

# The implementation of sustainability reporting in a small and medium enterprise and the emergence of integrated thinking

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## **Abstract**

**Purpose** – This study aims to examine the process through which sustainability is integrated into the organizational practices of accounting.

**Design/methodology/approach** – Action research, drawing on the lens of neo-institutional theory, is used to explore the integration process of sustainability in an Italian company.

**Findings** – The results show how different factors and organizational dynamics contribute to the initiation of both sustainability reporting and the progressive diffusion of sustainability practices in this organization, within the small- and medium-sized enterprise (SME) category. In addition, signs of integrated thinking were identified while charting the process of sustainability reporting and its institutionalization within the company.

**Research limitations/implications** – The study shows that the idea of integrated thinking was rooted in organizational culture prior to the International Integrated Reporting Council (IIRC) framework and the momentum it gave to integrated reporting. In this sense, this research provides evidence to confirm the existence of an alternate narrative in relation to the one offered by the IIRC framework.

**Practical implications** – The present study contributes to understanding how SMEs can integrate sustainability into their accounting systems. Managers working in these organizations may learn from this experience.

Originality/value – On the one hand, this study further the knowledge of sustainability integration processes within an organizational practice, especially in the case of SMEs. On the other hand, the study is, perhaps, the first to identify signs of integrated thinking on the journey through the sustainability institutionalization process.

Keywords Action research, Small- and medium-sized enterprises, Integrated thinking, Implementation of sustainability reporting

Paper type Research paper

## 1. Introduction

The context in which modern organizations operate is one of constant change and the ways of thinking that have, until recently, steered accounting disclosure practices are undergoing a process of profound conceptual rethinking (Busco *et al.*, 2013). This process is linked to external pressures calling for the whole corporate accounting system and its practices to be reoriented toward a more holistic perspective. Regulatory pressures may be included among the external pressures such as the 2014/95/EU Directive on non-financial information [1] and government initiatives such as the sustainable development goals (SDGs) (Bebbington and Unerman, 2018; Busco *et al.*, 2018; Rossi *et al.*, 2020). Different frameworks such as the Global Reporting Initiative (GRI) and the International Integrated Reporting Council (IIRC) have sought to overcome this issue, by incorporating non-financial information in the reporting journey (Busco *et al.*, 2013; de Villiers *et al.*, 2014, 2017; Dumay *et al.*, 2016; Eccles and Krzus, 2010).

All of the above has finally led numerous organizations to deploy a set of actions within their managerial processes that are designed to integrate non-financial information with the traditional company reporting practices [EY (Ernst and Young), 2019; KPMG, 2017]. The notion of integrated thinking within this managerial context is gaining momentum and the accounting concept has been moving from a marginal to a promising and widespread one. Through integrated thinking, social and sustainability problems, resources and decision-making, are integrated into processes of strategic decision-making and long-term value creation (de Villiers *et al.*, 2014; Dumay *et al.*, 2016; Maniora, 2017; Simnett and Huggins, 2015), as the ultimate expression of sustainability within the managerial sphere.

The existing literature on social and environmental accounting (Bebbington *et al.*, 2009) has evidenced the complexity of implementing sustainability in the accounting practices of firms. In addition, little evidence exists with regard to the role of sustainability information in organizational decision-making processes (Guthrie *et al.*, 2017; Maniora, 2017). Within this context, the dynamics for the integration of sustainable reporting across organizations have still

not been sufficiently well explored (Contrafatto, 2011). In that respect, Contrafatto (2014) emphasized the study of institutional factors and dynamics when explaining the initiation of social and environmental reporting (SER) and its diffusion until its institutionalization. Along similar lines, O'Dwyer and Unerman (2016) remarked on how much remains to be learned about the organizational implementation of SER, its processes and related dynamics. Taking this into account, the present study aims to examine the process through which sustainability is integrated into accounting practices for the context of small- and medium-sized enterprises (SMEs).

This research aim is achieved through engagement with an Italian company classified as an SME from the waste sector. The Italian context was chosen as among other European countries. Italy has devoted most effort to SER and Italian SMEs have expressed interest in the development of SER practices (Del Baldo, 2017). This analysis is mainly focused on the period between the start of the sustainability integration process in accounting practices at a corporate level (2015) and the initial period of preparation for the second sustainability report edition (2018). An extended analysis (since 2010) of the organizational and institutional context will provide a contextual understanding of the situation. Action research methodology (Berg, 2008; Reason and Bradbury, 2012) and neo-institutional insights (Contrafatto, 2014; DiMaggio and Powell, 1991; Scott, 1995) will also guide and support the investigation.

In doing so, hitherto under-explored knowledge will be extended on both the processes and the dynamics related to the organizational implementation of SER (O'Dwyer and Unerman, 2016) within an organizational strategy. At the same time, the paper will provide insight into the first stages of institutionalization of the still embryonic SER practice for SMEs (Agostini *et al.*, 2018; Dincer and Dincer, 2010; Vo, 2011). The literature, is relatively silent on the processes for sustainability integration within SMEs, with some exceptions such as Massa *et al.* (2015), a gap which this study aims to fill.

No less relevant, moreover, is that this research identifies some signs of integrated thinking from the journey through the implementation of sustainability reporting following the GRI guidelines. A broad perspective of the concept of integrated thinking and reporting and its adoption is offered, based on the controversy over the IIRC championing promise with potential to improve the quality of reporting practice (Adams, 2015; Conradie and de Jongh, 2017; Flower, 2015; Humphrey *et al.*, 2017; Thomson, 2015). The relevance of these findings for this special issue stems from the fact that the incorporation of sustainability reporting in organizational procedures might offer new insight into the integrated thinking black box.

The remainder of the paper will be structured as follows: In Section 2, the theoretical background of this study will be outlined. In Section 3, the research method will be addressed. In Section 4, the empirical evidence on the initiation and the diffusion of sustainability reporting in the

organization will be analyzed. Some signs of integrated thinking will be presented in Section 5, as a result of this journey through the implementation of sustainability reporting. Finally, some concluding comments will be set out in Section 6.

## 2. Theoretical background

The extant literature on sustainability accounting and reporting cast light on various theoretical questions. Over the past decades, studies in social and environmental accounting have mainly been focused on aspects connected to the external organizational determinants (such as corporate characteristics and stakeholder salience) of environmental and sustainability reporting (Berthelot *et al.*, 2003; Fifka, 2013; Hahn and Kühnen, 2013; Lee and Hutchinson, 2004); the analysis of the quantity and/or quality of the sustainability information that is disclosed (Archel *et al.*, 2008; Boiral, 2013); the relation between corporate social responsibility (CSR) and financial performance (Cho *et al.*, 2012; Clarkson *et al.*, 2008); the consequences of CSR (Cho *et al.*, 2013; Watson, 2015); and, the identification of CSR research patterns (Fifka, 2013; Huang and Watson, 2015). In other studies, the influence of internal organizational determinants (such as the personal values of managers and environmental organizational commitment) on sustainability reporting (Adams, 2002; Husillos *et al.*, 2011; Luque-Vílchez *et al.*, 2019) has been explored. The above-mentioned studies constitute the most important line of research in social and environmental accounting.

Another important line of research has explored the consequences (Adams and McNicholas, 2007; Dey, 2007) that a sustainability reporting system might generate on the different aspects of organizational activity. The first studies conducted in the early 1990s highlighted how the introduction of social and environmental accounting within the organizational practices was caused by an in-depth and structural change toward more sustainable ways of operating and doing business. On the contrary, Larrinaga and Bebbington (2001) highlighted the way in which structural modifications of organizational behavior are accompanied by a change in rationality. More recently, Narayanan and Adams (2017) and Rodríguez-Gutiérrez *et al.* (2019) studied the effects of social and environmental accounting on organizational changes. They showed that a lack of transformative capacity can even constitute an environmental disruption to the practice of business reporting.

In a further line of research, the reasons (motivations) that prompt organizations to invest in an integrated accounting system are investigated. In this sense, empirical results highlight an unclear situation. Numerous explanations that explain why companies start to produce a voluntary report emphasize a mix of legitimacy and accountability reasons (Buhr, 2002). In a more comprehensive analysis, O'Dwyer (2002) suggested that despite their recognition that social disclosure could fill

a legitimacy gap, some managers confessed to skepticism toward its real effect on the process of enhancing and improving a legitimacy status. Similarly, [Georgakopoulos and Thomson \(2008\)](#) showed that the current motives for voluntary reports were focused more on controlling environmental and reputational risk and fostering a sustainability culture. These results are in line with [Contrafatto \(2009\)](#), who pointed to reputational risk as to the main motivation for SER.

A fundamental idea that has emerged from this brief literature review is that organizational involvement in the integration of sustainability into accounting practices is a complex matter. In that respect, the seminal work of [Bebbington et al. \(2009\)](#) provided insightful theoretical ideas to understand the factors (institutional and organizational) that may have influenced the initiation and implementation of a sustainability report until its institutionalization. [Contrafatto \(2011\)](#) remarked on the need for further study on “how sustainable development reporting, after being initiated, was subjected to a process of habitualization ([Berger and Luckmann, 1966](#)) to become a ‘taken for granted’ practice” (p. 167). Considering this comment, [Contrafatto \(2014\)](#) explored the institutional factors and dynamics that might explain SER-related decision-making. By focusing on an Italian multinational company in the energy sector and inspired by both old and neo-institutional insights, he identified three phases for the integration of SER in the firm up until its institutionalization:

- (1) the construction of a common meaning system around the concept of social and environmental responsibility;
- (2) practicalization involving the emergence of rules and routines; and
- (3) reinforcement through the implementation of intra-organizational managerial procedures and structures ([Contrafatto, 2014](#), p. 414).

Nevertheless, there is still much to learn about the processes and dynamics of implementing SER within an organization ([O’Dwyer and Unerman, 2016](#)), especially in the case of SMEs, due in part to the relatively recent integration of sustainability in the accounting practices of SMEs ([Agostini et al., 2018](#); [Arena and Azzone, 2012](#); [Del Baldo, 2017](#); [Perrini, 2006](#); [Russo and Tencati, 2009](#)). In this regard, [Massa et al. \(2015\)](#) studied “the initial stages of the development of the sustainability report” (p. 62) and the consequences related to organizational changes within an Italian SME. Thus, [Massa et al. \(2015\)](#) extended and enriched the previous literature by exploring the initial implementation stages of SER through an engagement approach ([Adams and McNicholas, 2007](#); [Contrafatto et al., 2015](#)).

In contrast to [Massa et al. \(2015\)](#), our study is not only focused on the initial implementation but also on its development over time ([Contrafatto, 2014](#); [Belal and Owen, 2015](#); [Vinnari and Laine, 2013](#)). Our study is particularly inspired by [Contrafatto \(2014\)](#). This seminal work presents an

insightful development of the institutional theoretical framework to structure and to analyze new empirical observations (Adams, 2017). In our case, it serves to structure our observations of sustainability integration processes within the organizational accounting practices and the reporting systems of a SME. A fictional name (HUB) is adopted to indicate the company.

The main institutional theory concepts referred to in Contrafatto (2014, p. 418, Table 1), can be briefly summarized [2] as follows:

First, there are “institutional elements which may be subjected to the processes of institutionalization.” In that respect, Contrafatto (2014) explained that the old institutional framework (Berger and Luckmann, 1966; Meyer and Rowan, 1977) emphasized the normative aspects (e.g. rules and patterns of practice) and their predominance in the course of social action, influencing and driving the actions of actors that became routinized. By complementing this understanding with new institutional sociology (DiMaggio and Powell, 1991), a set of different “pillars” (regulative, normative and cultural-cognitive) and “related dynamics” can be considered to understand the institutionalization process. The regulative pillar of institutions is based on rule setting, monitoring, recompense and punishment. The normative pillar explores the values and norms applicable either to all actors in the social/ organizational context or to specific actors. The cultural-cognitive pillar is linked with common understandings that represent meanings, beliefs and symbols.

Second, there are “institutional forces and mechanisms which influence and have an impact on the processes of institutionalization.” One of the prevailing criticisms of contemporary institutional theory is that it pays insufficient attention to change in institutional systems (Brint and Karabel, 1991). Authors such as DiMaggio and Powell (1991) and Scott (1995) have sought to overcome this limitation and, in their seminal works, elaborate on explanations, by which institutional effects are diffused and provide explanations for organizational change. DiMaggio and Powell (1991) explained how the pressures for change can be ascribed to three motives: “coercive,” derived from legal requirements and regulations; “normative,” associated with normative rules including those prescribed by professional bodies; and, “mimetic,” which consisted of imitation. Rather than in opposition to the previously mentioned institutional elements, instead, these mechanisms operate at a different level (in greater detail, Contrafatto, 2014, p. 418, Table 1).

Table 1. Evidence of integrated thinking within the HUB

Elements of integrated thinking	Evidence from section 4
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Board and senior management commitment	<ul style="list-style-type: none"> <li>– “HUB is a company that has an intrinsic vocation to do business in a sustainable way ...”</li> <li>– The merit of the Vice-President was in an ability to understand and to harness the “strategic leverage” of sustainability reporting from an institutional context and to translate it into an organizational discourse in a way that was comprehensible and in line with the mission of the company</li> </ul>
Emphasis on share value creation	<ul style="list-style-type: none"> <li>– ... report the value created ... An urgency that was perceived by HUB . . .</li> </ul>
Wider conceptualization of ESG performance measurement in relation to financial results Including sustainability targets and objectives in performance appraisal	<ul style="list-style-type: none"> <li>– “necessity to create an accounting system in which to elaborate and to evaluate financial, environmental, social and governance performance and to translate such efforts into a unique document that brings together material aspects of the company strategy in terms of long-term value creation, supporting, in turn, the decision-making process and stakeholder-oriented actions”</li> </ul>
Ensuring that sustainability is the responsibility of everyone in the organization and not just of a specific department/Overcoming the logic of silos	<ul style="list-style-type: none"> <li>– A second element was the awareness that sustainable accounting principles were, in some way, already aligned with existing organizational processes and performance. In this sense, HUB structured the QEE department under the direction of an environmental engineer, in 2004, that actively worked to implement and to report on environmental and social issues</li> </ul>
Responding to the multiple needs of a variety of stakeholders	<ul style="list-style-type: none"> <li>– Those previous results, according to the Vice-President, were a testimony to “the real commitment that HUB assumed toward its stakeholder [emphasis added]”</li> </ul>
Collaboration between multiple organizational functions	<ul style="list-style-type: none"> <li>– ... an important factor was continuous communication between the Vice-President and the functional units involved in the project, with the supervision and the support of the principal researcher, for the diffusion and the comprehension of such new concepts and view</li> </ul>

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Note: ESG = environmental, social and governance

Source: Own work based on A4S and the academic literature on integrated thinking

Then third, the “processes and dynamics of institutionalization” related to the previously



mentioned institutional elements and mechanisms. Among the processes, [Contrafatto \(2014, p. 418\)](#) pointed to the “adoption, enactment and reproduction of organizational rules and procedures, rules and routines”; and regarding the dynamics, those explaining the “construction of common meaning systems.” Finally, the cultural-cognitive pillar plays a pivotal role with regard to the construction of common understandings that represent meanings, beliefs and symbols.

### 3. Research method

#### 3.1 *Action research as a research methodology*

The aim of this research requires a qualitative and interpretive approach. This approach amounts to an in-depth exploration of the context within which accounting practices take place ([Adams and McNicholas, 2007](#); [Adams and Larrinaga-González, 2007](#); [Correa-Ruiz, 2019](#); [Dey, 2007](#); [Larrinaga and Bebbington, 2001](#)). Specifically, the present study was conducted through the use of an “action research” methodology ([Berg, 2008](#); [Reason and Bradbury, 2012](#)). This methodology “is appropriate when the research question relates to describing an unfolding series of actions over time in a given group, community or organization” ([Coughlan and Coughlan, 2002, p. 227](#)). Action research is, therefore, suitable for investigating the sustainability integration process within the organizational practices of HUB (a fictitious name to ensure the anonymity of the SME in our case study).

The action research approach was originally proposed by Kurt Lewin and his colleagues in the mid-1940s ([Lewin, 1997](#)-original work published 1948-) and was later improved by authors such as [Reason and Bradbury \(2001\)](#), who defined action research as

a participatory, democratic process concerned with developing practical knowledge [... ] that [... ] seeks to bring together action and reflection, theory and practice, in participation with others, in the pursuit of practical solutions to issues of pressing concern to people. (p. 1)

The utility of this methodology has been proven in the field of social and environmental research ([Adams and McNicholas, 2007](#); [Massa et al., 2015](#)). The main difference between “action research” and the classical “case-study research” is that the second is less interventionist, as it is more focused on studying something that is happening, without significant intervention. However, “action research” is a research methodology in which the researcher sets out to change something in the field of study through direct experimentation with the issues under study ([Reason and Bradbury, 2001, 2012](#)). Thus, the engagement and the interactions with different actors related to accounting issues means that “both the researchers and practitioners [... ] gain knowledge through participation in the project” ([Adams and McNicholas, 2007, p. 387](#)).



### 3.2 *Data sources and method of analysis*

The principal researcher of this paper collaborated with HUB over the financial year 2016–2017, assisting the organization with the preparation of its first sustainability report. HUB is a private Italian SME in the waste sector that manages six of the seven landfill sites in the region, making it one of the most important Italian companies within the waste industry. The collaboration with the HUB was as a CSR academic expert from September 2016 until February 2018. However, the analysis is focused on an extended period: between the start of the sustainability integration process in accounting practices at a corporate level (2015) and the publication of its second sustainability report (2018). Moreover, an extended analysis (since 2010) of the organizational and institutional context of HUB is conducted for a clear understanding of the case study, as references are made to events both before and after the above-mentioned research period within the company (Figure 1).

The privilege of such close engagement with the company offered an opportunity to gain first-hand knowledge and experience of the sustainability integration process. In particular, the principal researcher worked with the environmental manager and the vice-president of the company who was, at the same time, responsible for company communication in the process of company involvement in SER and the preparation of the first two HUB sustainability reports.

The most important source of data was from the direct involvement of the researcher with the HUB. The researcher took written notes on the themes and issues raised at the board meetings and the corporate events that she attended (Meyer, 2000), and recorded observations (Meyer, 2000) of the day-to-day operation of the company (both visual observations and from e-mails and phone calls). A further data source was the analysis of the documents that were facilitated to the researchers as part of the investigation process, in keeping with the action research approach (Adams and McNicholas, 2007; Meyer, 2000). The main documents under analysis were the reports published by the company and other documents posted on the company web site of relevance for a better understanding of the organizational context.

Following previous action research studies, the information gathered was periodically submitted to the following phases: “feeding data back to practitioners, analyzing data, planning action, taking action and evaluation, leading to further data gathering, etc” (Adams and McNicholas, 2007, p. 387). Identifying the essential information in memos was fundamental for the analysis of the key topics and discussion of the results between the researchers. Also in keeping with action research, the analysis took place outside HUB “to ensure we could maintain a more objective perspective on the company and avoid any influence from within the company” (Massa *et al.*, 2015, p. 71).

#### 4. Implementation of sustainability in HUB accounting practices

It was, first of all, necessary to explore the institutional and organizational context of the HUB, to examine the sustainability implementation process within its accounting practices (Contrafatto, 2014). As institutional research has pointed out, the characteristics of the context can enable or complicate involvement in sustainability reporting (Contrafatto *et al.*, 2019) and, as a result, the dynamics and the processes of implementation (in this case the implementation of sustainability) will be context-dependent (Modell, 2014). An analysis of the context in which HUB operates is, therefore, provided in the following section.

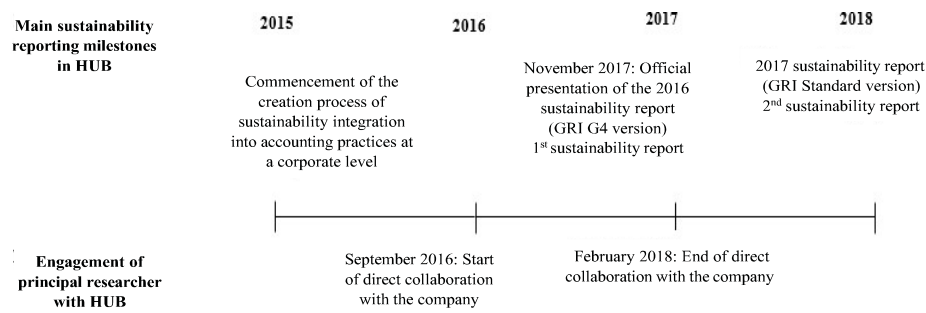


Figure 1. Timeline of the engagement with HUB

##### 4.1 The HUB context

In the first five years of the new Millennium, SMEs expressed greater interest in environmental issues (IFAC, 2014). At the outset, SER was considered to be a corporate practice rule in the largest firms, although these accounting practices started to emerge among SMEs in response to ethical, social and environmental concerns over the performance of firms within society (Arena and Azzone, 2012). Specifically, the waste sector in which HUB operates is a very sensitive sector, considering the Italian waste management crisis and its connected scandals. The waste crisis that engulfed Naples in the 1990s and most recently Rome focused global media attention on Italy: the piles of rotting rubbish shown on the televisions and newspapers highlighted both an ecological and a political waste-management disaster (Pasotti, 2010) [3]. As a result of this disaster, companies in the waste-management sector began to turn their attention toward the environmental aspects of their activities. From a theoretical perspective, these negative events and scandals harmed both the credibility and the reputation of the organizations, jolting them into recognition of the need to rethink and to reconstitute their corporate image (Larrinaga and

[Bebbington, 2001](#)). The initial response of the HUB was the production of its first environmental report in 2010.

Added to the macro context of HUB described above, normative pressures emerged, among which the proliferation and the diffusion of innovative standards such as eco- management and audit scheme (EMAS) for sustainability accounting within SMEs (EMAS) and guidelines such as GRI, of special importance for larger firms ([Higgins and Larrinaga, 2014](#)). They fed the need to manage the impact of SMEs within society and for monitoring it through reporting standards ([GRI, 2013](#)). Some years later, in 2015, the United Nations Agenda 2030 reinforced the presence of sustainability on the agenda of organizations ([United Nations, 2015a](#)). Agenda 2030 stated 17 objectives and 169 goals to which 193 governments worldwide subscribed at its launch in 2015. It has defined global aspirations and renovates a long-term value creation model ([United Nations, 2015b](#)).

From a normative perspective, the legal obligations, in the Italian context, of the Dlgs. The 254/2016 [4] on the disclosure of non-financial and diversity information in the management reports of large public interest entities, reinforced company awareness of the need to integrate sustainability, by re-structuring their accounting practices and systems. The decree is the Italian transposition of European Directive 2014/95/EU and is part of the global sustainability project through which the SDGs were launched, in concert with 190 countries, “to facilitate a practical approach to the global sustainability challenge” ([GRI, 2016](#), p. 4, emphasis added). The decree is, at present, only mandatory for companies that either has a balance sheet total of over e20m or have a net turnover of more than e40m, with least 500 employees. HUB was, therefore, not obliged to comply with the decree. Even so, its entry into force represented an indirect pressure (and inertia) to report non-financial information.

In addition to the contextual analysis of the macro frame in which HUB operated, the organizational context between 2010 and 2016 and its background also provided fertile ground for gaining an understanding of the wish of the company to embark on a new integrated way of monitoring and communicating its performances. The direct involvement of HUB in the aforementioned scandals that affected the waste sector was twofold: the first consisted of two judicial inquiries over corruption and illegal waste disposal, the second concerned the irregular treatment of “fuel pellets.” These scandals harmed both the image and the credibility of the company, including activities to restore its image and credibility such as social and environmental accounting and SER reporting. The report was prepared in m2016 and published in 2017. It was a very important event, considering the low levels of SER implementation among SMEs in comparison with larger companies ([Agostini et al., 2018](#)). In October 2018, the company was completely acquitted of all previous charges.

The above-mentioned institutional and organizational context provided the necessary impetus for the HUB to recognize the need to integrate sustainability accounting practices. An analysis is provided in the following section that is structured around the two main phases identified in the implementation of sustainability reporting in the accounting practices of HUB. The first phase was the involvement of the HUB in social and environmental accounting in 2015 until the publication of its first sustainability report in November 2017. The second phase involved the initiation and the diffusion of SER (November 2017–November 2018).

#### 4.2 *First phase*

The involvement of HUB in social and environmental accounting began to gain strength in September 2015, when the Italian Government, among others, became a signatory to the UN initiative, Agenda 2030. As mentioned in the context analysis section, during the research period, the implementation of SDGs, on the one hand, represented an opportunity for business-led solutions and innovations. On the other hand, it required an overarching framework “to shape, steer, measure and report the value created through business objectives, initiatives and performances” (Busco *et al.*, 2018, p. 1). An urgency that was perceived by the HUB and expressed by the environmental manager:

SDGs are something that organizations, both large and small, can no longer ignore. It is necessary to understand whether enough is being done to achieve them and what actions to take to provide a concrete contribution.

The first results of HUB involvement in social and environmental accounting appeared in November 2017, with the official presentation of its first sustainability report, drafted in accordance with the GRI G4 guidelines at the “core” level. The core option was congruent with the fact that it was the first report published by the company, and the HUB sought to concentrate its efforts on the core points in this first edition. The report communicated the environmental, social and economic performance over the 2016/2017 financial year, as a result of different intra-organizational processes and dynamics.

The journey started in the 2016 year when the Vice-President, at the same time, one of the corporate owners and Communication Heads, considering the macro context of HUB and internal organizational issues relating to environmental aspects, decided to invest in the twin processes of social and environmental accounting and SER. As the Vice-President expressed during an initial meeting with the principal researcher of this paper:

HUB is a company that has an intrinsic vocation to do business in a sustainable way. This vocation is expressed through numerous actions and choices that we make every day, but

that is not, at present, systematically organized, measured and reported and for which reason remain invisible to the eyes of our external stakeholders and sometimes the internal ones too.

From an institutional theoretical perspective (Scott, 1995), this context facilitated and pressed for the implementation of SER in HUB. Even though SER might have represented an intrinsic goal for HUB, it appeared at the same time as a necessity, which is a constraint from an institutional theoretical perspective. Thus, the Vice-President, in one of the meetings with the principal researcher, affirmed that the:

the necessity to create an accounting system in which to elaborate and to evaluate financial, environmental, social and governance performance and to translate such efforts into a unique document that brings together material aspects of the company strategy in terms of long term value creation, supporting, in turn, the decision-making process and stakeholder-oriented actions.

Although this “a priori” need might have been represented as a constraint from an institutional point of view, the wish and the impetus of HUB, especially through its Vice- President, appeared propitious to surmounting this potential constraint.

In terms of [Berger and Luckmann \(1966\)](#), the Vice-President acted to promote SER in the company and, as in the case of [Contrafatto \(2014, p. 421\)](#), this idea “was constructed, produced and reproduced in social interactions between members within the organization.” Thus, the Vice-president explained that “this corporate communication system necessity, was communicated to the president and the CEO of HUB, who understood the importance of SER.” The three executives, therefore, agreed to organize a dedicated meeting with the Board of Directors and the Management Teams, to share the reasons, the meaning and the future of this integrated approach to sustainability that was to guide the company from then on.

The steps that the Vice-President followed led him to assume a fundamental role, which was likewise facilitated and affected by a set of factors that, as in the case of [Contrafatto \(2014, p. 421; Scott, 1995\)](#), “provided the necessary resources for individuals to act.”

The first was connected to its particular “multi-role” figure in the company, a common role in the SMEs under analysis: the Vice-President also held the position of Public Relations and Communication Unit Manager. A role that meant active involvement in the business communication activities, in relation to both the Quality, Environment and Ethic (QEE) function and the human resource (HR) function. Over time, the Vice-President noted numerous company activities of relevance to sustainability reporting: monitoring and control of environmental

impact; local communities and the territorial reality; employee care schemes in terms of training, health and remuneration and diversity balance; internal consumption of sensitive resources such as water, energy and papers; and atmospheric emissions. This involvement at the same time allowed him to note inadequate connections and communications between the various organizational activities because they were not included within an acceptable comprehensive, integrated and inclusive accounting approach.

A second element was the awareness that sustainable accounting principles were, in some way, already aligned with existing organizational processes and performance. In this sense, HUB structured the QEE department under the direction of an environmental engineer, in 2004, that actively worked to implement and to report on environmental and social issues. In that same year, ISO9001 (Quality Management System), ISO14001 (Environmental Management) and OHSAS 18001 (Occupational Health and Safety Management) certifications were approved and in 2008, the SA8000 (Social Accountability Accreditation Services) certification. As of 2010, the environmental reports were drafted in accordance with the EMAS. In March 2017, the HUB report won the “EMAS Italia 2017” award for the “best environmental report in terms of communication effectiveness” and for having “better interpreted and applied the inspiring principles of the European scheme.” Those previous results, according to the Vice-President, were a testimony to “the real commitment that HUB assumed toward its stakeholder [emphasis added].”

The third key element was connected to a competitive attitude of HUB, and at the same time, the absence of a clear rationale on SER. This fact was translated into continuous monitoring with respect to the other SMEs, even in regard to some large companies that HUB considered exemplary. An attitude that results in the imitation (a mimetic mechanism) of the practices that are developed within an organizational field ([DiMaggio and Powell, 1991](#)) and that have influenced the development of a sustainable accounting viewpoint ([Adams and McNicholas, 2007](#); [Contrafatto, 2014](#)).

As commented earlier, the Vice-President acted as a promoter of SER, opening the way toward the construction of a new accounting system and its implementation.

The challenge of integrating sustainability in the accounting system, apart from having to be in line with the current and the planned strategy of an organization, requires strong individual support to give it the necessary legitimation (through the various factors commented on above) and charisma to bring the company to the new paradigm ([Contrafatto, 2014](#)). The merit of the Vice-President was in an ability to understand and to harness the “strategic leverage” of sustainability reporting from an institutional context and to translate it into an organizational discourse in a way that was comprehensible and in line with the

mission of the company.

In that regard, the Vice-President, with the support of the two strategic departments (QEE and HR departments), played a crucial role, in terms of promoting the process of incorporating the institutional rules and facilitating their comprehension within the organization (Larrinaga and Bebbington, 2001). Throughout this journey, an important factor was continuous communication between the Vice-President and the functional units involved in the project, with the supervision and the support of the principal researcher, for the diffusion and the comprehension of such new concepts and views. In this way, the concept of sustainable accounting assumed a mythical symbolism, increasing its relevance for those involved (Contrafatto, 2014; Meyer and Rowan, 1991).

#### 4.3 *Second phase*

The primary phase of creation and internalization of the integrated accounting view officially came to an end with the publication of the first sustainability report in November 2017. The document and the accounting practices represented the first structured attempt to account for HUB performance and to disclose it in an integrated way.

HUB started the re-organization, planning and preparation of its second sustainability report in June 2017: clearly expressed during the official presentation of the report by the environmental manager:

[...] the first Sustainability Report edition is the primary attempt to disclose the social, environmental and economic performance of HUB with the awareness that a series of limitations that still exist will be faced in the next edition of the report [...].

What emerged from the process was the way the concept of sustainability reporting was constructed and established within the organization, not only intended as a series of the annual outcome but also as a continuous process through its practical implementation and well-communicated sets of rules and routines within the organization, which is consistent with Contrafatto (2014)'s findings. This process of diffusion was supported by contextual and intra-organizational elements.

As commented in the context analysis section, during the research period, Dlgs. The 254/ 2016 was published (end of December 2016) and entered into force on January 25, 2017. This decree was of significant influence for HUB, even though the company was not obliged to comply with it because the pressure exerted by the growing uptake of sustainability reporting within a business, the relevance of ESG information for investors, and, their stock- market repercussions, all



convinced the company of the importance and the need to start building an integrated organizational accounting system. The entry into force of this decree definitively reinforced the likelihood of future legislation on the integration of sustainability in the organizational accounting system, as the HUB Vice-President pointed out:

what today is mandatory for the largest companies, will, in the not too distant future, also be required from small and medium firms.

Regarding the intra-organizational aspects, the process of diffusion was first facilitated by the creation of a dedicated sustainability team that included the managers responsible for data gathering and principal researchers acting as the external advisor. The QQE and HR units were extended to the Administrative and Finance department and the Quality, Health and Safety Unit. The role of the team was to continue managing, accounting for and reporting on the integrated performance of the company and to improve the accounting system. The institution of a dedicated division was perceived as “symbolic,” because it recognized that the job had to be done and cast light on the importance of the reporting activity that was performed.

Moreover, the practice of observing the behaviors of other peers became more frequent during this second phase, particularly in relation to the communication strategies adopted by HUB’s competitors in terms of Web-based instruments, use of social media and stakeholder engagement tools. In detail, the actions consisted of the creation of a dedicated “sustainability page” within the corporate web site, a new company slot, based on sustainability commitment and stakeholder relations and more frequent interaction within the social-media community. Therefore, unlike the findings of [Contrafatto \(2014\)](#) at the stage of diffusion, we simply found (again, as in the first phase of analysis) a sort of mimetic approach, but not a critical “process of imitation of others.” A plausible explanation of this difference was that SMEs are in more of an embryonic stage of implementing SER compared to larger companies and still have insufficient experience to undertake this type of critical examination.

A normative pressure ([Scott, 1995](#)) exerted by the GRI for the passage from the standard adoption ([GRI, 2016](#)) to the latest GRI G4 option also affected the sustainability accounting practices structured by HUB. The GRI standard adoption was published in 2016 and since July 2018 companies or organizations wishing to be recognized as companies that publish under the GRI framework must use the latest version ([GRI, 2018](#)). As in the case of the large firm that [Contrafatto \(2014, p. 424\)](#) studied, the “guidelines adopted by [in our case, HUB] represented the rules which were formally established to guide actions.” The field notes from this research suggested that adoption of the GRI Standard represented an opportunity for improving the SER process. For example, the GRI Standard option “presents a more modular scheme to organize the indicators, so if in the future we were affected by the Directive, it would be easier to adapt to the new

requirements” (the principal researcher).

However, the adoption of the GRI standard made no change (and, in anything, reinforced) the previously developed sustainability accounting view. This observation is consistent with the fact that GRI organization and different public platforms on CSR clarified that “the new standards are not a GRI G5, no new topics have been added and the key concepts of the GRI G4 remain” (Comunicarse, 2016). Thus, HUB continued to work, as with the G4 version, on the identification of the material aspects through the involvement of stakeholders, but a significant difference was that for the preparation of the second version of the report, a more representative panel of stakeholders was selected (top managers and employees, suppliers, local community and institutions) and the process of data collection becomes more consolidated. Consistent with the findings of Contrafatto (2014), the implementation of new rules (a new version of reporting standards) determined the emergence of specific and ever more sophisticated routines (Burns and Scapens, 2000). These dynamics mean that everybody involved in the reporting process will act in accordance with common rules.

## 5. Integrated thinking rooted in HUB culture

The findings of this study are relevant for this special issue, due to the incorporation of sustainability reporting on organizational procedures, which can offer new viewpoints on the integrated thinking black box. Along these lines, the results that emerged in the preceding section are in agreement with those of Al-Htaybat and von Alberti-Alhtaybat (2018), in so far as planting the seeds of organizational integrated thinking, catalyzed by the incorporation of sustainability reporting on organizational procedures, is rooted in organizational culture prior to the momentum of the IIRC framework and the push toward IR. In this section, we portrayed the clearest evidence of Section 4 on the presence of integrated thinking in HUB organizational culture. To that end, we considered the main steps toward integrated thinking [5], identified by the internationally recognized *Accounting for Sustainability Association* (A4S) [6], championing key transformational development including integrated reporting <IR> and the UN SDGs and we analyzed their presence within HUB (Table 1).

Based on the results of Table 1, this investigation has, on the one hand, confirmed the emancipatory potential of integrated reporting and thinking from IIRC. Firms were aware of “integrated thinking” as a conceptual myth for the organization (Gibassier *et al.*, 2018), beyond any specific attempt to capture it through as IIRC framework. The company under analysis does not apply the IIRC but shows evidence of integrated thinking (Table 1).

Besides the above questions, it is important to point out the idea that IR guidelines follow a

“principles-based” approach (Haller and Staden, 2014), in very general and conceptual terms; the IIRC neither makes an instrumental proposal in the same way as GRI nor suggests specific data for disclosure. Could the high level of guidance of GRI be facilitating forms of “integrated thinking?” A related issue is a fact that a growing number of GRI-reporting organizations were self-declared as integrated by the reporting organization (GRI, 2020).

## 6. Conclusions and final remarks

The process of sustainability integration within organizational practices still needs to be further explored (Contrafatto, 2011, 2014; O’Dwyer and Unerman, 2016), especially in the case of SMEs (Massa *et al.*, 2015), due in part to the relatively recent consideration of sustainability among SMEs. Drawing on the insightful contributions of Contrafatto (2014) and his development of the institutional theoretical framework, an in-depth and qualitative exploration (through action research) of the implementation of sustainability reporting and the emergence of integrated thinking in an Italian SME has been presented in this paper, as a response to environmental, social and governmental issues, contributing to the survival and the growth of the company over time.

The paper has revealed two main phases involved in the implementation of sustainability reporting in the SME under analysis:

- initiating sustainability integration in accounting practices; and
- the first stages of diffusion of SER practices.

These phases show how different factors act together in the initiation of sustainability integration within the accounting system and the way this process is internalized within the organizational environment, introducing sustainability and accountability concepts in practices and routines. Our findings suggest that regulative, normative and cognitive factors are contributing to the institutionalization of a sustainable accounting system among the SEM analyzed in this research. The extent to which they shape managerial decision-making, to undertake a sustainable integrated process, will depend on different organization dynamics. Consistent with previous studies on social and environmental accounting (Bebbington *et al.*, 2009; Contrafatto, 2014), the appropriateness of the institutional and organizational context helped the SER implementation process.

Overall, the insights offered by this research look into the institutionalization process of a new organizational practice during the relatively early stages of the reporting process in SMEs. Due to the period of time under analysis, our evidence is insufficient to affirm that the institutionalization process has finished (unlike Contrafatto, 2014, who analyzed a longer period

than even revealed evidence of reinforcement of SER). We have, however, documented the way that sustainability started to be implemented and was progressively embedded in the accounting practices of HUB.

Evidence has also been provided to confirm the existence of an alternate narrative, to the one in the IIRC framework. In this sense, the idea of integrated thinking is rooted in organizational culture and is not a direct consequence of the application of an IIRC framework (HUB follows the GRI guidelines).

All these findings have important practical implications, one of them is related to the fact that non-financial regulation is currently evolving and the likelihood is that the reporting of non-financial information will be mandatory for SMEs over the coming years. In that respect, the results have highlighted the relevance of the existence of a commitment toward sustainability among SMEs that could facilitate the implementation of a potential regulatory requirement.

Recent affirmations of the [European Union \(2018\)](#) have also highlighted that “although SMEs may have fewer resources to commit to a grand CSR image or sustainability reports, they are awarded the opportunity for more strategic and integrated approaches to CSR” (p. 17).

Finally, it should be highlighted that the present study has set a precedent for future studies to deepen our understanding of the way SMEs can integrate sustainability into their accounting systems. It could be of interest for future studies to explore this question in other contexts, for example, in settings with a different approach to CSR. Italy is a common-law and stakeholder-oriented country. In such countries, companies are under more institutional pressure to consider sustainability reporting than in countries such as the USA, which are more shareholder-oriented ([Kolk and Perego, 2010](#)). Another limitation of the analysis is its focus on a single company. As such, a future avenue of research will be the extension of this study to multiple case studies in other Italian (or European) SMEs.

## Notes

1. Directive 2014/95/EU of the European Parliament and of the Council of October 22, 2014, amending Directive 2013/34/EU as regard disclosure of non-financial and diversity information by certain large undertakings and groups.
2. A detailed review of these neo-institutional theoretical concepts is beyond the scope of this paper. For a more detailed review of concepts see, [Contrafatto \(2014\)](#) and others studies such as [Bebbington \*et al.\* \(2009\)](#) and [Higgins and Larrinaga \(2014\)](#), in the field of social and environmental accounting; and seminal pieces of institutional research such as [Berger and](#)

Luckmann (1966), DiMaggio and Powell (1983, 1991) and Scott (1995).

3. This disaster partially explained by the 1980s legislation governing waste management led to no criminal charges, offering the opportunity to trigger a criminal collusion “between politicians, industrial entrepreneurs and organised crime” (Pasotti, 2010, p. 292).

4. LEGISLATIVE DECREE December 30, 2016, n. 254. In transposition of Directive 2014/95/EU of the European Parliament and of the Council of October 22, 2014, amending Directive 2013/34/EU as regard disclosure of non-financial and diversity information by certain large undertakings and groups Text with EEA relevance. (17G00002) (GU Serie Generale n.7 del 10-01-2017).

5. “10 main steps to integrated thinking,” available at: [www.accountingforsustainability.org/embedding-sustainability/10-main-elements-to-embed-sustainability](http://www.accountingforsustainability.org/embedding-sustainability/10-main-elements-to-embed-sustainability) (accessed May 1, 2020).

6. “A4S aims,” available at: [www.accountingforsustainability.org/en/about-us/overview.html](http://www.accountingforsustainability.org/en/about-us/overview.html) (accessed May 1, 2020).

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