The new corporate social responsibility law in Italy

Carter Murray Market Insight

In 2018, for the first time, about 500 companies in Italy will be required to file a corporate social responsibility (CSR) report along with their annual financial statements. The additional document became mandatory last year, when the Italian government converted a 2014 EU directive on the "disclosure of non-financial and diversity information by large enterprises" into law.

Why the CSR law is important

The requirement for a CSR report is based on a simple principle: the responsibility of an enterprise is not limited to the value of the goods or services it produces but also includes its impact on society and the environment at large.

But there's more. Investors also want access to non-financial information, because it helps them to gain a better understanding of a company's ability to create value in the long term.

Who the report is for

Only very large companies will be affected by the law – that is publicly traded companies, banks, assurance and reassurance companies or large groups. These need to have at least 500 employees across the whole group, and one of these two attributes: a positive balance sheet of at least €20 million or €40 million of total revenue.

The scope is quite limited for a reason. In essence, the law had to start somewhere and large enterprises are the ones with the highest impact on society and the environment. Also, they are better equipped to gather the necessary resources to implement a CSR policy.

What goes in the report?

The format of the report must follow specific standards and guidelines. The focus is on five areas:

Environment. Usage of renewable energy, water and recyclable materials, greenhouse emissions and pollution.

Social impact. Relationship with the local community and initiatives to foster its development.

Employees. Gender equality, working conditions, health and safety in the workplace, trade union rights, compliance with UN labour policies.

Human rights. Respect of human rights, both in the workplace and in the supply chain.

Corruption. Initiatives to prevent active and passive bribery.

For each of these areas, companies are required to describe relevant information about:

- Business and management models
- Company policies
- Connected risks
- Improvements since the previous year

Is it mandatory to include this whole list in the report? In principle, yes. In reality, the law tries to strike a balance between clear guidelines and room for flexibility – applying the concept of "comply or explain". In other words, companies can leave out certain areas, as long as they explain why they did it.

The challenges of the new law

Complying with the CSR law may be challenging for a few reasons.

1. Compared to the traditional quantitative financial statement, the non-financial and diversity report will be mainly qualitative, with fewer figures and more evaluations. For companies, this means adopting a different approach and learning (or hiring) new skills.

2. Companies will be forced to look beyond their backyard and determine the real impact they have on the environment – and whether or not their suppliers respect human rights.

3. Perhaps more importantly, the purpose of the report is not to be a simple snapshot, it requires a commitment to improve. To do that, companies may have to modify some of their practices or invest more resources in certain areas.

Where do we go from here?

Although it's too early to evaluate the impact of the law, there are a few developments we can envisage.

Tax deductions. Currently, there are no tax deductions for CSR activities. However, in 2016 the Third Sector in Italy was completely reformed by a new law that also grants tax deductions for donations to non-profit entities. Following the general principles and objective of this law, it's likely that these deductions will be extended to corporate CSR activities.

The rise of the CSR and diversity manager. Complying with the new law will require a specific set of skills and that in turn is likely to increase the demand for roles such as the CSR or diversity manager. Also, an increase in demand will make it less expensive for companies to cover these positions.

Inclusion of smaller companies. Currently, the law allows other companies to present a CSR report on a voluntary basis. In that case, however, they would be subject to the same provisions of the law, including fines if found non-compliant. Although these fines would be reduced by 50%, the risk is likely to discourage other companies from venturing into this new territory. In the future, lawmakers may have to find sustainable ways to involve smaller companies if they want CSR to have an even bigger impact on society and the environment.

[META: 2018 will mark the debut of the mandatory CSR report for about 500 Italian companies. Here's what you need to know and what we think will happen.]

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