Center For Corporate Citizenship, (2010) "How To Read A Corporate Social Responsibility Report", pp. 72

[85] "Sustainable development goals", www.un.org

limitations of the traditional corporate reporting and of the need of a new approach to it.

An Integrated Reporting is, as defined by the IIRC, "a concise communication about how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long term"[86]. Its aim is to give to the stakeholders, intended in the broader way as possible, a 360°-degree vision on the company's performance.

The IIRC highlight that the Framework is principles-based, meaning that it draws only the grounds on which each company has to build its individual report according to its judgment, considering its specific organization. Thus, the Framework does not specify specific KPI or measurement methods but leaves to individuals a quite high level of flexibility, still preserving a sufficient degree of comparability.

Fundamental Concepts

According to the vision of the IIRC three are the fundamentals concept at the base of the IR: the value creation over time, the capitals that an organization uses and its business model.

The final aim of an organization is to *create value* for itself, for its customers, for its shareholders and in a broader sense for all the stakeholders. The capability of a company to create value for itself is strictly related and dependent on the value created for the others. The resources and the relationship used to create this value in the Framework are called *capitals* and the value generated by an organization can be expressed as an increase, decrease or transformation of these capitals. In the Framework are listed six kinds of capitals, intended as "resources and relationships used and affected by the organization": financial, manufactured, intellectual, human, social and relationship, and natural. This list is not to be seen as exhaustive and mandatory to follow, but each organization is free to outline the capitals that it considers relevant for its activity. The *business model* is the representation of the process of value creation, the link between the capitals and the value creation: everything starts from the capitals that represents the stores of value from which the inputs are taken; these inputs are then used in the company's activities that

[86] International Integrated Reporting Council, (2013), "Consultation Draft of International Integrated Reporting Framework", pp. 12

generates outputs, which at the last stage becomes outcomes and goes to affect the capitals increasing, decreasing or transforming them.

Guiding Principles

As already mentioned above the Integrated Reporting Framework is principles based, for this reason the IIRC published a list of seven guiding principles that companies must follow in editing their IR.

The principles are: *Strategic Focus and Future Orientation, Connectivity of Information, Stakeholder Responsiveness, Materiality, Conciseness, Reliability and Completeness, Consistency and Comparability*

Content Elements

With Content Element the IIRC refers to the inevitable content that must be included in an Integrated Report. In the Framework there is a list of seven contents; it is also specified that it is not mandatory to list the content in separate sections but that the contents have to be intended as elements that permeate the whole report. The content elements are: *Organizational Overview and External Environment, Governance, Business Model, Risks and Opportunities, Strategy and Resource Allocation, Performance, Outlook, Basis of preparation and presentation.*

Integrated Thinking

As mentioned in the Introduction what is needed in today's society is a new approach to the business, with the scope of embracing a sustainable development. The IIRC called this new approach Integrated Thinking, defining it as "The active consideration by an organization of the relationships between its various operating and functional units and the 'multiple capitals' that the organization uses or affects. Integrated thinking leads to integrated decision making and actions that consider the creation of value over the short, medium, and long term."[87]

It has been long discussed if Integrated Thinking is a cause or a consequence of the implementation of the Integrated Report; it is not the aim of this dissertation to consider if it is at the top or at the bottom of the IR process. Surely, I can affirm that the IR is just the tip of the iceberg while what is behind the water surface is the

[87] International Integrated Reporting Council, (2013), "Consultation Draft of International Integrated Reporting Framework", pp. 12

Integrated Thinking, a necessary element to sustain the implementation of an effective and efficient IR in the long term.
Only through Integrated Thinking can managers have a broad and holistic vision of the company, use it as a guide towards Integrated Decision and thus provide integrated information.

The Fashion Industry

As already stated in the introduction the focus of this dissertation is on the apparel industry, not only because field of my studies and internships but also because crystal concrete example of the need that the world has of a new reporting system. First are introduced the two of the biggest issues that the industry is facing: the first one regarding the *people*, the other one the *planet*. The solution to these problems is already clear to everyone and is *transparency*. Where, for transparency, is meant public disclosure of company's policies, goals, procedures, performance, progress and real-world impacts on workers, society and the environment. Transparency is the only possible way to make companies accountable for the events and impacts that occurs along all the supply chain in which they operate. Thus, once they are accountable they can really care for what happens and promote good practices, starting the *revolution*. At this point is necessary to address the question: how to make companies transparent? The answer to this question is the Integrated Reporting.

Top 100 Listed Companies Reporting Analysis

To understand at what point of the fashion revolution is I have done an analysis of the reporting system of the top 100 listed fashion companies for market capitalization. Of these hundred companies was analysed the type of reports they draft using five categories: Annual Report (AR) identified as a report which includes the financial statement plus few general information on the company; Annual Report + CSR information if the AR also includes information on Corporate Social Responsibility of the firm; Sustainability Report (SR) if the company discloses a report according to the GRI standards ; CSR report identified any other additional type of report that firms disclose focusing on CSR topics ; Integrated Report (IR) if a firm publishes just one report in which they include all the relevant information following the IIRC standards. The results of the analysis reveal that the

actual scenario is not flourishing, with only four companies out of one hundred using the Integrated Reporting as a tool to divulge annual firm's information, while all the others adopt the Annual Report in its simple or complex form. In total out of our poll of one hundred firms it has been found that fifty-four disclose on corporate social responsibility matters somehow.
Can be concluded that the road towards the Integrated Reporting, or even better towards integrated thinking, has just begun and lot of improvements are still needed as much as progress has been done.

Chapter Three

The two case studies presented in the third chapter of the work are a clear representation of how companies can embrace what in the second chapter is called the *fashion revolution.* I hope that the forward-looking companies, object of the analysis, will be taken as a role model in the next future by the whole industry both from huge business such as Inditex and from small companies like Monnalisa, that still can play a crucial role in the transition towards a sustainable world.
The case studies are carried out comparing companies' reports with the concepts, principles, elements of the Integrated Report Framework elaborated by the International Integrated Reporting Council. The chapter also provides a comparison between the two companies highlighting their similarities and differences.
Moreover, towards the two cases will be highlighted the flexibility that characterizes the IR that allowed each company to interpret the tool in a different way but still in accordance with the guidelines designed by the IIRC.
Interesting is the fact that, as will emerge from the analysis, the road and motivation that led the two companies to the IR is different and linked to its feaures. In particular, Inditex's Integrated Report is the arriving point of a long process of approaching to sustainability undertaken by the Spanish company with the aim of creating a right to wear fashion. According to the vision of the company *right to wear* mean right for our customers, but right for the people who work for us, right for communities and right for the environment.[88] To reach this noble goal the company's operations grounded on two pillars: traceability and transparency. On the other hand for Monnalisa the Integrated Reporting hasn't been a choice but the

[88] "How we do business", www.inditex.com

natural consequence of being a family business and the strong territorial attachment of the company towards its birthplace has always supported a deep sense of devotion in Monnalisa for the environment and the community.

Both Inditex and Monnalisa decided to opt for the redaction of a unique and autonomous document which joins traditional financial information with social corporate responsibility topics. This choice is a clear signal of the importance that the companies give to the IR as main document of corporate reporting and disclosure. A small difference between the two cases is about the reference used for the compilation of their report. Monnalisa draft its report including both the financial statement in the EEC format and the sustainability report; presenting a document in compliance with the GRI Guidelines with a "comprehensive" degree of application.

While Inditex, beyond the Comprehensive option of the GRI Guidelines, uses as a reference also the principles established in the Integrated Reporting Framework.

Conclusions

In conclusion, the last chapter deal with the third case study presenting a prototype of Integrated Report for a company that does not use it. The aim is to demonstrate that the implementation of the IR is not a utopia and its necessary components can be satisfied using the information that companies already publishes in separate reports.

The choice of Kering as the subject of the analysis of this chapter is driven mainly by the following reason: through the various reports of the company analysed in the "Top 100 Listed Companies Reporting Analysis" presented in the second chapter, I experienced that Kering has a highly deep and detailed disclosure system but that is difficult to navigate given the high number of different and separated documents that the company publishes. In particular, for the year 2016 Kering published five different documents that can be of interest to a general investor. This causes a quite high degree of redundancy because some information is repeated in more than one report provoking a sense of confusion in an interest bearer that wants to find a specific information regarding the company with the consequent loss of value of the information.

Therefore, the aim of this chapter is to evaluate an IR prototype for the company in question. First of all, it should be verified how much of the contents elements and fundamental concepts required by the IIRC are disclosed in Kering´s current reporting system; then check if and how in the reports disclosed the company apply any of the guiding principles that must be followed to draft an Integrated Report. In doing so will be highlighted which are the lack of the company's reporting system and will be provided a solution to it. In particular, using the information disclosed by Kering in the different reports will be brought to light the company's business model, the value creation system and its link with the capitals and the materiality analysis. These elements, missing in the current information disclosed by the company, are crucial pillars of a well structured Integrated Report; the fact that the underlying information needed to develop these elements were already present in the five analysed reports is a proof that the transition from the current reporting system to the Integrated Report is not as traumatic as it might be thought.

The final result of the analysis is that although not all the prescriptions delineated by the IIRC are expressed to the best in the current documents disclosed by Kering, with the available information it could be possible to develop an Integrated Report. This will also solve the above mentioned problem of redundancy of information that characterize the reporting system of the Group and thus providing to the stakeholders a unique and comprehensive report.

This third case is an example and a proof that despite very few companies in the fashion industry today adopt the IR the situation is not so deteriorated and that with not a huge effort companies can smoothly embrace it. As emerged from this chapter, transparency and a better reporting system are not a utopia, the fashion revolution is not something unattainable.