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RESEARCH ARTICLE

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Nonfinancial risk disclosure: The "state of the art" of Italian companies

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Abstract

This research represents a preliminary analysis of the nonfinancial risk disclosure and the first after the introduction of the European directive. Using a content analysis, the level of nonfinancial risk disclosure after the introduction of the Directive 2014/95/EU on nonfinancial information has been investigated. Moreover, in order to understand the effectiveness of nonfinancial risk management, the outlook orientation (past, present, and future) and the approach to risk (positive, negative, and neutral) have been examined. The results show how the level of nonfinancial risk disclosure in Italian companies is better than before the introduction of the directive and also still based on the past and present perspective, rather than the future one.

KEYWORDS

EU Nonfinancial Reporting Directive, nonfinancial information, risk disclosure, risk management

1 | INTRODUCTION

Over the years, because of the accounting scandals and the recent financial crisis, the importance given to disclosure and the need to information, in general, are increased more and more, especially in the field of risk.

Risk disclosure is, in fact, considered more and more significant to increase transparency and enhance the market discipline (Abraham & Shrives, 2014; Ahmed, Beatty, & Bettinghus, 2004; Beretta & Bozzolan, 2004; Cabedo & Tirado, 2004; Linsley & Lawrence, 2007; Linsley & Shrives, 2006; Linsley, Shrives, & Kajuter, 2008; Meier, Tomaszeweski, & Tobing, 1995; Schrand & Elliott, 1998).

Even though investors, also according to previous studies, consider risk management disclosure important for their portfolio investment decisions (Solomon, Solomon, Norton, & Joseph, 2000, 2011), up to now (probably due to the voluntary nature of disclosure), many firms have been reluctant to provide information about their risk management process.

Nevertheless, considering that according to the Directive 2014/95/EU on nonfinancial information, from 2017 onwards, large companies (exceeding 500 employees) belonging to Member States are required to give some (among which also information about risks) of social, environmental, and governance disclosures, this study analyzes the representation and management of these kinds of risk in Italian firms after the introduction of the Directive 2014/95/EU, transposed in Italy by the Decree No. 254 of December 30, 2016.

In such background, this paper aims to analyze the level of risk disclosure in Italian companies, and starting from the consideration that disclosure of risk is considered as a proxy of management of the same risk (Elshandidy, Shivres, Bamber, & Abraham, 2018), it focuses the way of representation (such as orientation and approach) of nonfinancial risks in nonfinancial information.

In other words, the paper aims to analyze the level of risk disclosure after the introduction of the directive according to which risk on nonfinancial disclosure has become mandatory and to evaluate if the management of nonfinancial risk is effective or responding only to the mandatory requirements of law.

In order to achieve this aim, we have analyzed the level of nonfinancial risks disclosure of all companies belonging to the sample, and we have studied the approach followed by them to face risks.

Indeed, starting from the analysis of the types of nonfinancial risk, as defined by previous studies, this paper investigates the outlook orientation (past, present, and future) and the approach to risk (positive, negative, and neutral), as defined in previous studies (Abdullah, Abdul Shukor, Mohamed, & Ahamad, 2015; Beretta & Bozzolan, 2004; Linsley & Shrives, 2006; Manes Rossi, Nicolò, &

Levy Orelli, 2017; Oliveira, Lima Rodrigues, & Craig, 2011), using a content analysis.

The sample consists of all Italian companies subject to the directive (source: Consob list of companies obliged to the decree). In particular, we have conducted this process of assessment on nonfinancial risk disclosure of all 202 companies obliged through the analysis of the content present in the nonfinancial disclosure (nonfinancial information), published according to the prevision of the Decree 254/2016 on each website of the companies.

The results, as better explained in the following sections, show how the level of nonfinancial risk disclosure in Italian companies is better than before the introduction of the directive and also still based on the past and present perspective, rather than on the future one.

This research represents a preliminary analysis on nonfinancial risk disclosure. Indeed, the originality of this work derives from the two following considerations.

First, to the best of our knowledge, this is the first study on nonfinancial risk disclosure after the introduction in the Italian context of the EU directive, which introduces mandatory information on nonfinancial risks. Furthermore, the very recent Decree 145/2018 has strengthened the information to disclose about risk, requiring also the description of the way to manage and face the risks.

Second, literature and empirical studies have largely focused the risk management in the banking sector, whereas the nonfinancial industries are less common. About disclosure, on the contrary, empirical evidence over the last 20 years (Elshandidy et al., 2018) show that risk reporting has been explored in nonfinancial sectors more than in financial ones. However, in particular, the disclosure of nonfinancial risks has been scarcely investigated (Elshandidy et al., 2018).

The remainder of the paper proceeds as follows: Section 2 develops the normative background, Section 3 presents the literature review, Section 4 outlines the sample and the methodology used, Section 5 offers the results and discussion, and Section 6 presents the main conclusions.

2 | INSTITUTIONAL BACKGROUND

Over the last years, EU debate on corporate social responsibility (CSR) reporting has increased more and more: The origins of the EU directive date back to the EU workshops on environmental, social, and governance disclosure in 2009, as a consequence of the financial crisis (Monciardini, Dumay, & Biondi, 2017).

After that, the year 2011 marked a new phase in the EU debate on CSR reporting regulation because the EU Commission officially announced the future introduction of a legislative proposal on the transparency of the social and environmental information provided by the companies of all sectors (Monciardini et al., 2017).

As regard as the field of risk, since 2013, the European Parliament, in the resolutions of February 6, 2013, has acknowledged the importance of business divulging information on sustainability such as social and environmental factors, with a view to identifying sustainability risks and increasing investor and consumer trust.

In particular, the subsequent EU Directive 2014/95 (European Commissione, 2014) represents an important step towards the spread of CSR throughout European countries. It indicates “nonfinancial and diversity information” to be disclosed by large companies in their annual report or in a separate document.

According to Directive 2014/95/EU, the nonfinancial information to be included is essentially “information to the extent necessary for an understanding of the undertaking's development, performance, position and impact of its activity, relating to, as a minimum, environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters, including:

- a brief description of the undertaking's business model;
- a description of the policies pursued by the undertaking in relation to those matters, including due diligence processes implemented;
- the outcome of those policies;
- the principal risks related to those matters linked to the undertaking's operations including, where relevant and proportionate, its business relationships, products or services which are likely to cause adverse impacts in those areas, and how the undertaking manages those risks;
- nonfinancial key performance indicators relevant to the particular business.”

About diversity information, the directive requires

> *… a description of the diversity policy applied in relation to the undertaking's administrative, management and supervisory bodies with regard to aspects such as, for instance, age, gender, or educational and professional backgrounds, the objectives of that diversity policy, how it has been implemented and the results in the reporting period. If no such policy is applied, the statement shall contain an explanation as to why this is the case.*

Actually, the directive does not specify the way to report and disclose nonfinancial information, and about risk too, but it refers to international guidelines/framework for sustainability/integrated report (Global Reporting Initiative and International Integrated Reporting Council).

The choice of reporting standards to be adopted reflects the performance indicators used to monitor and evaluate the activities, which must be

- specified by the reporting standard chosen,
- representative of the different fields, and
- consistent with the activity being carried out and the impacts generated by it.

In Italy, the directive was transposed into the Decree 254/2016, which has been applied since the fiscal year 2017. As in other countries, the directive was transposed in Italy adapting it to the context of reference. The information to be disclosed is broken down by issues (environmental, social, employee matters, respect for human rights, and anti-corruption and bribery matters), fields (business model of management and organizations, policies pursued by companies, outcomes and nonfinancial performance indicators, principal risks linked to the companies' operations, products and services, and supply chain and subcontractors, if relevant), and specific kind of information (use of energy and water resources, greenhouse and pollutant emissions, potential impact of risks on environmental, health, and safety, implementation of international conventions and dialogue between management and employees, respect for human rights and policies to prevent violations and avoid discriminatory attitudes, and anti-corruption policy, both active and passive, indicating the tools adopted).

The very recent Decree 145/2018 has just modified the information to disclose about risks and strengthened the information of nonfinancial aspects. Indeed, together with the exposition of the principal nonfinancial risks, now law requires to explicit the way to manage and face the same risks disclosed.

Furthermore, recently, the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and the World Business Council for Sustainable Development have partnered to publish a guidance to help entities better understand the potential effects of sustainability risks and to manage and disclose them effectively (COSO, 2018).

In this context, this study investigates the level of nonfinancial risk disclosure in those companies obliged to follow the decree and the effective approach to risks adopted by the same companies, also considering the guidance as above.

3 | LITERATURE REVIEW

Considering the increasing complexity of market and of doing business, risk management has become a fundamental part of internal control in order to identify, measure, and assess the different kinds of risk that a company has to face (Lamboglia, Paolone, & Mancini, 2019).

Furthermore, nonfinancial risk management is useful to achieve corporate responsibility and social responsibility goals (Wong, 2013). In fact, nonfinancial risk management tends to minimize risks and the negative effects of unsustainable practices, such as penalties and noncompliance (Porter, 1985, 1991; Porter & van der Linde, 1995; Spedding & Rose, 2008; Welford, 2000).

Generally speaking, risk disclosure has been defined by previous literature as information about any opportunity, prospect, hazard, danger, harm, threat, or exposure that has or could impact the company in the future (Linsley & Shrives, 2006).

In particular, prior studies on risk management disclosure have been focused in particular on the United States, Canada, the United Kingdom, and Germany, such as those countries where risk disclosure was mandatory (Linsley & Shrives, 2006). Indeed, Financial Reporting Release No. 48 in the United States requires to disclose qualitative and quantitative information on market risks (Amran, Bin, & Hassan, 2009). The same prevision was present in Canada. In other countries, such as, for instance, the United Kingdom, Germany, and Australia, risk disclosure was recommended (not required by law).

Though risk management disclosure has become mandatory thanks to the accounting standard boards in many countries (American Institute of Certified Public Accountants, 1994, Institute of Chartered Accountants in England and Wales, 2002, 2011; International Financial Reporting Standards, 2010; International Standards Organization, 2009), nonfinancial risk disclosure has been mandatory as a result of the introduction of EU directive on nonfinancial disclosure.

In a broader perspective, previous literature about risk disclosure has been developed in three different perspectives, which investigate, respectively, the usefulness of risk management disclosure (Cole & Jones, 2004; Linsmeier, Thornton, Venkatachalam, & Welker, 2002; Rajgopal, 1999; Venkatachalam, 1996), the extent of risk management disclosure (Beretta & Bozzolan, 2004; Lajili & Zeghal, 2005; Linsley & Shrives, 2005), and the determinants of risk management disclosure (Abraham & Cox, 2007; Beretta & Bozzolan, 2004; Linsley & Shrives, 2006).

The first perspective has been based on the importance given by investors to information about risk and its management (Cole & Jones, 2004; Linsmeier et al., 2002; Rajgopal, 1999; Venkatachalam, 1996). A recent literature review on the usefulness of risk reporting (Elshandidy et al., 2018) has shown that most studies of this perspective are based on the U.S. companies and examine for statistical association between quantity of risk information and various stock market indicators. In particular, Rajgopal (1999) found that market risk disclosure is positively associated with equity return sensitivity to oil and gas price changes. Whereas in the U.S. and Egyptian contexts, studies suggested that risk disclosure may influence capital market participants, in the U.K. context, the evidences of this are limited (Abraham & Cox, 2007; Elshandidy, Fraser, & Hussainei, 2013; Linsley & Shrives, 2006). Against this current, proprietary cost theory has been developed (Marshall & Weetman, 2007). This theory is based on the belief that managers are reluctant to disclose information, which they feel as sensitive. Thus, managers have the difficult trade-off between being secretive and being transparent. If they choose to be secretive, the risk management system may be considered weak or inexistent; if they are too transparent, outside parties could use the potentially damaging information for their interest (Cormier, Magnan, & Van Velthoven, 2005).

The second part of the studies investigated the extent of risk disclosure. All these studies used content analysis and found that financial risk is the most frequently disclosed type of risk (Beretta & Bozzolan, 2004; Lajili & Zeghal, 2005; Linsley & Shrives, 2005). Lajili and Zeghal (2005) analyzed 300 Canadian companies and found that financial risk is the most disclosed and that the description of the risk is superficial and only qualitative. Beretta and Bozzolan (2004), focusing on the quality of risk disclosure of 85 Italian listed companies, found that Italian companies are more inclined to disclose past and present risk, rather than future ones. Linsley and Shrives (2005) found in the U.K. context similar results to Laijli and Zeghal ones, such as quality nature of disclosure and only financial risks disclosed. So, the results of previous studies belonging to this part of literature show that disclosure on risk is most qualitative and focused on past and present risks rather than future ones. Up to now, no studies have investigated about the level of nonfinancial risk disclosure. There exists a gap in academic research (Anderson & Anderson, 2009; Aras & Crowther, 2009; Galea, 2009; Hutton, Cox, Clouse, Gaensbauer, & Banks, 2007).

The third part of the literature investigated the factors that influence the extent of risk disclosure. In particular, Beretta and Bozzolan (2004) focused on company size and industry; Linsley and Shrives (2006) examined company size and level of risk; and Abraham and Cox (2007) studied ownership and elements of governance, such as the number of executive directors and of independent directors in relation to the extent of risk disclosure. Further, Al-Maghzom, Hussainey, and Aly (2016) found external ownership, audit committee meetings, gender, size, profitability, and board size as determinants of voluntary risk disclosure. Manes Rossi, Nicolò, and Levy Orelli (2017) analyzed the interconnection between integrated reporting and risk disclosure. Very recently, Panfilo (2019) made a comparison between public and private disclosure on enterprise risk management, and Elghaffar, Abotalib, and Khalil (2019) investigated the determinants of risk disclosure in Egyptian banks.

In this background, our paper is inserted in the second part of the literature and tries to fill the actual gap, through investigating the level of risk disclosure, focusing on nonfinancial risks. In fact, this paper provides an initial analysis of nonfinancial risk disclosure in order to investigate both the level of disclosure and the effectiveness of the nonfinancial risk management.

4 | SAMPLE AND METHODOLOGY

The sample consists of all Italian companies obliged to follow the Decree 254/2016, such as 202 entities of public interest (EIP), as defined by Legislative Decree No. 39/2010, Article 16, exceeding both 500 employees and one of the two dimensional limits imposed by law (total assets 20 million and total revenues 40 million). So, it is not a sample, but it represents the universe of obliged companies. The source of the list is the Consob list published online at http://www.consob.it/documents/46180/46181/Elencodfn_20180831.pdf/1410ff74-92ae-43b7-9c06-fa208462f5bc.

Table 1 presents the sample subdivided into the different business sectors as follows: basic material, banks, consumer goods, consumer services, health care, insurance, industrial, oil and gas, and telecommunications.

The analysis has been carried out on the level of information of nonfinancial risks disclosed within the nonfinancial disclosure belonging to the sample and published on each website up to August 31, 2018. So, the analysis considers only the information according to the Decree 254/2016, Article 5. In particular, our analysis is based on nonfinancial information disclosed in annual report or, where present, in sustainability and integrated reports.

As shown in Table 2, most of companies published the nonfinancial information in a separate document.

TABLE 1 Sample by sectors

Sector	Number of companies
Basic material	4
Banks	42
Consumer goods	17
Consumer services	33
Health care	7
Insurance	12
Industrial	56
Oil and gas	16
Telecommunications	15
Total	202

TABLE 2 Types of documents for non financial risk disclosure

Type of document	Number of companies
Sustainability report	170
Annual report	27
Integrated report	5
Total	202

The methodology used in this study is based on content analysis. Content analysis is chosen in previous literature to analyze the extent or amount of the risk disclosure (Amran, 2006; Gray, Kouhy, & Lavers, 1995; Hackston & Milne, 1996; Haniffa & Cooke, 2002; Raar, 2002). We used sentences as the recording unit, according to previous consolidated literature on this issue (Amran et al., 2009; Beretta & Bozzolan, 2004; Kajüter, 2006; Lajili, 2007; Linsley & Shrives, 2006; Manes Rossi, Nicolò, & Levy Orelli, 2017; Mohobbot, 2005; Oliveira et al., 2011). In fact, the use of the number of sentences as text-encoding unit is considered more reliable than other units of analysis (Milne & Adler, 1999), taking into consideration that words have no sense without the reference to the sentences for their proper context.

The content applied is a meaning-oriented type (Smith & Taffler, 2000; Helfaya & Whittington, 2019). It is not only based on the mere calculation of words or sentences, but it also focuses on the nature of the analyzed theme. The limit of this analysis is the degree of greater interpretation compared with the mechanistic approach. Furthermore, the content analysis was performed manually by a single coder (Ahuvia, 2000; Milne & Adler, 1999), without the use of specific software, because of the need to interpret certain aspects of nonfinancial information, essentially of qualitative nature. This choice is also based on the consideration that, actually, the directive does not specify the way to report and disclose nonfinancial information, even about risk; consequently, the information to be evaluated is highly heterogeneous and, as such, is not always present in the standard sections of the analyzed reports. In order to get reliable results, the coder has been previously trained for a short period (Milne & Adler, 1999). After that, his skills have been tested on a sample test, through the inter-rater method (Amran et al., 2009; Linsley & Shrives, 2006). This procedure has been performed in order to check the consistency of the method.

We consider and count each sentence containing the word "risk," choosing those about nonfinancial issues. The risk disclosure has been analyzed and qualified according to three levels of analysis, as in previous studies (Abdullah et al., 2015; Beretta & Bozzolan, 2004; Linsley & Shrives, 2006; Manes Rossi, Nicolò, & Levy Orelli, 2017; Oliveira et al., 2011), such as

- types of risk (compliance, strategic, operational, environmental, health, and safety, and general);
- outlook orientation (past, present, or future); and
- approach to risks (positive, negative, or neutral).

Because the text-encoding unit is the sentence and not the word, when the word "risk" appears more than one time in a sentence, we count it only one time anyway. On the contrary, if in the same sentence we find more than one type of risk, we consider and qualified both.

With respect to the different kinds of risk, we follow, as shown in Figure 1, the Arthur Andersen business risk model together with other categorizations proposed by previous studies (Linsley & Shrives, 2006) and by COSO (2018) enterprise risk management (Figure 2). Because the analysis is carried out on nonfinancial risks, we decided not to consider financial risks in the categorization. We decided not to follow the classification provided by the decree, because it is less extensive and too general.

Because, differently from the financial risks that present a different meaning in financial and nonfinancial sectors, nonfinancial risks present the same characteristics in both sectors, we include in our sample both financial and nonfinancial companies.

Furthermore, we create a residual category of risks, called general risks, in which we include all sentences nonregarding the previous categories.

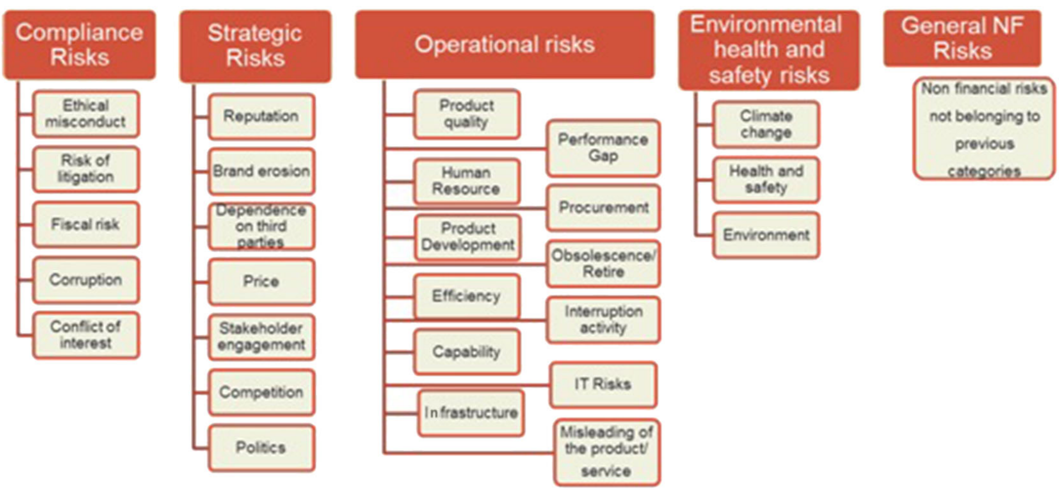

FIGURE 1 The Arthur Andersen business risk model. NF, nonfinancial [Colour figure can be viewed at wileyonlinelibrary.com]

Strategic	Operational	Financial	Compliance
• Vision and core values • Corporate governance • Organizational structure • Strategic planning • Mergers and acquisitions valuation and pricing • Investor relations • Competition • Changing customer preferences or lifestyles • Growing middle class • Urbanization/growing population • Emerging markets	• Research and development • New products • Marketing • Budgeting and forecasting • Raw material availability • Suppliers • Production management • Product stewardship • Inventory management • Employee engagement • Labor relations • Human rights • IT investment • Cybersecurity • Business continuity • Pandemic • Physical impacts of climate change	• Interest rate volatility • Foreign currency volatility • Cash management • Credit risk • Accounting policies • Accounting estimates • Internal control • Tax strategy and planning	• Fraud • Bribery • Conflicts of interest • Country/state/local regulation • Tax regulation • Trade regulation • IP management and protection • Greenhouse gas emissions • Water treatment • Health and safety

FIGURE 2 The Committee of Sponsoring Organizations of the Treadway Commission enterprise risk management risk model [Colour figure can be viewed at wileyonlinelibrary.com]

After having carried out the analysis of the nonfinancial disclosure for 2017, we carried out a second level of analysis concerning the outlook orientation of risks and the approach to risk, providing a comparison between 2017 and 2016 for those companies that have already published nonfinancial disclosure in 2016.

Specifically, in order to evaluate the outlook orientation, we assess if the information has been referred to present, future, or previous period. In case of no reference, in order to evaluate the outlook orientation, we consider and interpret the tense used in the sentence.

Eventually, in order to evaluate the approach to risk (positive, negative, and neutral), we consider as positive all sentences concerning information on mitigation and prevention measures and relative results (specific risk reduction comparing with previous period). On the contrary, we consider as negative all sentences concerning negative information or no action to mitigate or face existent risks.

Finally, we consider as neutral all generic sentences, without specific information about the way to face and or to mitigate a risk. Indeed, as we present in the following section, this is a very common case. That is very often companies disclose the types of risk and a brief description of them, without any indication of impacts, reduction action plan, and so on.

TABLE 3 Examples of outlook orientation

Outlook orientation	Examples of sentences
Present	The Code of Ethics requires investment decisions and the credit policy to take into account the socioenvironmental risks associated with the activities of corporate customers.
Past	In Australia, in Lidcombe, a 500,000-L equalization tank was installed in 2015 to neutralize the pH of the effluents with the aim of reducing COD, BOD, and the risk of foul odors.
Future	In 2018, a project will be launched to segment the company's employees based on corruption risk in order to optimize the identification of groups to direct the various training initiatives.

Abbreviations: BOD, biochemical oxygen demand; COD, chemical oxygen demand.

TABLE 4 Examples of approach to risks

Approach to risks	Examples of sentences
Positive	In these sites, Eni is effectively managing exposure to biodiversity risk by implementing specific mitigation plans for the environmental contexts.
Negative	Consequently, at present, there are no formal management policies or tools to mitigate any risks.
Neutral	Reputational risk of the current and future risk of reductions in profits or capital deriving from a negative perception of the bank's image by customers, counterparties, shareholders, investors, or regulatory authorities.

Tables 3 and 4 show some examples of sentences concerning the approach to risk and the outlook orientation.

5 | RESULTS AND DISCUSSION

The content analysis carried out on the sample has provided interesting results about the level and dissemination of nonfinancial risks after the introduction of the Decree 254/2016. As shown in Table 5, we found 7,100 sentences about nonfinancial risk disclosure, approximately 35 sentences on average for each company analyzed.

The risks mostly disclosed are environmental, health, and safety ones, whereas the compliance and operational risks are about 20% of the sentences analyzed (22% and 19%, respectively). These kinds

TABLE 5 Content analysis results

NFI 2017	Number of sentences	Min	Max	Average	Percentage
Total RD	7,100	7	105	35.40	100
Compliance	2,019	0	27	9.65	22
Strategic	643	0	18	2.79	6
Operational	1,632	0	28	8.17	19
Environmental, health, and safety	2,517	0	52	13.39	31
General	1,790	0	43	9.28	21
Past	594	0	22	2.48	7
Present	6,394	7	88	32.45	89
Future	286	0	18	1.5	4
Positive	2,621	0	54	13.12	37
Negative	980	0	35	5.85	16
Neutral	3,499	1	64	16.66	47

Abbreviation: NFI, nonfinancial information; RD, Risk disclosure.

TABLE 6 2016 vs 2017 results

	2016		2017	
Type of risk	Average	Percentage	Average	Percentage
Compliance	4.8	16	10.28	22
Strategic	2.15	7	3.18	7
Operational	4.91	16	8.72	19
Environmental, health, and safety	9.58	32	14.12	30
General	8.8	29	10.51	22
Past	1.5	6	3.46	9
Present	23.95	92	34.65	87
Future	0.68	3	1.57	4
Positive	8	31	16.02	41
Negative	1.14	4	5.08	13
Neutral	16.58	64	17.77	46

of risk are particularly important because they include anti-corruption, human rights, and employee information, all information required by the decree. These results, therefore, show a positive answer to the introduction of the decree.

General risks (1,790 sentences) represent about 20% of the sentences analyzed. These results could be considered positive because expression of risk management model based not only on mitigation of traditional financial risks but also on nonfinancial and not common risks.

Passing to the second level of analysis, we found negative results about the outlook orientation to risks: 96% of information is oriented to the past or present, and only 4% is oriented to the future. This finding is in line with the perspective and the purpose of the annual report (past and present), but it is in contrast with the expectation of stakeholders (future information and previsions). The same IR framework underlines this prospective view. This result is in line with previous studies (Beretta & Bozzolan, 2004), according to which the present and past orientations meet the common approach to risk by companies less inclined to indicate whether the future risk will impact them, positively or negatively. As a consequence, it is evident that the typical approach of firms investigated is to recognize risk rather than disclose it, using a strategic approach.

As regard as the approach to risks, companies of the sample disclosed mostly neutral and positive information. The negative information presents very low level (980 that is 16%). This result can be read in a major propensity of manager to avoid to disclose this negative information, thus avoiding to have eventual reputational damage.

However, if we compare these results with those of 2016 (considering so only the 66 EIP that published nonfinancial disclosure in both 2016 and 2017), we can give a more positive interpretation to the results obtained, as shown in Table 6. The 66 EIP used for the comparison are the only companies included in the list of 202 companies drawn up by Consob, which voluntarily had published nonfinancial information in the previous year, before the introduction of the decree. The methodology used to analyze the documents in 2016 is the same used for the year 2017.

If we compare the results of 2017 with those of 2016, we can appreciate an increase in any fields. Generally, disclosure on nonfinancial risks from 2016 to 2017 has been increased. Specifically, compliance risks have been increased more than the others. This is probably due to the introduction of the decree.

Table 7 shows the average results by sectors.

In order to confirm this statistical evidence, a *t* test has been performed, whose results are shown in Table 8.

The sectors that disclosed most information on risks were the oil and gas, telecommunications, and basic material ones, although the latter is the sector with the lowest number of companies. The results are in accordance with the specific sectors, especially for the types of risk; thus, they respect and satisfy expectations and information needs of their stakeholder. For instance, environmental, health, and safety risks have been mostly disclosed in companies of oil and gas, industrial, and basic material sectors. These sectors, indeed, are traditionally more sensitive to environmental problems than the others (Chan & Welford, 2005).

Banking sector has disclosed mostly compliance and strategic risks. The first result confirms the efforts of banks against corruption and recycling, and the second one confirms the major requirements and regulations for the banking sector. The attention paid by banks to strategic risk can be explained by the interest to protect reputation and to avoid reputational damage. About the banking sector, it is important to underline that, though the major vocation to disclose risks, results of banking sector are not dissimilar to the other companies (nonfinancial ones).

perational risks are mostly disclosed by telecommunications and industrial, whereas general ones are reported by basic material and oil and gas companies. In particular, the companies reported above all information about the human resource and the procurement.

Generally, the EIP, of whatever sectors, have disclosed information on nonfinancial risks with a neutral and present/past approach,

TABLE 7 Results by sectors

	Banks	Basic material	Consumer goods	Consumer services	Health care	Industrial	Insurance	Oil and gas	Telecommunications
Compliance	12.43	8.00	8.31	10.50	6.57	9.23	10.27	8.19	**11.20**
Strategic	**4.88**	4.00	3.00	3.18	2.00	2.45	3.64	2.38	2.47
Operational	8.10	9.00	7.06	6.94	4.57	9.20	7.09	7.31	**11.00**
Environmental, health, and safety	10.64	15.25	11.19	12.76	8.43	13.29	10.91	**15.88**	14.60
General	7.81	**13.00**	7.44	9.32	6.86	8.71	8.55	12.06	9.73
Past	**4.57**	2.00	2.63	2.56	1.86	2.25	3.18	3.25	2.60
Present	31.69	37.00	26.75	32.03	22.57	32.25	30.45	34.25	**36.33**
Future	1.21	0.50	1.13	1.21	0.84	**1.88**	0.91	1.56	1.87
Positive	13.6	14.00	12.38	12.65	7.57	12.80	13.27	**16.19**	12.73
Negative	1.79	7.75	4.50	6.03	4.29	**6.66**	3.45	3.75	6.40
Neutral	**20.98**	19.00	13.19	16.68	12.86	15.75	17.09	18.44	20.60

Bold emphasis are use to highlight the best performers.

TABLE 8 Independent sample test

	Levene's test for equality of variances		t test for equality of means					95% confidence interval of the difference	
	F	Significance	*t*	*df*	Significance (two tailed)	Mean difference	Standard error difference	Lower	Upper
Compliance and control									
Equal variances assumed	3.598	.060	−5.556	128	.000	−5.308	0.955	−7.198	−3.417
Equal variances not assumed			−5.556	121.937	.000	−5.308	0.955	−7.199	−3.416
Strategic									
Equal variances assumed	1.537	.217	−1.890	128	.061	−0.954	0.505	−1.952	0.045
Equal variances not assumed			−1.890	126.586	.061	−0.954	0.505	−1.953	0.045
Operational									
Equal variances assumed	1.774	.185	−3.681	128	.000	−3.554	0.966	−5.464	−1.643
Equal variances not assumed			−3.681	127.055	.000	−3.554	0.966	−5.464	−1.643
Environmental, health, and safety									
Equal variances assumed	1.695	.195	−2.656	128	.009	−4.431	1.668	−7.732	−1.129
Equal variances not assumed			−2.656	125.212	.009	−4.431	1.668	−7.733	−1.129
General									
Equal variances assumed	0.056	.814	−1.090	128	.278	−1.569	1.440	−4.419	1.280
Equal variances not assumed			−1.090	127.725	.278	−1.569	1.440	−4.419	1.280
Past									
Equal variances assumed	20.637	.000	−4.158	128	.000	−1.892	0.455	−2.793	−0.992
Equal variances not assumed			−4.158	85.719	.000	−1.892	0.455	−2.797	−0.988
Present									
Equal variances assumed	0.009	.923	−3.162	128	.002	−9.985	3.158	−16.233	−3.736
Equal variances not assumed			−3.162	127.958	.002	−9.985	3.158	−16.233	−3.736
Future									
Equal variances assumed	15.523	.000	−2.954	128	.004	−0.862	0.292	−1.439	−0.284
Equal variances not assumed			−2.954	106.679	.004	−0.862	0.292	−1.440	−0.283
Positive									
Equal variances assumed	9.947	.002	−4.910	128	.000	−7.723	1.573	−10.835	−4.611
Equal variances not assumed			−4.910	108.638	.000	−7.723	1.573	−10.841	−4.605
Negative									
Equal variances assumed	30.318	.000	−6.619	128	.000	−3.846	0.581	−4.996	−2.696
Equal variances not assumed			−6.619	90.297	.000	−3.846	0.581	−5.000	−2.692
Neutral									
Equal variances assumed	3.237	.074	−0.354	128	.724	−0.785	2.215	−5.167	3.598
Equal variances not assumed			−0.354	122.572	.724	−0.785	2.215	−5.169	3.600

showing a low level of inclination towards future information. In all sectors, with exception for consumer goods and health care, companies have reported, on average, at least 30 sentences with a present orientation. On the other hand, the average for sector of future information did not exceed two sentences. On the third level, the companies disclosed a small negative amount of information (up to 6.66), preferring a neutral/positive approach (on average up to 20.98 and 16.19). In both the first and second levels of analysis, the industrial sector disclosed more information with negative and future approach.

6 | CONCLUSIONS

This research represents a preliminary critical analysis of the nonfinancial risk disclosure and the first after the introduction of the

EU directive in Italy, which requires a series of information about social, environmental, and social disclosure, among which are also about risks.

Using a content analysis, this paper has investigated, first, the level of nonfinancial risk information in all EIP (202) obliged to follow the decree, according to similar previous studies on the level of financial risk information (Anderson & Anderson, 2009; Aras & Crowther, 2009; Galea, 2009; Hutton et al., 2007). The results have shown, in general, a positive effect on nonfinancial risk disclosure after the introduction of the decree (about 35 sentences concerning nonfinancial risks on average for each company).

Second, according to previous literature (Abdullah et al., 2015; Beretta & Bozzolan, 2004; Linsley & Shrives, 2006; Manes Rossi et al., 2017, Nicolò, & Levy Orelli, 2017; Oliveira et al., 2011), the research has analyzed the outlook orientation and the approach to risk of the EIP in the sample. The outlook orientation results show, in accordance with previous studies, that information is mostly oriented to past and/or present (96%) and rarely to future (4%). The approach to risk results shows that information is mostly neutral or positive and rarely (16%) negative. These results are probably due to the tendency to disclose, above all in voluntary information, only positive or neutral aspects, neglecting negative aspect that could be potentially dangerous for reputation. These results could be, therefore, read as only rhetoric approach to disclosure than substantial one by the companies analyzed.

However, the comparison between 2017 and 2016 results allows us to underline a general positive increase of level of disclosure in all sectors and in all types of risk. Also, the approach to risk and the outlook orientation have been increased from 2016 to 2017.

This research would present important implications as follows.

Because the improvement of company disclosure of social and environmental information (including information about risk) represents one of the eight areas in which EU policy has put forward an action agenda (Camilleri, 2015; Kinderman, 2015), our results could represent relevant evidence for European policy makers of the action agenda in a twofold way: improving the convergence between European Policies and the global approach to nonfinancial disclosure and improving the company disclosure and, consequently, management of risks. This convergence is necessary, considering also the action plan of European Commission called "financing sustainable growth" published in March 2018 (European Commission, 2018), according to which including environmental and social goals in financial decision making aims to limit the financial impact of environmental and social risks.

Furthermore, these first results could help companies to follow the best practices and to adopt approach able to face the trade-off between being transparent or secretive. These results could help even companies not obliged to nonfinancial disclosure to capture the importance and the opportunity to manage and disclose risk information, also according to what is indicated in the enterprise risk management by COSO (2018).

These considerations are particularly important in also considering the very recent Decree 145/2018, according to which, together with the description of the nonfinancial risks, companies have to disclose the way of managing and facing the same risks.

The limits of the present work are mainly linked to the methodology used, given that content analysis does not consider the motives pertaining to nonfinancial risks information disclosure.

Future studies could investigate the factors that influence the extent of risk disclosure in the sample analyzed, thus contributing to the development of the third part of literature, as explained in Section 3. In particular, the research of other reasons that could explain the general increase of level of disclosure from 2016 to 2017, according to these results, could be interesting. Furthermore, the analysis of the outlook orientation and approach to risks in different countries of EU could be an interesting area for future research.

In the future, the analysis of risk disclosure in a period of three or more years could be an interesting evolution of today results, based only on 2 years, specifically the year before and the year of the adoption of the directive in Italy.

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