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### Through the looking glass

*The emergence, evolution and embedding of sustainability accounting in a family business*

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# Chapter 1: Introduction

*They've communicated on the environment and sustainability quite poorly, they had a lot to talk about and a very, very good story to tell over the years and a genuine story to tell as opposed to a media story and they haven't done it and I don't know if they ever will. (I2, R1)<sup>1</sup>*

A rapidly increasing number of corporations claim that they are integrating sustainability<sup>2</sup> concerns into their strategic and operational decision-making processes (Thomas and Lamm, 2012) and are producing sustainability-related accounts and narratives (Gray, 2010). However, internally legitimating and embedding new sustainability activities (including sustainability accounting<sup>3</sup>) within an organisation is a challenging, complex and under-researched process (Thomas & Lamm, 2012; Frandsen et al., 2013; Contrafatto, 2014). Organisational members such as employees, managers, and directors evaluate the legitimacy of new organisational activities (Drori & Honig, 2013; Elsbach, 1994; Maclean & Behnam,

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<sup>1</sup> Denotes interviewee one, round one of the interviews undertaken for this study. A description of the interviewees and their related codes is contained in Appendix B.

<sup>2</sup> Sustainability within this study is considered at an organisational level and is broadly defined as “actions that organisations might undertake in accordance with the principles of sustainable development.” (Bebbington and Larrinaga, 2014, p. 396). These actions can be seen to fall along a continuum, reflecting a weak or strong approach to sustainability. Weak sustainability is concerned with a pragmatic and restrictive business case rationale for sustainability, with actions limited to win-win opportunities such as eco-efficiency and design for the environment (Thomas and Lamm, 2012; Thomson et al., 2014). Strong organisational sustainability would “require firms to operate individually and collectively in such a manner that the planet’s carrying capacity is not exceeded ... Overall value creation would be the over-riding imperative even if substantial portions of that value were in the form of social and environmental capital (i.e., positive externalities)” (Thomas and Lamm, 2012, p. 194).

<sup>3</sup> The phrases *accounting for sustainability* or *sustainability accounting* are used here as broad terms to encompass accounts or narratives of business sustainability (Gray, 2010) that may be produced for either external or internal audiences. This type of accounting includes carbon accounting, corporate social reporting, corporate environmental reporting, corporate sustainability reporting, environmental management accounting, energy costing, full-cost accounting, shadow accounts, biodiversity audits and the sustainable balanced scorecard (Bouten and Hoozée 2013; Thomson et al., 2014). Sustainability-related information for external audiences can be published through a variety of channels including corporations’ annual reports, standalone reports or websites.

2010; Ruef & Scott, 1998). These internal legitimacy evaluations affect their level of commitment to, and active support of these activities (Weaver et al, 1999; Maclean & Behnam, 2010). Gaining internal or member-ascribed legitimacy (Brown & Toyoki, 2013) is crucial to the embedding of a new set of activities or programme within an organisation (Weaver et al., 1999; Human & Provan, 2000; Basu & Palazzo, 2008; Maclean & Behnam, 2010; Thomas & Lamm, 2012). However, new organisational activities or programmes<sup>4</sup> often face a deficit of legitimacy (Aldrich & Fiol, 1994; Bridwell-Mitchell and Mezas, 2012). The legitimacy deficit of a new programme is particularly acute where the programme has few precedents, its objectives are unconventional or contested, and the technologies being used or the outcomes of the programme are uncertain or risky (Aldrich & Fiol, 1994; Suchman, 1995; Golant & Sillince, 2007). Given the complex, multi-levelled and contested nature of sustainability and accounting for sustainability (Gray, 2010), new corporate sustainability programmes are likely to be susceptible to internal legitimacy deficits. The main aim of this study is to develop an empirical and theoretical understanding of how and why a sustainability programme, including environmental management accounting and sustainability reporting, emerged, evolved and became partially embedded within a large commercial organisation. More specifically, it aims to provide an understanding of the interplay between different aspects of the sustainability programme and the interactions between the programme and the organisation's internal legitimation process.

The organisation in question, the CC Group<sup>5</sup>, is a large, Irish, family-owned group of companies operating in a fast moving consumer goods (FMCG) industry. This research, based on a longitudinal case study, traces the emergence and development of the Group's sustainability activities between 1998 and 2012. The Group started to develop its environmental management system, including environmental management accounting

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<sup>4</sup> For purposes of this study an organisational programme or process is viewed as a set of organisational activities related to a particular function or objective of the organisation (Maclean and Behnam, 2010). In the case of the CC Group's sustainability programme, these activities include the day-to-day environmental management, environmental management accounting, CSR activities and external sustainability reporting.

<sup>5</sup> The case company has been anonymised at the discretion of the researcher with the aim of protecting the anonymity of the interviewees and is referred to as the CC Group or the Group.

practices, in 1998 and published its first standalone environmental report several years later. It had no existing expertise in this area and there were few precedents (in an Irish context) to follow. Engaging with environmental management involved new technologies (at least to the Group) and the outcomes were perceived as uncertain and risky by senior members of the CC Group. There was little active internal support for the new activities: “it just did not interest anyone” (I6, R1). However, over time active internal support for the environmental management system grew and it became embedded and diffused throughout the CC Group. It was aligned with the company’s long-standing corporate social responsibility (CSR) activities, and a coherent sustainability programme emerged. This process is now seen as part of the Group’s DNA and has weathered the recent economic crisis in Ireland largely unscathed. As part of this overall sustainability programme, environmental management accounting has become embedded within the Group. However, as the sustainability programme garnered internal support, backing for independently assured external sustainability reporting faded considerably.

This chapter introduces the research objectives, theoretical framework and research method for the study in Sections 1.1 to 1.3 respectively. This is followed by a discussion of the research contributions in Section 1.4 and an overview of the thesis structure in the final section.

## **1.1 Research Intent and Questions**

The study, from its outset, was motivated by a core, open-ended research intent (Berry and Otley, 2004, p. 235) to evidence, understand and explain the emergence, evolution and embedding of a sustainability programme within the CC Group. Stemming from this, the study addresses the following research questions related to the CC group:

1. Why and how did an environmental management system emerge and evolve between 1998 and 2003?
2. Why and how did a sustainability programme evolve and embed between 2003 and 2012?
3. Why and how did external sustainability reporting grow and subsequently decline between 2001 and 2012?

These research questions are addressed by tracing the emergence, evolution and embedding of these activities and programme within the CC Group between 1998 and 2012.

## **1.2 Theoretical Framework**

The study mobilises two theoretical concepts – organisational identity (OI) and internal programme legitimacy. For the purpose of this study organisational identity is conceived as encompassing: a set of ‘identity claims’; an enacted identity; and ongoing ‘identity work’ to establish or maintain the identity claims. *Identity claims* are statements about an organisation’s core, enduring and distinctive characteristics. *Enacted organisational identity* consists of the claims employed by an organisation in social interaction and can vary over time and with the audience and organisation member involved. *Identity work* is concerned with the ongoing maintenance, reconstruction or regulation of organisational identity in mature organisations (Gioia et al., 2010; Pratt, 2012). Internal programme legitimacy is seen as an ongoing set of individual and social processes that manifests in an apparent collective acceptance by organisation members that an organisational programme is, to some extent, desirable, proper or appropriate within the organisation’s framework of norms, values and beliefs. Using these concepts, the study seeks to evidence, understand and explain the emergence of new organisational activities and their evolution into a new organisational programme in the CC Group between 1998 and 2012.

Organisational identity is an important construct in understanding the direction and persistence of both individual and organisational action (see, for example, Dutton and Dukerich, 1991; Gioia and Chittipeddi, 1991; Gioia and Thomas, 1996; Albert et al., 2000; Ravasi and Schultz, 2006; Brickson, 2007; Nag et al., 2007; Basu and Palazzo, 2008). Organisational identity claims can be used by organisation members to filter and respond to internal or external issues (Dutton and Dukerich, 1991; Dutton et al., 1994). In conjunction with this, OI work can be used to relate the new process to “who we are, who we have been and who we wish to become” as an organisation. This can be highly motivating for organisation members (Gioia et al., 2000; Gioia and Patvardham, 2012; Pratt, 2012; Kodeih and Greenwood, 2014). In addition, organisational identity work is consequential in that it can make certain courses of action seem more plausible, justified or acceptable (Mueller and Whittle, 2012). Internal legitimacy also has an important role to play in the acceptance of new activities and processes within an individual organisation. Internal organisation members

(directors, managers and employees) make their own legitimacy evaluations about their organisation and its activities that affect their level of commitment to that organisation or activity (Elsbach, 1994; Ruef and Scott, 1998, p. 880). Recent work suggests that there are overlaps between the two concepts which should be considered when seeking to understand how new organisational activities evolve and embed (Bridwell-Mitchell and Mezas, 2012; Brown and Toyoki, 2013). Thus, both organisational identity and internal programme legitimacy are mobilised within this study as part of an interpretive guide to capture and understand how a new (sustainability) programme unfolds within an organisation.

### **1.3 Research Methods**

The study adopts an interpretive approach to examine the emergence of the sustainability programme over time within a specific organisational context. Interpretivist research seeks to “keep a holistic focus, emphasising cases ... as complex entities and stresses the importance of context” (Della Porta and Keating, 2008, p.30). The research process for the study employed qualitative methods as part of an open-ended longitudinal inquiry with the objective of obtaining rich, detailed and evocative data (Edmondson and McManus, 2007) to provide insight into the CC Group’s engagement with sustainability. This iterative approach to research design, data collection and analysis, and to developing the theoretical grounding for the study, supported the project’s initially open-ended research intent and broad aim of understanding how the CC Group’s engagement had unfolded (Edmondson and McManus, 2007). The primary data sources for the case study were 27 semi-structured interviews carried out with a range of organisation members and closely connected stakeholders (family directors and retailers) and the sustainability reports published between 2001 and 2012. These were supplemented by additional documentary analysis and field visits.

The external sustainability reports provided a formal narrative that explained the company’s motivations for engaging with sustainability and a chronicle of events (Pentland, 1999). The reports were viewed as one source of narrative about the sustainability programme and one that could provide only limited insight into the organisational context within which the programme had emerged and developed. The group members were viewed as knowledgeable agents who could explain their actions, experiences, thoughts and intentions and provide retrospective and real-time narratives of the emergence and evolution of the sustainability programme, their perceptions of the process and their broader perceptions of the CC Group

(Gioia et al., 2012). The analysis, interpretation and theorisation of these two primary sources of data aims to provide a rich and context-specific understanding of the development of CC Group's sustainability programme.

#### **1.4 Research Contributions**

This research makes a number of empirical and theoretical contributions to the literature on organisational sustainability and accounting for sustainability. Firstly, the study provides a holistic and longitudinal view of the development of a sustainability programme and related accounting within a family-owned company. In doing so, the study adds to our understanding of *why* and *how* these activities emerge, evolve and become (partially) embedded within an organisation. In considering *why* environmental management accounting and voluntary external sustainability reporting emerged, the study adds to the small but growing body of literature (Bebbington et al. 2009 and Lodhia and Jacobs 2013; Contrafatto 2014; Belal and Owen, 2015) that provides a more detailed, complete and nuanced view of the motives for this type of accounting and reporting (O'Dwyer, 2002). It therefore responds to Hopwood's (2009, p.437) call for detailed case studies exploring the variety of motives implicated in the (non-) production of environmental and sustainability-related accounts.

In addition, only a small number of studies (see, for example, O'Dwyer, 2005a; Contrafatto, 2014; Belal and Owen, 2015) have explicitly focused on *how* accounting for sustainability develops in specific organisational contexts. Yet, studies of this kind are necessary to understand and evaluate the potential of this type of accounting, and accounting in a wider sense, to promote transformative change in our ways of thinking and doing business (Contrafatto, 2014). More specifically, this study provides insight into the divergent internal legitimation and evolution of the environmental management accounting system and voluntary, GRI-based sustainability reporting. It demonstrates how, as the sustainability programme developed within the case company, environmental management accounting became an integral part of the environmental management system and later the sustainability programme, but internal support for the external sustainability reporting faded. The study's holistic consideration of the evolution of both environmental management accounting and external reporting as part of the emergence of a sustainability programme represents a significant departure from the prior literature on sustainability accounting. This literature has been criticised for decoupling the accounting narratives about sustainability in external

corporate reports from the organisation's actions or inactions around sustainability (Bebbington and Larrinaga, 2014), and this study responds directly to Contrafatto's (2014) call for more in-depth and sustained research in this area. This study also extends and challenges the work of Belal and Owen (2015) who suggest that voluntary sustainability reporting ceases when it is perceived as conflicting with the fundamental economic interests of the reporting organisation. In contrast, this study's analysis demonstrates that forms of voluntary sustainability reporting can cease even when no such conflict exists.

The study also examines the role played by key participants (an environmental executive within the Group and an external consultant) in the sustainability programme, and in doing so it supports the importance ascribed by Bouten and Hoozée (2013) and Contrafatto (2014) to individual organisational actors in establishing new environmental activities. In addition, the case narrative provides insight into the *nature* of the roles played by the key participants, in seeking legitimation from internal audiences and powerful stakeholders (owners and franchisees) and in (re)evaluating and (re)selecting which activities to actively support themselves.

At a theoretical level, the study advances the limited body of work (especially, Bridwell-Mitchell and Mezias, 2012; Brown and Toyoki, 2013) which has sought to examine the relationship between organisational identity and internal legitimacy. The study supports Bridwell-Mitchell and Mezias' (2012) argument that establishing cognitive legitimacy, in particular comprehensibility, plays a more important role in the emergence and legitimation of new activities *within* an *existing* organisation than previously considered. Moreover, the study highlights the role of individuals' legitimating 'identity talk' (Brown and Toyoki, 2013) as an important mechanism for establishing comprehensibility during the initial or preliminary legitimation of emerging organisational activities. The study also demonstrates how the processes of organisational identity and internal legitimation overlap on an ongoing basis through this mechanism.

## **1.5 Thesis Structure**

The remainder of this thesis is structured over the following 10 chapters.

**Chapter Two**, the literature review, is divided broadly into two sections. The first section considers how sustainability, organisational sustainability and accounting for sustainability are conceptualised. The second section reviews the literature on accounting for sustainability

and provides the foundations for a more in-depth consideration of the emergence, evolution and embedding of sustainability accounting.

**Chapter Three** is focused on the development of the theoretical framework for the study and is divided into three sections. The first section is concerned with discussing how the concept of organisational identity has been defined and understood in the literature and is mobilised for this study. The second section is concerned with how the concept of legitimacy and in particular internal legitimacy and legitimation have been conceptualised in the literature and how they are understood in the context of this research. The third section considers the relationship between organisational identity and internal legitimacy.

**Chapter Four** discusses the research methodology and methods used for the study. The chapter is divided into three sections. The first section contains an overview of the researcher's approach to the research process. The second section discusses the research intent and objectives for the study. The third section provides a detailed account of the methods used in the design, execution, theorisation, interpretation and writing up of the study.

**Chapter Five** is concerned with the broader context of the case organisation and is divided into four sections. The first section provides an overview of the current Irish corporate responsibility landscape. The second section offers an overview of the industry in which the CC Group operates. The third section provides an account of the company's history, current operations and governance, and a synopsis of its engagement with sustainability. The fourth and final section provides an overview of the structure of the case narrative, with the aim of offering a roadmap for the empirical findings in Chapters Six to Nine.

**Chapter Six**, the first of the case narrative chapters, focuses on the CC Group's organisational identity and the ongoing identity work of the group members and family stakeholders. The first section discusses the participants' *identity work*. The second section considers the CC Group's set of *identity claims* and the role of identity work in maintaining these claims. The final section discusses the Group's *enacted identity*.

**Chapter Seven** traces the emergence, evolution and embedding of the environmental management and accounting systems and highlights the relationship between these two activities. It considers the role of the CC Group's organisational identity claims as a filter and

guide for group and family members when deciding to engage with these new activities. It then traces the legitimation and embedding of these activities between 1998 and 2007.

**Chapter Eight** focuses on the emergence of the sustainability programme from 2006 onwards. It traces the alignment of the environmental management system with the CC Group's existing CSR activities and the emergence of an indigenous concept of sustainability. It then focuses on the subsequent legitimation and embedding of the programme between 2003 and 2012.

**Chapter Nine** is focused on the emergence of sustainability reporting in the CC Group. The first section provides an overview of the growth and subsequent decline and cessation of the GRI reports. The second section examines the development of GRI-based external sustainability reporting between 2001 and 2006 and the accompanying (failed) legitimation of these activities. The third section discusses the decline in internal support for sustainability reporting between 2007 and 2012.

An in-depth discussion of the research is contained in **Chapter Ten**, which is divided into two sections. The first section reintroduces the research objectives and discusses how the case narrative addresses each objective. The second section discusses the theoretical implications of the study.

The thesis concludes with a summary of the research findings, the limitations of the study and directions for future research in **Chapter Eleven**.