

## Ca' Foscari University of Venice receives public funding for the PRIN 2022 project *"Fostering sustainability mindset: How non-financial disclosure and corporate risk assessment may drive ESG value creation"*

### Introduction

Ca' Foscari University of Venice has received public funding for the project titled *"Fostering sustainability mindset: How non-financial disclosure and corporate risk assessment may drive ESG value creation"* (**prot. nr. 2022CTBNRN**). The project will be financed through the European Union Next-GenerationEU - National Recovery and Resilience Plan (NRRP) – MISSION 4 COMPONENT 2, INVESTIMENT 1.1 Fondo per il Programma Nazionale di Ricerca e Progetti di Rilevante Interesse Nazionale (PRIN) – **CUP N. H53D23002380006**. Such plan aims to fund projects intended to enhance the sustainability practices, digitalisation, and resilience of European organisations in light of the economic and social damage caused by the COVID-19 pandemic. To this end, the fund enables the European Commission (EC) to borrow financial resources directly from capital markets. The project will have a duration of 24 months and it will be conducted in collaboration with the universities of Turin, Genoa, and Florence.

### Brief contents

The project aims to assist companies within the EU in improving their performance in the environmental, social, and governance (ESG) dimensions and in mitigating the related risks. Among the outputs of the project, models and instruments for enhancing corporate accountability will also be developed. Besides the NGEU recovery fund, the project has been designed in close connection with the Corporate Sustainability Reporting Directive (CSRD), which amends and extends the sustainability reporting requirements introduced by the EU Directive 2014/95/EU (EUD) – also called the EU Non-financial Reporting Directive (NFRD).

The project has been subdivided into four interrelated segments and is characterised by the following structure:



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- *Subproject A.* Reliability of financial reporting, opportunistic choices, and connections with ESG communication – assigned to the University of Genoa
- *Subproject B.* The quality of non-financial reporting: coherence and integration of ESG practices into risk management and strategy – assigned to the University of Turin
- *Subproject C.* Relevance and materiality of non-financial information, value creation and business model – assigned to the University of Florence
- *Subproject D.* The effects of EUD on the evolution of risk representation in corporate reporting – assigned to Ca' Foscari University of Venice

### Relevance of the project

As a result of the pressures put on companies worldwide to endorse sustainable development, traditional financial reporting is no longer viewed as a sufficient tool to pursue corporate accountability due to its primary focus on financial issues. Consequently, new forms of non-financial reporting (NFR) have been developed, such as ESG reporting, corporate social responsibility (CSR) reporting, sustainability reporting and integrated reporting. At the regulatory level, NFR has been promoted through the NFRD, according to which large European undertakings are required to issue non-financial statements concerning environmental, social, and employee matters as a part of their management reports. With the CSRD, such requirements have been extended to small-medium enterprises (SMEs) listed on regulated markets.

Based on these developments, the project aims to define a sustainability assessment model which allows firms to enhance their environmental and social performance while improving their risk profile, therefore supporting companies in their transition towards a new paradigm of corporate sustainability. The tools which will be devised as outputs of the project are expected to support large companies and SMEs in areas such as strategic management, risk management, and performance measurement. Unlike other initiatives, such tools will integrate the environmental, economic, and social dimensions into a single model while also factoring in a risk perspective and corporate value drivers.

## The role of Ca' Foscari University of Venice

As mentioned above, Ca' Foscari University of Venice will primarily be tasked with examining the effects of EUD on the representation, evolution, and assessment of non-financial risks in corporate reports. EUD requires large companies to disclose the main risks deriving from their operations, including business relationships, products, or services, and how they intend to manage such risks. Recent studies have emphasised the importance of adopting an integrated risk reporting system characterised by a holistic and forward-looking approach which highlights the interconnection between financial and non-financial risks. Additionally, managing risks in an integrated manner is expected to lower the cost of debt, which is beneficial to investors and stakeholders alike. Risk communication also allows for a more efficient and effective oversight process regarding the material risks which affect business operations.

A review of the recent literature on non-financial risk reporting has helped to identify a gap in the analysis of ESG risks, which call for a more thorough investigation owing to global macro-trends and their effects on financial and reputational risks. In particular, there is a lack of studies which relate the different types of risk by verifying causes, effects, and management approaches. Furthermore, some risks remain untreated or otherwise discussed by focusing on the past. Consequently, the project aims to fill this gap by examining the disclosure content on risks in light of the cross-country regulations mentioned above rather than by focusing on specific legislative acts or regulations, which fuels inconsistency in the scientific literature. The study also explores the evolution of non-financial risks nomenclature used by companies in an effort to map the non-financial risk taxonomy, which is expected to assist stakeholders in assessing companies for the development of new integrated ratings.



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