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Intangibles disclosure in Management Commentary regulation in Germany and Italy : A semantic approach

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A semantic approach

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Abstract

Purpose – The purpose of this paper is to understand whether Management Commentary (MC) can cover the information needs about underreported company intangibles in accounting traditionalist countries such as Germany and Italy. Furthermore, this work would like to contribute towards an improvement of the managerial culture on intangible resources disclosure and to stimulate the consciousness of the need for a new regulatory policy in accounting.

Design/methodology/approach – Focusing on the current regulation on MC and taking into account its hard and soft components, both in Italy and in Germany, we have carried out a semantic analysis together with a manual content one so to find out and to compare specifications for intangibles related disclosure in MC. The authors have decided to follow a semantic approach because of the different languages of the analysed documents, that in any case need to be considered under a cultural perspective of provenience, trying to give more effectiveness to the cross comparison.

Findings – The results have shown that just a part of the intangibles is covered by the regulations of MC and that Germany and Italy follow, mainly, the same approach to MC.

Practical implications – The findings highlight the similarities and differences between what the authors need to report on intangibles according to specifications in Italy and Germany.

Originality/value – The authors reveal the approach that a country with rather conservative accounting can follow balancing regulatory approach and needs to disclose information about intangibles without a specific report on that. The authors identify the need for a new policy that can enable the development of intangibles disclosure culture.

Keywords Intellectual capital reporting, Intellectual capital, Management

Paper type Research paper

1. Introduction

For a long time, intangibles have played a rather insignificant role in the running of a company along with the lack of managerial awareness in the field. This has changed in the last 20 years or so, as intangibles have gained more and more importance to achieve business and financial success (Lev, 2001; Marr and Spender, 2004; Wiig, 1997). Meanwhile, intangibles are undisputedly a determining factor for the performance and future prospects of companies, although they have not been considered sufficiently within management control systems (Green and Ryan, 2005; Lev and Daum, 2004; Roos *et al.*, 2005). Notwithstanding this, according to several studies (Lev, 2003; Beattie and Thomson, 2010) that investigate market to book value ratio in relevant samples of listed companies, a large part of the value of companies is not represented in their financial statements. According to Ocean Tomo about

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80 per cent of market value of S&P 500 are explained by intangibles (www.oceantomo.com). The difference between market and book value could be understood as a underreported value which assumes to be high especially for human resource intensive, high technology and innovative companies.

It seems then clear and widely accepted that there is a reporting gap *vis-à-vis* corporate information on intangibles. In today's economic model, in which intangible assets represent the crucial system of resources for competitiveness and earnings capability, the role of accounting information is relevant but evidently not adequate in respect to its own ontological dimension. Intangible assets are acknowledged as the main value drivers of companies' performances (Greenhalgh and Longland, 2005; Hyvonen and Tuominen, 2006; Lev, 2001; Sällebrant *et al.*, 2007). While intangibles have gained more and more importance, supplementary information published through voluntary reporting tools has increased. The scope has been broadened to include environmental and social issues, such as emission figures and employee issues, as well as organizational structures (Kolk, 2008). In this respect, the International Integrated Reporting Council (IIRC) has published an integrated reporting framework stimulating major further developments in corporate reporting (International Integrated Reporting Council (IIRC), 2013).

Since traditional accounting, even including Management Commentary (MC), is not sufficient to meet the reporting needs on all these issues that shareholders are interested in, additional reports have been established, for instance, intellectual capital statements, value reporting, sustainability reports, and most recently, integrated reporting. Intellectual Capital has been subjected to several developments over the last 15 years in the arena of reporting. In practice all those additional reports from the methodological point of view are the result of creativity and innovation in accounting by the adoption of a large orientation to use narrative accounting. Linked to this assumption, the current state of accounting practice development shows an increasing value of the narrative accounting worldwide. In a wider perspective the standard setter, at a different level and with a different strength, tries to standardize structures and contents of information related to intangibles in order to generate comparability and information adequate for the efficiency of the market, aiming at giving more value to this trend generating new evidence and relevant disclosing information. The main problem, in the background, is clearly the information asymmetry that is in any case a well-known and relevant reason of inefficiency in the market (Healy and Palepu, 2001). Nevertheless, the reporting on intangibles is relevant, even strategic in supporting management control activity for internal purposes in order to enhance company competitiveness and sustainability paths.

On this point in the general structure of a company's reporting system, MC plays an essential role with the purpose of disclosing this information on intangible assets. MC in a certain sense is the accounting structure in which the intangibles information has more possibility to be recognized and displayed with the relevant methodological support of narrative accounting.

But in spite of the important efforts provided both by academics and professionals, the registered progresses in disclosing intangible asset information is rather limited. In the meantime, high expectations in terms of information are expressed, especially from external stakeholders, due to the intrinsic nature of intangibles, as well as the imperfections in markets (the market failure phenomenon). Investors and other stakeholders need information about companies' performances and resources which are useful to carry out the decision making process.

However, the development of financial reporting is increasingly emphasizing the importance of non-financial information. Material non-financials indicators have to be disclosed in the compulsory MC.

Nevertheless, in the international context, MC has different content, meanings and frameworks which depend on economic policy, laws, regulations, economic culture and accounting traditions. Skipping at the moment relevant considerations on powerful orientations of entities such as the European Union (EU), and considering as a starting point the issue of the evolution of the International Accounting Standards Board (IASB) view, MC is part of the Financial Report, but possibly not an overall shared opinion. In a certain sense the relevance and the contents of the MC with respect to intangibles information could depend on a traditional or an innovative accounting approach. In the traditional accounting system approach it can be said that the value and openness of MC are limited by law and regulations at different levels. Also, in a more innovative approach the structure and contents used to show intangibles will be oriented by other needs, mainly linked to development and strategic exigencies. This is something interesting to test in the international context starting from the consideration above and explaining that in any case in the financial document there is an underreporting of intangible resources which complicates the real meaning of accounting documents and their accountability value.

To give strength to this research path it is important to consider and explore the previous traditional approach to intangibles in MC. Therefore, the study has compared the approaches of Italy and Germany, two relevant countries in the European and world economic context. They both have an the important tradition in the accounting evolution, a common cultural approach in the perception of accounting data and a strong link between accounting and law and also in general accounting and regulations. The idea to choose two traditionalist countries is related to the obvious consideration that innovative countries have more possibilities to cover the kind of reporting gaps in the accounting practice referred to intangible assets disclosure. In traditional civil law-based countries, statutory laws and regulations dictate in the main what to do.

The rationale of the paper is therefore to analyse as to whether the phenomenon of "underreporting" of intangibles could be at least partially recovered through the information to be compulsorily included in corporate MC with reference to two countries characterised by a traditional and conservative accounting attitude. Thus, the analysis of regulations can highlight which part of the information on intangibles is to be considered. To pursue this, the structure given to MC by the regulations in two traditionalist country such as Italy and Germany has been analysed.

2. The rising importance of MC and the role of narrative accounting

There is an evolutionary trend on MC, and on its methodological fundamental base the narrative accounting related to the growing consciousness of the limited possibility to report, to measure and to explain relevant information on companies intangible assets by means of financial figures. This evolutionary path can be really only be understood by taking into account the different cultural approaches, the fundamental and constitutive values, the orientation to the market (capital or financial orientation/production and social orientation), and the approach to evolution (innovative/traditionalist) and of course the concept of the firm.

Following those assumptions, the production of such pieces of information on intangible assets to be included in MC contents, such as information on human resources nature, managing and on intellectual capital, starts from peculiarities characterising intangible resources that are hardly connectable to univocally identifiable monetary amounts. In accounting, this problem of quantifying the dynamic and static value of intangible assets, has been faced with different approaches leading to qualitative schemes that can be connected originally to some studies (Edvinsson and Malone, 1997; Mouritsen *et al.*, 2001; Bukh *et al.*, 2002; Sveiby, 1997; Nonaka and Takeuchi, 1995), and to quantitative ones based on several scientific contributions such as those of Lev and Schwartz (1971) and Sandan and Auerbach (1974). Notwithstanding all scientific efforts made in this direction, the answer to the investors need for information, lies on a balance sheet, deriving from traditional accounting, that because of the law, remains incomplete and strong in its principles. Under an epistemological profile, the methodological nature of a traditional quali-quantitative accounting treatment, shows, in a certain way, a similitude with natural sciences consisting of splitting the specific event from the total phenomena, identifying and classifying different typologies. In this sense, accounting, since its former formulation, has provided business economics, even if in a partial way, with a data system useful for the comprehension of company consistency and dynamism.

This system is irreproachable from a scientific point of view especially if the effective metaphoric value of accounting related to the concept of "truth" of those happenings that have to be recorded is considered. Traditional recording, in double entry bookkeeping, among all business happenings, select those that turn into monetary amounts and, once identified costs or revenues and financial turnover characteristics, classifies chronologically the so measured and ordered events. Since the 1960s, when problems of human capital evaluation emerged, scientific research has been interested in finding a proper method for the dynamic recording and reporting of happenings related to HR. Therefore, if in a first phase, the "barycentre" was placed on problems of value, in a second moment the interest changed in favour of the evaluation of intangible asset management policies. The current approach, at last, believes in the necessity of quantifying the incremental value brought by intangible assets to the business capital and in the opportunity of looking for some parameters that could clearly indicate investments on intangibles. That would solve problems related to the evaluation of efficacy and effectiveness in managing intangibles. As a consequence, accounting exigencies have shifted from the necessity of making visible those non material resources related to happenings and values, to the need of taking into consideration problems of internal managing and of "non-official" communication such as the Intellectual Capital Statement and the Holistic Report.

Notwithstanding this, the evolution of narrative accounting studies has not yet overcome the difficulty of penetrating the cultural tissue and the legal accounting system. The identification of a methodology that could vouch third parties for the reliability of the accounting and informative structure and could represent the real business situation, has become more and more urgent. Under these conditions it appears reasonable to approach the idea upon which the double entry bookkeeping method is based and that is to say, the idea of selection and classification that, referring to intangible resources, means to approach the method of original costs and historical ones. With this methodology, financial expenses are divided, in a punctual and analytic way, in accounting period expenses and deferred costs. Hence, narrative accounting methodologically enforces the different perception of the intangible values. Basically it can be considered as a correlated model of accounting and not a complete alternative or stand-alone methodology. Taking this into account, MC and intangible resources disclosure are methodologically correlated by the narrative accounting approach. In that sense the evolution of narrative accounting is related mostly to the evolution of MC.

At large, one can find a starting point of this evolutionary trend in the UK situation and the role of strategic report inside the financial report. In fact, the Financial Report Council (FRC) structures rules that define as a compulsory task for company to disclose business model in the Annual Report. More precisely, this evolution begins by the revision of the Company Act in 2006. By this revision, from 2013, the annual report had to be released including a narrative accounting document, in order to describe the Business Model. This document named the Strategic Report plays the role of explaining the strategic approach of the company and the business model. To detail and to achieve the prevision of the Company Act, the FRC in 2014 defines a system of guidelines. From this step the financial report was enriched by elements that explained and highlighted in a narrative way, some intangibles and some strategic resources. Notwithstanding this evolution of the Strategic Report, even if compulsory, is not a part of financial reporting, but a document that integrates the annual report. The IASB position on MC is more radical defining it as a system of information included and linked to financial report. The development of the EU Directives is showing the gaining importance of MC and, hence, of narrative accounting to some extent.

3. Methodological approach to the research question

As already mentioned, the paper aims at investigating the role of MC in disclosing intangible assets information trying to understand if by the MC it is possible to cover the underreporting gap noted in intangible assets information. Therefore, it analyses the structure given to MC by the regulations of two traditionalist countries like Italy and Germany.

The richness and the complexity of the narrative accounting as a basic methodological tool for the MC most of the time is explored according to a methodological approach that tries to convert content and frequency of words used in the document in countable evidences. But the relevance and the quality of results depend even on the possibility to evaluate, by expertise and objective evidence of the presence of items content, the semantic structure of a document and words semantic value. The concept of expertise is here adopted because when comparing the items of different regulations, even with a pragmatic approach, discretion has to be considered.

In fact, if expertise on the one hand could put the outcome definition away from objectivity, on the other one, manages to perceive hidden aspects.

Comparing regulations could be not relevant when using approaches based on traditional content analysis operated by a software to count words. In this sense, the study semantic approach wants to overcome those problems and to give more strength to conclusions. Therefore, the object of research on regulations has been focused on the integrated value of compulsory rules as hard regulations, and of directions, guidelines and interpretations as soft regulations.

Considering the heterogeneity of the research material to be analysed, the study adopts the traditional manual content analysis with a semantic approach, using the simplest semantic analysis. As Matthewson (2004) put it, semantic analysis minds to act in a semantic fieldwork trying to figure out the meaning of the words or, more precisely, of the morphemes. Thus, as soon as two items are detected to be semantically equal, those items in the study are compared by means of content analysis. There are many methods in semantics based on recorded materials such as dictionaries, transcribed conversations, stories, and documentation of spontaneous speeches but it is even possible to base the analysis on translation and judgement, using data elicitation that takes into account the context . We have mainly used recorded material combined with context and judgments.

Hence, as rationale of the work we consider that in financial documents there is an underreporting related to intangible assets.

A part of this underreporting is "recovered" in the MC. Thus, the analysis of regulations in Germany and Italy can highlight which part of information on intangibles is currently evidenced. More precisely, the research question is referred to this assumption:

RQ1. According to the hard and soft regulation, can MC cover the exigencies of intangibles disclosure in two traditionalist countries such as Germany and Italy?

4. The analysis

Due to the increasing importance of intangibles, in the literature one can find many definitions (Kristandl and Bontis, 2007). According to Lev (2001), "an intangible asset is a claim to future benefits that does not have a physical or financial (a stock or a bond) embodiment". Very often, instead of definitions, categories are often provided (Guthrie and Petty, 2000). Following international literature, the classification of intangibles into human capital, structural capital and relational capital (Sveiby, 1997) is increasingly regarded as a standard perspective (Bontis, 1999; Johnson, 1999; MERITUM, 2002; Zambon, 2004). Beyond the identification of the incremental value that knowledge brings to the innovation processes – with its sub-processes of competences generation, filing patents or know-how exchange, one of the most important tasks is to support the control of the process (Albert and Bradley, 1997; Sullivan, 1998). Relating to the methodological profile, the theme of the intangibles representation, valuation and control (Lev, 2001; Guthrie *et al.*, 2012; Bounfour, 2011, 2013) leaves wide spaces in the construction of instruments (Holland, 2004) different for models and characterized in relation to specific activities (Pilková *et al.*, 2013). Keeping into consideration the diffused heterodoxy in the choice of the investigation techniques and a substantial methodological anarchy, this is the result of a still evolving scientific path and a consequence of a lack of generally accepted standards (Koch *et al.*, 2000; Bornemann and Alwert, 2007).

The constant monitoring of intangibles and the interpretation of the associated indicators can highlight the quality of the management and the value generated in the process. The recurring elements in numerous representation models of intellectual capital in the scientific literature (Sveiby, 1997; Edvinsson and Malone, 1997; Lev, 2001; Mouritsen *et al.*, 2001; Holland, 2004; Dumay, 2009; An *et al.*, 2011; Guthrie *et al.*, 2012) bring to evidence the role that has to be attributed to the knowledge generation process, and methodologically they suggest an effort towards the identification of the determinant aspects related to reporting activity for investors, shareholders and, more in general, the market. Taking into account the information system goals and its value in terms of accountability, control, and management improvement, it can be assumed that the very process of knowledge generation has to be considered as the driver for the possible construction of a model aimed at representing intellectual capital. Knowledge, under a structural and relational dimension, has to be identified both as an input and as an output of the intellectual capital process (Leitner and Warden, 2004).

4.1 Intangibles in MC: two distinctive formal approaches

In a preliminary analysis, it seems that requirements on MC in Germany and Italy are almost similar. This is not very surprising since both regulations are based on the relevant EU-Directives. The MC was introduced as a supplement in addition to the Financial Statements by the Fourth (1978) and Seventh (1983) EC Directives (called Accounting Directives). The initial step on the way towards consideration of intangible related aspects within MC was based on the Modernisation Directive (EU Directive No. 51/2003).

In Germany, the Accounting Law Reform Act (Bilanzrechtsreformgesetz) enacted the Modernisation Directive in the German Commercial Code (HGB), Sections 289 (single-entity report) and 315 (group report) some specific exceptions for the single-entity report, depending especially on size. Thus, it primarily has a complementary function. In practice, the German Accounting Standard (GAS) 15, replaced by GAS 20 from 2013 onwards, issued by the Accounting Standards Committee of Germany (ASCG), is recognized as a system of rules for applying an appropriate group MC in accordance with section 315 of the HGB. The application of GAS 20 for the MC of single-entity corporations (section 289 HGB) is recommended (GAS 20.2). GAS 15 resp. GAS 20 are assumed to be principles of standard accounting practice provided that these recommendations are published by the Federal Ministry of Justice (section 342.2 HGB).

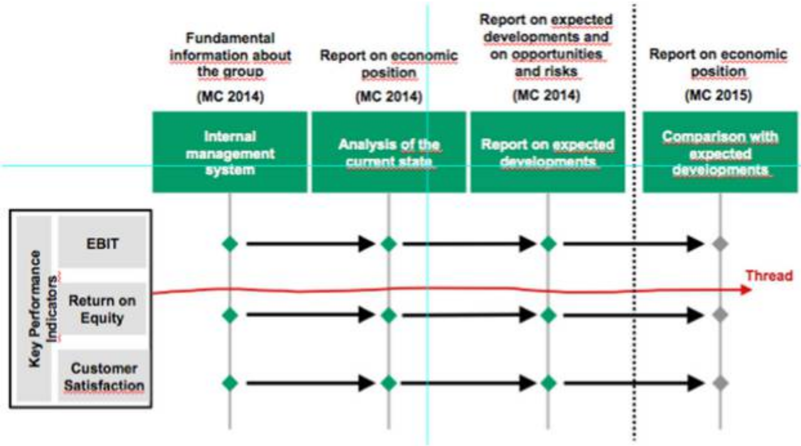
Such a MC is for the most part a narrative report providing "information that enables a knowledgeable user to obtain a suitable understanding of the course of business, the position and the expected development of the group, and of the opportunities and risks associated with this development" (GAS 20.3). GAS 20 is principle-based and points out that "the requirements of the Standard are formulated in such a way as to satisfy the specific group management reporting requirements of different entities and sectors" (GAS 20, Summary).

In relation to intangibles, GAS 20 does not prescribe any categorization of non-financial indicators. GAS 20.107 states some examples of non-financial key performance indicators relating to different categories, such as employee issues or customer-related issues. However, the examples of key performance indicators do not represent an exhaustive list. Furthermore, in the case of sustainability issues, GAS 20.111 establishes a link to reports based on a generally accepted framework, such as GRI. The replacement of the former GAS 15 by GAS 20 from 2013 onwards was not based on changes in legal rules. Nonetheless, some requirements are stricter than before. In this respect, GAS 20 has a stronger emphasize on management approach relating to those material non-financial key performance indicators that are used for internal management purposes (GAS 20.106; Wulf *et al.*, 2014). Quantitative disclosures of non-financials shall be made if these are also used for internal management purposes (GAS 20.108). Above, the requirements indicate a certain connectivity of the individual parts of MC. Material key performance indicators relevant to management are part of the reporting on internal management systems, report on economic position and report on expected developments. Forecasts (on financial and non-financial indicators) "reported in the prior period shall be compared with the actual business development (GAS 20.57, called follow-up reporting)". Table I illustrates this type of connectivity of information (Wulf and Niemöller, 2015).

The Italian regulation on MC is based on Civil Code art. 2428, which defines just an overall framework of this Commentary together with some general principles, while positioning it outside the scope of financial statements. The Italian national standard setter (OIC – Organismo Italiano di Contabilità) has not taken up any position regarding the MC, considering this matter out of its competences that are linked to financial reporting strictly conceived.

Also the National Association of Professional Accountants (CNDCEC) has not produced an accounting principle on MC, but it has widely analysed this document providing indications on its structure, its contents and the use of key performance

Table I.
Key performance indicators including non--financials run like a thread through MC



indicators (Document No. 1 – 2008), on financial performances (Document No. 22 – 2013), and on socio-environmental sustainability framed also in an international perspective (Document No. 28 – 2013). The latter document offers indications on corporate social responsibility with a specific attention to the anticorruption theme, environmental management and human resources management. The non-standards approach taken by the CNDCEC has some advantage in relation to the fact that is more flexible and easy to be modified, giving to companies the possibility to easily connect to the evolution of international reporting practice in this specific field.

4.2 The cross comparison process and results

Italian and German regulations have been compared using a semantic approach to fieldwork in order to understand if there is a different composition of rules with different powers of regulation, taking in account the fact that a complex regulation in accounting system is mostly a coordination of two components: a hard component and a soft one. As a result of such analysis, Germany has shown a system prevalently based on rather hard rules, and Italy has revealed a system where the prevalent position is given to soft rules (Table II).

Considering the aforementioned scientific background, we have focused on a concept of intangible assets articulated in Structural capital, Relational Capital and Human Capital. Following the above cited literature, for each category we have then recognised three sub-categories within which we have analytically identified throughout the whole set of company intangible assets (e.g. Cerbioni and Parbonetti, 2007; Guthrie and Petty, 2000; Mention, 2012) (Table III).

Table II.
Intangibles related indications on MC contents

	Hard regulations	Soft regulations
Italy	a	b
Germany	b	a

Notes: a, general indications; b, specific indications

Using those elements and exploring MC regulations under a semantic approach, and by means of a manual content analysis, we have synoptically detected the elements of intangible assets to be disclosed according to the MC regulations in the two countries (see Table IV).

The results highlight that the regulations of both nations, Italy and Germany, prescribe quite a numerous items linked to the reporting on intangible resources. Both are also providing quantitative indicators, too. The reports of companies are showing an improvement in reporting on intangible aspects. With respect to Germany, even after implementation of GAS 20, intangibles reporting through non-financial information has improved.

According a study of KPMG (2014), eight out of 28 DAX30 companies analysed have included non-financial indicators within their report on internal management systems, as part of their 2013 Management Commentaries. The number of non-financial information reported was between 1 and 5, and the mean value amounted to 3. By contrast, all 28 analysed companies have reported about financial indicators within a number range of 1-10 and a mean value of 5. Moreover, 21 companies have disclosed sustainability aspects in a separate section, and further five companies have considered sustainability aspects within the reporting of non-financials. The most mentioned non-financial indicators were "new orders", "number of deliveries", "customer satisfaction" and "employee satisfaction" (KPMG, 2014). Understandably, there seems to be a reluctance to publish non-financial information.

The information about company intangible resources is increasingly found in different parts of MC. According to Doc. 1/28 as well as to GAS 20, information on intangibles should be considered in various sections of MC, as shown in Table V.

The results of the this paper's analysis show the connection of intangible information across the individual parts of the MC. The specifications of Doc. 1/28 and GAS 20 are not exhaustive. If necessary, further information can be provided by companies. In practice, only 13 out of 28 DAX30 companies have disclosed a forecast based on non-financial indicators (KPMG, 2014). Hence, further improvement in the reporting of non-financial is required in order to meet the requirements, especially as to GAS 20.

5. Conclusion and implications

Our results have shown that only a limited part of intangible assets is today covered by the regulations on MC, and that Germany and Italy follow in the main a compatible approach to this reporting document. We found that the larger part of this type of resources included in the MC (and expressed in non-financial information) relates to the need for supporting *ex post* information on socio-environmental sustainability, without really paying much attention, though, to processes and trends.

This result is consistent with the current EU political approach on non-financial information (see Directive 2014/95/EU, whereas No. 9) and the European policy for

IR category	IR subcategory
Structural capital	Intellectual property, corporate culture, management process, information and networking systems, innovation capabilities, location
Relational capital	Customers, corporate action suppliers, capital providers, collaborators, brand, distribution channels
Human capital	Professional competences, training policy, skills, attitudes and employees' motivation, talent/human resources management

Table III. Intangible resources (IR) by category and subcategory

	Detailed information acc. to Doc. 1/28 and GAS 20	Italy Doc. 1/28	Germany GAS 20
Human capital			
Professional competences	Indicators relating to continuing professional development	Doc. 1	GAS 20.107c
Training policy		Doc. 1	
Skills	Indicators relating to length of service		GAS 20.107c
Attitudes and employees' motivation	Indicators relating to employee satisfaction		GAS 20.107c
Talent/human resource management	Shortage of qualified staff		GAS 20.68a
	Personnel expenses and expected trends in those expenses		GAS 20.75b
	Indicators relating to staff turnover	Doc. 1	GAS 20.107c
Organizational capital			
Intellectual property	Patents, licences, product developments	Doc. 1	GAS 20.50
	Deveolpment of patents, licences		GAS 20.68b
Corporate culture	The group's social reputation (indicators relating to social and cultural involvement, corporate social responsibility, etc.)		GAS 20.107e
Management process	Organizational structure	Doc. 1	GAS 20.37a
	Business processes		GAS 20.37e
	Restructuring and rationalisation measures		GAS 20.63a
	Level of efficiency of production, capacity utilisation, rationalisation measures, quality assurance	Doc.1	GAS 20.75a
	Risk management system		GAS 20.P137-K145
Information and Networking systems	Internal management system, (financial and non financial) indicators used for internal management purposes		GAS.P45, P46
Innovation capabilities	Research and development: results	Doc. 1	GAS 20.49
	Quantitative disclosures, e.g. expenditures, employees in R&D		GAS 20.50, 88
	Indicators relating to research and development (to the extent that these disclosures are not made in the research and development report in accordance with paras. 46-51		GAS 20.107d
	Launch new products		GAS 20.90
Location	Locations	Doc. 1	GAS 20.37c
	Commissioning and closure of production facilities or locations		GAS 20.75c
CSR, sustainability	Environmental protection expenditures and potential environmental liabilities	Doc. 28	GAS 20.68e
	Energy costs, including costs of meeting environmental requirements, and expected trends in those costs	Doc. 28	GAS 20.75e
	Environmental issues (emission figures, energy consumption, etc.)	Doc. 28	GAS 20.107b
	Systainability aspekcts		GAS 20.111

(*continued*)

Table IV.
Information on intangible related disclosures in the management commentary in Italy and Germany

	Detailed information acc. to Doc. 1/28 and GAS 20	Italy Doc. 1/28	Germany GAS 20
Relational capital			
Brand			
Customers	Dependence on certain customers	Doc. 1	GAS 20.68a, 75d
	Prices and terms on the most important sales and procurement markets		GAS 20.75d
	Customer-related issues (indicators relating to the customer base, customer satisfaction, etc.		GAS 20.107a
Corporate actions	The group's social reputation (indicators relating to social and cultural involvement, corporate social responsibility, etc.)	Doc. 1-Doc. 28	GAS 20.107e
Suppliers	Uncertain supply arrangements		GAS 20.68a
	Dependence on certain suppliers		GAS 20.68a, 76d
Capital providers			
Cooperation's	Entering into or terminating coopertion agreements		GAS 20.63c
Distribution channel			
Regulating authority	Changes in the legal or regulatory environment, e.g. restrictions on selling or procurement activities	Doc. 1 - Doc. 28	GAS 20.68f
	Regulatory measures as assumption for the forecasts		GAS 20.122

Table IV.

economic development. National accounting systems which are traditionalistic orientation, such as the two tested with the present analysis, are deeply influenced by the law, so that the MC structure and contents as adopted by German and Italian companies reflect nearly automatically the above EU strategy. In particular, the MC "barycentre" on intangibles information follows the regulatory policy favouring socio-environmental sustainability. Hence, an effective stimulus to change the MC appears that it could only derive from a new EU political orientation emphasizing the role of intangible assets.

When exploring the above EU Directive No. 95/2014, it is clear that the EU made a choice of a concept of sustainability which embraces many conditions and stakeholders aiming to support a "new" socio-environmental economy.

However, politically the EU could have better exploited this opportunity of the Directive to require not only a more comprehensive disclosure on intangible assets, but also to connect this to a wider concept of company business sustainability and value creation, which includes also the consideration of the dynamic trends and the result of the intangible asset's management process. Indeed, the current European regulatory formula looks at the MC rather as the result of an articulated policy on sustainability, while intangible asset disclosures would be the outcomes of a different idea of economy that would regard socio-environmental sustainability as a value internal to, and encompassed within, the intangible assets of a company.

Intangible resource management is in fact the main "engine" also for company socio-environmental sustainability, and therefore it appears quite irrational and in a sense ineffective to regulate reporting in order to disclose only a partial concept of

Table V.
Intangible related disclosures in the parts of management commentary in Italy and Germany

	Parts of MC								
	Fundamental information		Report on economic position						
	The group's business model	Internal management system	R&D	Course of the business	Results of operations	Financial position	Financial and nonfinancial KPI[a]	Report on expected development	Report risks an d opportunities
Human capital									
Professional competences		Y/X					Y/X	X	X
Training policy		Y					Y		
Skills		X					X	X	X
Attitudes and employees' motivation		X					X	X	X
Talent-/human resource management		Y/X			X		Y/X	X	X
Organizational capital									
Intellectual property			Y/X		X		Y/X		
Corporate culture		X					X	X	X
Management process	Y/X			X	Y/X				
information and networking systems		X							
Innovation capabilities		X	Y/X		Y/X	X X	Y/X	X	X
Location	Y/X				X				
CSR, sustainability		Y/X			Y/X		Y/X	Y/X	Y/X

(*continued*)

Table V.

	Parts of MC: Fundamental information			Report on economic position					
	The group's business model	Internal management system	R&D	Course of the business	Results of operations	Financial position	Financial and nonfinancial KPI[a]	Report on expected development	Report risks an d opportunities
Relational capital									
Brand									
Customers		X			Y/X		X	X	X
Corporate actions		Y/X					X	Y/X	Y/X
Suppliers					X				
Capital providers									
Cooperations				X					
Distribution channel									
Regulating authority				Y/X				Y/X	Y

Notes: Y, Italy; X, Germany. [a]Shall also include the most important nonfinancial key performance indicators, to the extent that they are material for an understanding of the course of business and position of the group (GAS 20.105). Those non-financial key performance indicators that are also used for the internal management of the group shall be included (GAS 20.106) business sustainability, virtually without considering the full range of intangible resources involved in the company's managerial processes and operations.

As shown by this paper, MC in traditionalist countries such as Germany and Italy follows an orientation on sustainability linked to a relevant but to some extent still limited concept of company linked to stakeholders, and far less to the its value creation management. To address the issue of the underreporting of intangibles, the concept of company to be adopted should instead be based on the wider notion of sustainable competitiveness, future earnings capability and value creation. Voluntary disclosure of Integrated Reporting is showing a significant step in that direction. With regard to the implementation of the EU Directive No. 95/2014, this remains to be seen.

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