

THE STAKEHOLDERS: A COMPARISON BETWEEN IAS/IFRS AND ITALIAN OIC STANDARDS FOR FINANCIAL REPORTING

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Abstract: *The scope of this paper is to analyze - from a critical point of view - the financial statements, with particular regard to their main recipients and to their effective adequacy in satisfying the information needs of stakeholders. The paper aims to contribute to the current debate on the ability of financial reporting to be really useful and effective for stakeholders. It is important to note that in the last ten years the external information has increased considerably, moving from mere accounting and financial information towards several profiles, as sociality, environment, sustainability, corporate governance, risk policies and, more generally, non-financial data. This new direction highlights the growing need for information that the recipients of financial statements express, so that it is extremely important to verify if this need is really satisfied. In addition, given that the Italian accounting standards, settled by OIC (Italian Accounting Body), are very different from the International IAS/IFRS, the paper uses a comparative method, based on the reconstruction, for each of them: a) of the type of information provided; b) of the type of recipients to whom they are addressed. The comparison is made through the analysis of the conceptual framework of the two groups of principles, considering that the main difference between IAS/IFRS and OIC standards is that the former are mostly derived from practice and use a problem-solving approach, typical of Anglo-Saxon empiricism; while the latter are based on an opposite view, namely on the construction of an accounting theory aimed at guiding the practice. According to the majority doctrine, there is a typical and well-known difference between the two groups of principles: the IAS/IFRS standards are based on fair value and are mainly investor-oriented, while the OIC standards are based on historical cost and are mainly creditor-oriented. In addition to this distinction, the paper proposes a further one, based on the differentiation between informational effects and management effects. In particular, the accounting conservatism typical of prudent countries, like Italy, produces, above all, management effects due to the fact that it prevents the distribution of unrealized earnings, so protecting company's capital. On the contrary, an opposite effect is produced by IAS/IFRS, since the use of fair value can provoke the emersion of presumed but not effective profits, in some cases distributable.*

Keywords: *stakeholders, financial reporting, accounting standards.*

1. PURPOSE OF THE STUDY AND EXPECTED BENEFITS

The aim of this paper is to analyze, from a critical perspective, the effective capability of the financial statements in informing their main recipients.

For this purpose, it is necessary to put a preliminary distinction between external and internal users of financial statements, being their information needs very different.

In particular, this paper focuses on external users, since, normally, they can only rely on public data and do not have the power to influence information.

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Furthermore, the external recipients use financial information in a different way with respect to the internal subjects: the former need to understand the economic conditions of the company, while the latter use the financial statements for corporate governance strategies.

The expected benefits of this study are to provide a contribution to the literature on the subject and to offer some different points of view, potentially useful for the interpretation of the problems related to the information capability of the financial statements.

2. THE METHODOLOGY

The methodology used here is based on the comparison between the international accounting standards IAS/IFRS and the Italian OIC standards, since each of them sets different rules and principles able to produce significant consequences for the readers of the financial statements.

Since the comparison is aimed at verifying the effective disclosure of the financial statements, the attention is focused, first of all, on the critical review of the concept of *stakeholders*, that historically dates back to the 1960s and is still widely treated by doctrine.

Secondly, the study focuses on the ability of the financial statements to satisfy the information needs of stakeholders: the real problem, in fact, is not the construction of a list as complete as possible of subjects interested in financial statements; much more important, as it is believed here, is, in actual fact, the analysis of *the company's image that emerges from the different legal frameworks governing the preparation of the financial statements*.

Only this starting assumption can help to really understand the effectiveness of financial reporting.

3. THE CONCEPT OF STAKEHOLDERS

Already starting from the Italian Zanardelli commercial code, the first to contain a minimal, but autonomous, regulation of the financial statements, the matter of the recipients of the accounting information has involved - and often opposed [1] - a plurality of disciplines.

Among these disciplines, the economic ones (accounting theories) [2] - [3] and the legal ones (commercial law theories) [4] - [5], brought out a multiplicity of views, also powered - it is believed here - by the absence of a normative indication of the subjects and of the goals, "never clearly explicit" [6], towards which the financial statements are mainly oriented [7].

In Italy, this lack occurred both in the pre-unification codes and in the subsequent ones, monarchical and republican, including the Italian Civil Code today in force.

Starting from the second half of the 1960s [8] - [9], the problem has found a solution, so to speak "conciliatory" (although not universally shared), thanks to the introduction of the comprehensive concept of "*stakeholders*".

From then to today, this concept has been able to bring together all the subjects in various ways interested in company's events, so favoring the reconciliation of the two main approaches to the problem: the *legal views* [10] and the *economic* interpretations.

With regard to the Italian legal views, at the beginning of the 20th century, the majority doctrine tended to consider non-shareholders as outsiders, who were *consignees of the financial statement only in an indirect way, and, above all, only after its approval by the shareholders' meeting*. Further on, the evolution occurred in the second half of the 20th century led to the prevailing opinion, still dominant today, according to which the *social creditors* are the main recipients [11] - [12] of financial reporting.

In relation to the *economic interpretations*, it is important to note how, especially in the last fifty years, they have gradually included, among the users of the financial statements, the holders of the most diverse interests, not only economic [13] - [14].

The problem, however, is not easy to solve and *often it is incorrectly set*: as much as the group of stakeholders could be complete, it is obtained through the selection, among the potential users of the financial statements, of only those with a specific interest in the company.

It follows that the concept of stakeholders represents, in actual fact, an open and temporary whole, whose borders change from time to time. Therefore, as it is believed here, the theoretical and scientific value of this concept does not lie in its universalism, since any classification inevitably tends to be a contingent and situational one, depending on the changing empirical conditions.

On the contrary, given that the function of the financial statements is to inform about the company, to assess its effectiveness it is necessary to start from a different point of view, i.e. from the consideration of the *type of company's image wanted by the legal system within which the financial statements must be drawn up*. In this way, and also in a strategic-management perspective [15] - [16], it is possible to verify if the information needs of the stakeholders are really satisfied.

4. A COMPARISON BETWEEN ITALIAN OIC AND INTERNATIONAL IAS/IFRS

With regard to the Italian context, it is first necessary to distinguish between non-listed companies, which apply the OIC standards, and listed companies, which instead are required to apply the international standards IAS/IFRS.

For non-listed companies, the principles of the civil code, together with the OIC standards, have as their main purpose the protection of the company's creditors, while for listed companies partly different considerations must be done, since the primary aim of IAS/IFRS is to inform current and potential investors [17].

One of the most important principles on which the Italian civil code and the OIC standards are based is represented by the accounting conservatism, which, in continental Europe, implies the adoption of the *historical cost* as evaluation criterion.

On the contrary, the IAS/IFRS standards are more interested in the representation of the company's market price and, for this purpose, generally require the adoption of the *fair value* criterion.

The contrast between historical cost and fair value [18] - [19] - [20], as well as that between *income tradition* of OIC and *patrimonial approach* of IAS/IFRS [21], are well known in accounting doctrine and represent the main characteristics that distinguish the civil-law countries from the common-law ones.

In relation to these contrapositions, it is useful to suggest here a further classification, which can be considered as a corollary of the main distinctions mentioned above.

In particular, the distinction proposed here is based on the analysis of some *antithetical effects* that the two groups of standards are able to produce, due to the diversity - both conceptual and substantial - of their frameworks.

These effects are classified here as *managerial effects* and *information effects*, deriving this distinction from the ascertainment that, on the one hand, the OIC standards pursue the *protection* of financial statement recipients, while, on the other hand, the IAS/IFRS standards are more focused on information of the recipients themselves, even regardless of their safeguard.

In this sense, the civil and OIC principles exercise, above all, managerial effects, since they aim to promote, through the prudent evaluations, a conservative management of the company. The protection of social creditors is realized through the defense of the company's capital from the dilutions [22] - [23] - [24] caused by the distribution of non-existent profits.

In this regard, it is important to remember that one of the most significant consequences of the Italian accounting conservatism is the prohibition of representing unrealized profits in the financial statements.

This inviolable principle - whose exceptions are strictly limited to the cases established by law - is based on four main rules:

- a) the underestimation of the assets (through their evaluation at historical cost);
- b) the overvaluation of liabilities (through their evaluation at nominal value);
- c) the recording of all costs, even if only presumed or foreseeable (through provisions for risks and charges);
- d) the recording of only effectively realized revenues and profits (arising from occurred commercial transactions).

These basic rules - if correctly applied - are able to inhibit the recognition in the financial statements of latent surplus values, only foreseen or estimated, thus preventing the distribution of fictitious dividends.

The information effects of the civil code principles are therefore the result or the consequence of a *legal system that aims, first of all, at preserving the company liquidity.*

On the contrary, the above relationship is reversed in the case of the IAS/IFRS principles, given that - also in consideration of the different economic context (listed and large companies) in which they were drawn up - *their primary aim is to produce useful information for investors [25] - [26] - [27], rather than managerial effects for the company.*

It follows that, in this second case, the managerial effects, such as, for example, the distribution of the potential profits emerging from the evaluation at fair value, are the consequence of an approach that privileges the information intended for financial markets. Furthermore, even in the event that potential profits are not distributable, valuations at current prices generally reinforce the image of the company and make it more attractive to investors.

However, it is not at all obvious that this informational advantage also ensures investor protection, especially when large or unrealistic overvaluations [28], or simple revaluations [29] - [30], are able to cause false expectations in savers.

5. CONCLUSIONS

Some conclusions derive from the above considerations.

First of all, the correct verification of the effective utility of the financial statements in informing their recipients requires an adequate understanding of *the legal framework on which the accounting standards are based*.

It is therefore inevitable that not all stakeholders can be satisfied with the same effectiveness: the OIC-based financial statements are particularly useful for creditors, but less suitable for investors, while, on the contrary, the IAS/IFRS-based financial statements are more significant for investors, but less appropriate for social creditors.

Secondly, there is a further point of view through which the problem of stakeholders can be observed: the financial statements features are relevant, in fact, not only in information terms, but also for their managerial effects, which, in continental European countries, differ widely from those of the Anglo-Saxon world.

It follows that a new distinction could be proposed within the group of the stakeholders: those that can be satisfied vs. those that can't be contented, depending on the legal-accounting framework on which the financial statements are based.

Given the above, only a supranational legal-accounting system able - if ever possible - to satisfy all information needs could make this distinction superfluous.

Finally, this last consideration opens up a further cause of debate, since it is also necessary to understand to what extent transparency can reach stakeholders, without affecting the legitimate right of the company to secrecy and confidentiality.

The problem arises above all for listed companies that, being open to the market, must offer maximum disclosure to investors, and, at the same time, protect strategic information from the actions of competitors.

In addition, it must be remembered that even for non-listed companies requests for information from stakeholders have increased significantly in Italy over the last ten years.

This evolution shows the current trend towards increasingly complex information, with respect to which the financial statements have become an essential disclosure tool.

However, we must not underestimate the risk that the growing request for information will turn into redundant and dispersive data, which hide, rather than highlight, significant information for stakeholders.

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