

EARLY INSIGHTS IN ACCOUNTING FOR THE EU TAXONOMY

**A CASE STUDY ON AN INDUSTRIAL COMPANY'S
RESPONSES AND INTERNAL IMPLICATIONS**

JOHAN ELAM

MATTIAS LÖFVENBERG

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Abstract:

Scholars and practitioners have recently struggled in defining and integrating sustainability. In response, the European Commission enforced the Regulation (EU) 2020/852 in July 2020. Establishing a standard classification tool, defining environmentally sustainable economic activities to relocate financial flows towards low-carbon activities. As such, this study qualitatively examines a multinational industrial's implementation process toward the institutional regulatory pressure through the lens of Oliver's (1991) strategic responses framework. We find that accounting for the EU Taxonomy is not a straightforward process of implementing the external requirements. To seek conformity, the case organization carved out the regulatory definition and responded through acquiescence, normative discussions, compromise, and influence tactics. It finds support from management (sustainability) control systems M(S)CS through cognitive and normative elements in the presence of ambiguity. These findings extend prior literature on strategic responses to institutional pressure, indicating more passive conformity than theoretically suggested. Furthermore, we provide insights and arguments toward mobilizing organizational integration caused by the EU Taxonomy's aggregated structure and impending mandatory reporting requirements, challenging preparers' institutionalized structures requiring cross-functional interaction.

Keywords:

Institutional pressure, management control systems, strategic responses, sustainability reporting, EU Taxonomy

Authors:

Johan Elam (41778)
Mattias Löfvenberg (41793)

Tutors:

Torkel Strömsten, Associate Professor, Department of Accounting

Examiner:

Department of Accounting
Master Thesis

Master Program in Accounting, Valuation & Financial Management
Stockholm School of Economics

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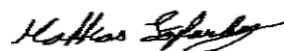
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We assure the thesis has been conducted without any conflict of interest.



Johan Elam



Mattias Löfvenberg

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1. Introduction

The Paris Agreement was signed by 196 parties in 2015 with a long-term goal of limiting global warming to 1.5°C by transitioning into a circular economy with a reduction of greenhouse gases (GHGs) (UN, 2015). New evidence, however, reveals that climate change is impacting every region of our globe at an increasing pace, while the earth's ecosystem is unprecedentedly threatened in multiple ways. Without rapid, large-scale CO₂ reductions, there is an impossibility to limit global temperatures to 2°C by irreversible changes (IPCC, 2021; 2022). Reports echo "*climate action failure*" as the most impactful global long-term risk (World Economic Forum, 2021, p. 8). This phenomenon is jointly tied to the materiality of sustainability, whereas a considerable amount of attention has been drawn. Stemming from an accelerating external pressure, ranging from public interest, investor community (Eccles & Klimenko, 2019), and political pressure, followed by enhanced sustainability reporting standards. Thus, given the increasing external pressure, corporations have adopted sustainability control systems (SCSs) within traditional management control systems (MCSs), which are supportive of strategizing and operationalizing sustainability (Corsi & Arru, 2020; Maas et al., 2016). Considering that sustainability reports are primarily used for external stakeholders, an increasing amount of critical attention has been paid to why and how firms exploit external influence by engaging in symbolic and legitimacy use to appease societal expectations (Aguinis & Glavas, 2012; Burritt & Schaltegger, 2010; Cho et al., 2015; Michelon et al., 2015; 2020).

Considering the above criticism, an abundance of fragmented sustainability frameworks has emerged incorporating divergent perspectives (Baumüller & Sopp, 2021; O'Dwyer & Unerman, 2020). The heterogeneity leads to an alphabet soup of frameworks with incomparability and a lack of real effects toward sustainable development, as first elucidated in the Brundtland Report (Imperatives, 1987). For these reasons, the European Commission took a step further in developing the Regulation (EU) 2020/852 (hereafter referred to as EU Taxonomy), enforced in July 2020.¹ Article 8 of the regulation requires large undertakings of public and listed entities, including financial institutions falling under the scope of the existing 2014/95/EU, Non-Financial Reporting Directive (NFRD). The NFRD is revised within the forthcoming Corporate Sustainability Reporting Directive (CSRD) to disclose accordingly.² This is of interest because the new legislation is consistent with the EU's climate objectives by 2030 and the climate law; European Green Deal, with a comprehensive plan of achieving net-zero emissions by 2050 (Regulation (EU) 2020/852), supporting the transition into a sustainable economy. Aiming to harmonize non-financial reports to reallocate capital flows within the financial markets, is critical for climate change adaption and mitigation (IPCC, 2022). The assigned Technical Expert Group

¹ Please see the current state of Regulation (EU) 2020/852, including amending and supplementing regulation: https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/eu-taxonomy-sustainable-activities_en.

² Text of the proposal for the Corporate Sustainability Reporting Directive (CSRD), please see: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52021PC0189>

on Sustainable Finance defines the EU Taxonomy as “*a tool to help investors, companies, issuers and project promoters navigate the transition to a low-carbon, resilient and resource-efficient economy*” (TEG European Commission, 2020b, p. 2). This common classification system defines corporates’ environmentally sustainable economic activities within a detailed range of thresholds (e.g., TEG European Commission, 2020a). For the fiscal year 2022, obligated organizations are required to report beyond the scope of eligibility as of 2021 by assessing economic activities to disclose Taxonomy-alignment that substantially contribute to at least one out of six environmental objectives outlined in the EU Taxonomy. As well as complying with technical screening criteria, minimum safeguards (social perspective) referred to in Article 18(1) of EU Taxonomy regulation and adhering to the Do No Significant Harm (DNSH) principle. The DNSH principle avoids a negative causal relationship of improvement in low-carbon activities, which negatively affects the remaining objectives. A common referral to the deficiencies in conventional accounting practices relates to overlooking externalities. Even in cases of sustainability reporting standards (e.g., GRI) recognizes flaws with unsubstantial links between global sustainability and firms’ activities, which remains primarily rhetorical (Gray, 2010). These complexities arise because sustainability accounting involves additional dimensions, exceeding entities’ boundaries and property rights (Chapman & Unerman, 2014). Including researchers’ divergent perceptions of defining sustainability, which contributes to the diffusion within the current strand of sustainability accounting (Soderstrom et al., 2017).

However, the EU Taxonomy challenge the present sustainability reporting frameworks by providing a common classification system with a range of economic activities and disclosures focusing on key financial KPIs (revenue, operating, and capital expenditure). This aligns with the Paris Agreement’s goals and the European Green Deal of supporting corporations and redirecting investments within positive externalities. Applying the former EU Directive 2014/95/EU, leads to avoiding unfavourable non-financial information (Caputo et al., 2021). Whether or not regulatory reporting enforcements contribute to corporations’ sustainability integration remains a controversial. Soderstrom et al. (2017) argues that regulatory mandates are not preconditions for effective MCS-SCS integration to spur intrinsic motivation. Additionally, the European accounting context might cause increased compliance costs and practical challenges of adopting new processes and reporting systems within an increasingly complex environment (Baumüller & Sopp, 2021; Corsi & Arru, 2020) and potential unintended consequences (Christensen et al., 2021). Others view environmental reporting legislation as necessary for a sustainable society and sustainability management (Aureli et al., 2020; Cho et al., 2015; Christensen et al., 2021; Imperatives, 1987; Johnstone, 2019) that can affect firm behaviour. Particularly if reporting practices provide management tools, enabling a proactive internal approach (Maas et al., 2016). Within this field of accounting for sustainable development, a growing literature has transitioned on how corporations integrate and manage sustainability strategies within their MCS (Arijalès & Mundy, 2013; Beusch et al., 2021; Corsi & Arru, 2020; Crutzen et al., 2017; Gond et al., 2012; Narayanan & Boyce, 2019). Despite the importance of integration, regulative mandates’ impact on organizational processes is understudied (Christensen et al., 2021). It is suggested that organizations use their MCS and strategically respond to various sustainable institutional

pressures (Aureli et al., 2020; Esteban-Arrea et al., 2022; Wijethilake et al., 2017). Thus far, this emerging accounting, control, and reporting calls for further contributions (Corsi & Arru, 2020). Essentially the implementation and implications of the recently enforced EU Taxonomy (Alessi et al., 2022). Hence, the objective of this study is to address the following research question:

How does an organization respond to institutional pressure following the EU Taxonomy, and how does it influence the MCS and SCS?

This study uses a qualitative case study method to address the research question by exploring a listed multinational industrial corporation in this paper called InduCorp, limited to one business area, InduDiv (pseudonyms to preserve anonymity). The company is obligated to disclose eligible economic activities within the EU Taxonomy for the first reporting year of 2021. 16 semi-structured interviews were primarily held within InduDiv, but also included participants from the Group (InduCorp) involved in preparing the disclosures. In addition, access to internal material, participation in relevant formal and informal meetings, informal conversations, and weekly meetings with an internal supervisor allowed for a broad set of viewpoints and strengthened the understanding of InduDiv. Therefore, we seek to contribute to the research of accounting for sustainable development by theorizing internal responses toward institutional pressure with the application of Oliver's (1991) framework and internal influences. This approach offers practical and theoretical relevance in the emerging, interrelated field of accounting, control, and reporting.

This study addresses recent calls to explore accounting, control, and mandatory non-financial reporting initiatives (Alessi et al., 2022; Corsi & Arru, 2020) and how and why corporations respond to these (Christensen et al., 2020). The paper provides unique insights into how a large industrial corporation implements a new sustainability reporting standard, contributing to our understanding of accounting for sustainable development in two domains. Firstly, this work contributes to the existing knowledge of strategic responses to mandatory sustainability reporting (Aureli et al., 2020; Esteban-Arrea et al., 2022; Wijethilake et al., 2017). By focusing on the rapidly expanding field of mandatory sustainability reports, we shed light on the implementation process inhibiting intersubjective challenges requiring active engagement. Secondly, our study contributes to the management control strand (Arijalès & Mundy, 2013; Beusch et al., 2021; Crutzen et al., 2017; Gond et al., 2012). Emphasizing the structure of the EU Taxonomy framework mobilizes discussions toward organizational integration. It is therefore suggested to support forthcoming TCFD disclosures (e.g., Di Marco et al., 2022), expected to be applied with either or within ISSB and CSRD under the EU Taxonomy, challenging the traditional institutional structures. With this in mind, the findings suggest organizational awareness, acknowledging the interface across functions. Finally, we provide a secondary contribution to Oliver's (1991) theorization.

The remaining study is arranged in the following way. Chapter 2 provides an overview of the current discussion on sustainability integration and reporting for sustainable development, including the interplay between the internal MCS-SCS and sustainability reports. In addition, external and internal method theories with a synthesized theoretical framework are presented.

Chapter 3 presents the research methodology, while Chapter 4 outlines the empirical findings drawn from the theoretical underpinnings. The empirical findings of the internal responses requiring different forms of engagement from the preparer with internal implications are discussed in Chapter 5. Lastly, in Chapter 6 we provide conclusions and offer emerging areas for research.

2. Theoretical Development

In this chapter, we outline the current discussion on sustainability management control and mandatory reporting. Section 2.1 reviews the evolving trend toward mandatory disclosures and explores the domain of MCS-SCS with linkages to sustainability reporting. Section 2.2 identifies a method theory consisting of institutional theory, resource dependency theory and strategic categorization. Subsequently merged into a theoretical framework as a lens to theorize the top-down pressure and bottom-up responses.

2.1 Sustainability Accounting and Reporting: A Review of the Literature

2.1.1 Toward Convergence of Mandatory Sustainability Reporting Standards

As a result of the accelerated interest and necessity of sustainable development, many scholars have researched the broad scholarly field in the last decades. In a comprehensive review, Aguinis & Glavas (2012) explored approximately 600 journals and 100 books on corporate social responsibility (CSR). They found that external stakeholders serve as an accurate predictor of firms' engagement in sustainability actions where institutional forces can lead to symbolic actions rather than real organizational changes.³ While large corporations are indeed more publicly visible, corporate size is found to be the single most consistent and primary internal determinant of adopting sustainability reports (Hahn & Kühnen, 2013). Researchers and practitioners have for long argued for incompleteness and reliable sustainability reporting frameworks. This includes the most widely recognized voluntary standard, the Global Reporting Initiative (GRI) framework, which is found to have limited abilities for enhancing transparency, suggesting that the usage of stand-alone reports acts as a legitimacy device (Michelon et al., 2015). In a similar critical vein, researchers extended the signaling and legitimacy theory through the lens of organized hypocrisy, Cho et al. (2015) empirically explores talk and practice among two large corporations. Contrary to decoupling among talk and practice, they argue that the relationship is counter-coupled with a reverse outcome of talk or decision resulting in firms engaging in organized hypocrisy across; rational, progressive, and reputation facades to cope with increasingly external and normative conflicting pressures that may occur unintendedly. For example, establishing a progressive façade through adhering to sustainability disclosures supports stakeholder demands without a correspondent fundamental change in corporate practices (Cho et al., 2015).

In response to the present demand of accounting for sustainable development with real organizational changes. A growing field of research takes a constructive strand of viewpoint by engaging with policymakers and corporate activities in identifying less unsustainable activities toward sustainable development (Chapman & Unerman 2014). Seeking to address such issues, different frameworks within sustainability disclosures among regulatory bodies have emerged

³ CSR and sustainability are often used interchangeably (Christensen et al., 2021). European Commission defines CSR as "*the responsibility of enterprises for their impacts on society*". For specifics, please see: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52011DC0681&from=EN>

over time; sustainability reporting, integrated reporting, climate reporting, and non-financial reporting (Baumüller & Sopp, 2021). Targeting different stakeholders with various approaches and therefore with disparate contents. Sustainability reporting, on the other hand, stems from the sustainability definition underlying sustainable development in the Brundtland Report (Imperatives, 1987). Moreover, GRI possesses an “inside-out” view on organizations’ impact on the environment, targeting a wide range of stakeholders (O’Dwyer & Unerman, 2020). Including the Triple Bottom Line (TBL), committing organizations to balance people, profit, and the planet. Coined by Elkington (1998) who saw indicators of a growing need to use metrics of environmental impact concerning product life-cycle and emissions, among other things in corporate reporting, extending beyond profit maximization. Whereas integrated reporting possesses non-financial and financial information within one single integrated report, arguing for connectivity of TBL. Within an integrated report, the long-term financial perspective is the primary focus targeting investors, whereas only material information contributing to this aim is included (Baumüller & Sopp, 2021). Climate-related disclosures have achieved recent attention, including environmental, social, and governance (ESG) factors, linking climate-related issues to financial information, viewed more favourably by the Sustainability Accounting Standards Board (SASB) and the Task Force on Climate-related Financial Disclosures (TCFD) (Shea, 2021). On the contrary, TCFD applies financial materiality, adopting an “outside-in” approach beneficial from an investor perspective, linking climate-related risks and opportunities within the financial statements.

Until recently, non-financial reporting is primarily derived and related to a broad sustainability definition, including ecological and social impacts in the European accounting context. With the enforcement of the EU Taxonomy, European Commission aims to carry out a classification system, defining environmentally sustainable activities with a common language. On the other hand, Soderstrom et al. (2017) emphasizes the discrepancies among the terms, which entail a subjective definition of “sustainability” exists where stakeholders possess divergent meanings to the definition. This limitation essentially appears among sustainability accounting and reporting scholars mainly based upon qualitative and interpretive research, where the lack of definition can reduce the comparability and validity of researchers’ interpretations (Soderstrom et al., 2017). In the context of sustainability accounting, Gray (2010) argues that it may be the case that organizations will never find any consensus to account for sustainability due to the nature of being a societal concept beyond the scope of organizational levels. For a reason, sustainability represents a stable state that is poorly defined when, or how to reach this state, where the foreseeable future state may cause negative causalities among favourable “sustainability” practices. These complexities are further acknowledged by Chapman & Unerman (2014), contending that accounting for sustainability extends beyond the short-term of conventional accounting practices within a two-way dimension of interaction and impact outside the organization’s boundaries. Thus, accounting for social and environmental dimensions inhibits intersubjective challenges in contrast to financial accounting (Chapman & Unerman, 2014). For these reasons, there seem to be difficulties in observing the relationships between economic,

social, and environmental aspects beyond organizational activities, and the consequences over time and space.

In contrast to the heterogeneous perspectives on sustainability reporting frameworks, Baumüller & Sopp (2021) emphasizes that the five sustainability bodies (CDP, CDSB, GRI, IIRC, and SASB) propose to complementing one another to address the various perspectives. However, aligning these bodies including the European Commission is a complicated act (O'Dwyer & Unerman, 2020). Evidence reveals a present accelerating trend towards mandatory sustainability reports, addressing the need for global convergence. In November 2021, IFRS announced the formation of the International Sustainability Standards Board (ISSB), aiming to ensure an international consistency with the European context by providing financial markets with global comparability of sustainability disclosures (IFRS, 2021). Bridging sustainability reporting and financial accounting under the umbrella of IFRS, a consolidation of the Value Reporting Foundation with the CDSB was completed in January 2022 and technically supported by the CDP.⁴ Likewise, the TCFD framework is incorporated within the prototype disclosure standards set by ISSB. While the present work of ISSB is to date, preparing disclosure standards from a financial materiality perspective, focusing on the impact on enterprise value. It is concluded that the EU regulatory accounting context has taken a first step in moving toward a double materiality approach with the forthcoming CSRD (Baumüller & Sopp, 2021). Thereby revising the former Directive 2014/95/EU under the EU Taxonomy considering the criticism of the absence of organizational change toward sustainable development, with the organizational abuse of unspecific NRD guidelines (Caputo et al., 2021). Apart from the divergent outside-in and inside-out perspectives, a core difference underlies that the EU Taxonomy impacts organizations in the EU jurisdiction, whilst the ISSB aims to be applied globally as of IFRS. A clear tendency within ISSB, seemingly relying on the TCFD framework and the EU Taxonomy appears to stem from linking sustainability to financial accounting. On the one hand, the EU Taxonomy aggregates non-financial and financial measures in external reports expected to drive toward sustainable development (Lucarelli et al., 2020). Conversely, TCFD links climate-related issues within a corporation's governance, strategy, risk management, metrics, and targets (O'Dwyer & Unerman 2020).

2.1.2 MCS-SCS Integration

The alternative view has given the consensus that the only way forward is sustainable development (Elkington, 1998) whereas the shared value approach is becoming increasingly inherent. Moving away from general complexities in accounting for sustainable development into the management control of accounting, Gond et al. (2012) were one of the first researchers to propose different typologies towards sustainability integration within traditional MCSs of

⁴ Value Reporting Foundation were officially formed by a merger of IIRC and SASB in June 2021 to spur connectivity between the frameworks. For further details, see: <https://www.valuereportingfoundation.org/>

organizational processes and controls support an integrated sustainability configuration. MCSs are critical to strategy design because they define the strategy emergence processes and aid in the execution of strategies (Simons, 1995). Enduring attempts to combine sustainability into strategy, beyond vision statements and external reporting, should be represented in formal or informal control mechanisms (Crutzen et al., 2017).

The forty-year review by Gond et al. (2012) finds that interactive and diagnostic controls are central to integrating SCS within the traditional MCSs. Their analysis finds that corresponding MCSs that fit into SCSs are relevant for accounting and other control across three theoretically distinct dimensions, technical, organizational and- cognitive integration. For example, technical integration refers to the internal accounting systems of sustainability control internalized within the organization, though it runs in parallel with the existing MCS function (Gond et al., 2012). They state that such parallel systems offer the potential for methodological integration, such as environmental budgeting (Burritt & Schaltegger, 2001) and sustainability budgeting (Roth, 2008), where both incorporate a broader scope of incorporating the TBL with the traditional MCSs. However, although technical integration serves value as the first step in integration, it provides a narrow scope, limiting the possibilities of basing managerial decisions upon economic, ecological, and social dimensions (Burritt & Schaltegger, 2010, as cited in Gond et al., 2012). Thus, Burritt & Schaltegger (2010) argues that a twin-track approach is essential for integrating sustainability accounting. By effectively incorporating an inside-out approach characterized by a resource-based view of corporations' internal operations to measure and manage sustainability. In contrast, the traditional outside-in approach acknowledges the idea that organizations are embedded in an eco-system and aim to satisfy external stakeholders. Those combined are critical to aligning with policies through external reporting and internal performance measurement to support managers in their decision-making (Corsi & Arru, 2020). *Organizational integration* relates to actors' active involvement in both MCS and SCS practices "*rather than seeing regular and sustainability management control just as something organizations have, we argue that integrating sustainability into management control and strategy should also be approached as something people do*" (Gond et al., 2012, p. 209). This relates to the formal organizational integration of MCS-SCS, and an overlap of functions involving a shared responsibility for sustainability without delegating such to a separate function (Beusch et al., 2021). Cognitive integration refers to shared cognitions for sustainability (Gond et al., 2012), with a similar perception of the reality within the regular MCS. The proposed ideal integrated sustainability configuration occurs when interactive and diagnostic controls interact and overlap to create a strong form of cognitive integration (Gond et al., 2012). It is suggested as empirically uncommon but makes the strategy-making fascinating to observe where each capitalized investment has embedded sustainability practices and can be a core part of the product offering. Similarly, Arjaliès & Mundy (2013) highlight the need for interactive controls with ongoing dialogue to enable emergent strategies. That can facilitate organizational integration across functional areas (Beusch et al., 2021).

However, it is argued that parallel MCS and SCS often hinder genuine sustainability strategies in response to external legal and stakeholder pressures (Gond et al., 2012). Narayanan & Boyce (2019) provides empirical insights into such parallel systems through competing logics. They emphasize that barriers toward sustainability occurred when diagnostic controls and correlated belief systems were swiftly adapted, but interactive and boundary controls were not adhered to, resulting in financial discourse, and dominance of MCS. There need to be clear links between strategy, sustainability, and MCS to override the ethos of profit maximization (Narayanan & Boyce, 2019). It can be challenging to combine financial gain which also yields sustainable development in the form of environmental benefits, but leaders who succeed often focus on redefining the value chain of their products together with incremental improvements by reducing costs and increases in efficiency connected to sustainability (Beusch et al., 2021). Though interactive use is shown to play an essential role in mobilizing SCS. However, it is also suggested that corporations can experience a demobilization to fewer stable configurations when relying on diagnostic over interactive use within a compliance-driven approach (Gond et al., 2012).

Moreover, not all researchers have found the same pattern towards an integrated sustainability strategy when observing informal, cultural controls guiding employees' behaviour (Crutzen et al., 2017). Therefore, the theoretical ideal integrated MCS-SCS configuration by Gond et al. (2012) should not be seen as optimal in terms of long-term viability as there may be certain contingencies with downsides to each of the configuration. Similarly, Rodrigue et al. (2013) evaluated environmental performance indicators and saw that belief systems are more important than expected for the integration of SCSs and MCSs to penetrate the whole organization and management strategy. It was also a powerful tool for external stakeholders to have an impact on making the views into practice. This distinction is further exemplified in a study by Arjaliès & Mundy (2013) where MCS establishes a shared vision and values are possessed to unite employees, which is equally as important when controlling for sustainable development. Moreover, the interactive control encouraged innovation and integration of such development, while diagnostic use allowed the companies to evaluate if performance was on track with expectations to allow remedial action to be done if necessary. The findings show that simply introducing sustainability KPIs into performance measurement may not be enough unless they are utilized in certain methods, i.e., the use of KPIs and successfully creating a purpose around them rather than only viewing them as a requirement of external reporting and transparency (Ghosh et al., 2019). Although creating intrinsic motivation among employees is challenging, it can be relevant to align sustainability with a reward-based system similar to other bonuses (Lothe & Myrtveit, 2003). Overall, various cases support the view that the level of integration depends on the organizational maturity, and existing MCSs. Integration should imply a shared responsibility regarding sustainability, not only a pre-determined team of professionals (Beusch et al., 2021). Such arguments would be naturally apply within the assumption that sustainability controls are congruent to MCS.

2.1.3 Interdependence of M(S)CS, Sustainability Accounting and Reporting

The discussion on the managerial path to integrate and incorporate SCS to MCS to satisfy internal and external stakeholders within the corporates' ecosystem has elevated. Maas et al. (2016) argue for a broader perspective, elaborating on how organizations can integrate sustainability assessment, accounting, MCS, and reporting that has previously been studied in isolation. Since measurements to be externally reported upon are frequently applied internally, they contrast managerial motivations through two perspectives: transparency (outside-in) and the performance improvement (inside-out) perspectives leading to different outcomes. The former perspective is generally thought of as a reporting-driven accounting approach, while the latter opts for applying sustainability management accounting; to collect, analyze and communicate sustainability performance to enhance internal processes. Likewise, Traxler et al. (2020) illustrate the two-way MCS and reporting interdependence by classifying researchers' findings through Malmi & Browns' (2008) informal and formal control package framework. Thus, there are claims for how sustainability reporting influences the MCS and vice versa. For example, Traxler et al. (2020) urge that sustainability integration within a firm's objectives and performance measurement is necessary to ensure MCS and sustainability reporting are interlinked. Including the practitioners' effort in producing sustainability reports support the organizational learning in a feedback loop. Thus, the sustainability report does not only serve as a compliance tool by satisfying external stakeholders. Instead the reporting requirement initiates a participatory process (Bouten & Hozée, 2013; Herremans & Nazari, 2016; Pérez-López et al., 2015), involving accountants, enabling a dialogue to account for environmental issues, and supporting their internal efficiency (Maas et al., 2016).

Following the contrasting perspectives on the interdependence of reporting and MCS, there appears to be a dispersion among corporates' engagement in the strength of the interplay between reporting and sustainability accounting practices. On which the top management plays a critical role in the long-term execution of sustainability activities contrary to a response to the external environment continuing the conventional business discourse with a lagging, transparency-oriented perspective (Maas et al., 2016). This would arguably be true in management control theory (Otley, 1999; Simons, 1995) which impacts the subtle, cultural controls (Malmi & Brown, 2008). Where the top management decides upon the vision, mission, and values that are communicated internally and externally that influence a firm's processes and direct employees' behaviour. Along these lines, Herremans & Nazari's (2016) empirical analysis draws our attention to managerial tones by showing the variance in MCS and reporting structures due to discrepancies in firms' institutional logics. Thereby, being influenced by regulative, normative, and cultural-cognitive logics, that are internalized in the control structure. The author's case study shows that regulative-motivated companies are not intrinsically motivated to develop sustainability reports and stakeholder relationships. To serve compliance, minimum formal systems and structures were developed following new regulative requirements. However, due to an unwillingness of insufficient informal controls, shared values, beliefs, and attitudes, opposed the necessity of developing a formal system (Herremans & Nazari, 2016). Therefore, without a common ground

communicated from top management, the formal sustainability reporting acted as a compliance rather than a learning device for improvement. This was shown by outsourcing to a consultant or isolating the accountability of producing sustainability reports to one or few individuals. Thus, interactive control systems and informal dialogues were insufficient as a learning device when a company did not perceive value in the new regulative act. Hence, the MCS-sustainability reporting was rather a one-way external tool adopted through a transparency perspective (Maas et al., 2016) instead of the reciprocal linkage (Traxler et al., 2020). On the contrary, cognitive-motivated companies seeking formal compliance with GRI reporting requirements possessed a stronger control structure where the top management attitude enabled a proactive approach. Additionally, these corporates engaged external stakeholders such as auditors' opinions, and benchmarking peers to define practices and measurements involving employees to understand their role in the process and go beyond the reporting guidelines (Herremans & Nazari, 2016). Thus, involving both external and internal motives is beneficial in moving towards a proactive approach, though a larger quantity of disclosures can constrain internal motives with an overemphasis on reporting guidelines (Pérez-López et al., 2015).

Despite the criticism within sustainability disclosures and corporations' unsubstantiated linkages between sustainability reporting and organizational change, Gray (2010) and Cho et al. (2015) express a positive belief that regulatory and institutional context may play an important role in sustainable development. More specifically, researchers predict real organizational changes are expected to be made if mandatory reporting mandates are specific and require transparency with reliable sustainability performance which external stakeholders can act upon (Christensen et al., 2021). For instance, organizations concerned over legitimacy and perceived insufficient environmental performance stimulated consciousness among management undertaking actions (Bouten & Hoozée, 2013), aligned with the general accounting view of what gets measured gets managed. On the other hand, the literature is relatively scarce on organizational responses to external pressure as the regulatory sustainability reporting landscape is accelerating. Wijethilake et al. (2017) contributes to the literature on strategic responses to institutional pressure for sustainability. Their study depicts how an organization responds to coercive, mimetic, and normative pressures based upon its MCS configuration. Particularly within coercive pressures, the use of MCS appeared strong in adapting its internal procedures, complying with environmental standards and active agency toward external stakeholders. Correspondingly, Aureli et al. (2020) draws up on Oliver's (1991) strategic responses framework toward institutional pressure. They provide insights into organizational change, where an Italian firm strengthened its stakeholder relations and internal processes when fronting regulative pressure from the NFRD. They argue that organizations are influenced by multiple pressures that led them to obey the regulations by adopting GRI standards from mimetic and normative pressures in the first reporting year. In the second reporting year, suppliers and investors exerted pressure, to direct the organizational change (Aureli et al., 2020), where the organization strategically responded more actively beyond compliance to balance these needs to excel at a higher level. A similar study by Esteban-Arrea et al. (2022) investigates the application of the NFRD and finds that companies adopted a compromise strategy to environmental stakeholders who were also more salient than

other parties. Acknowledging that management control tools for sustainability are designed to measure, communicate, and improve sustainability disclosures' reliability (Corsi & Arru, 2020). These systems are now becoming more challenged with the convergence of sustainability disclosures. Baumüller & Sopp (2021) and Corsi & Arru (2020) anticipates practical challenges among legally binding corporations to adopt new processes and management control tools because of dealing with the shift within the European accounting context requiring a larger quantity of data. Such reporting mandates may provide additional information to external stakeholders, which can increase transparency and cause organizational change (Christensen et al., 2021).

Similarly, O'Dwyer & Unerman (2020) state that corporations experience challenges in implementing the TCFD standard, and assessing the financial dependencies from climate scenario analysis. Leveraging on the challenges incubating the TCFD pillars, Di Marco et al., (2022) contribute to the emerging field of sustainability reporting with a mixed methods approach exploring the application of TCFD within two European financial sector firms. Their findings express particular concerns about the strategy pillar within the preparation, including corporates' immature information systems to cope with the increasing collection of data primarily developed from the inside-out (impact on the environment). Di Marco et al. (2022) also found that the TCFD challenges the decoupled organizational responsibilities, requiring interprofessional collaboration. Their findings suggests a changed perspective within MCS where corporates need to adjust their traditional MCS to measure and manage sustainability in response. Such changes can cause incoherency and lags in the management control (Ferreira & Otley, 2009).

2.1.4 Conclusion and Identified Gap

Sustainability has come to be perceived as a strategic discourse among corporations and a necessity for sustainable development. To date, practitioners and researchers have addressed vast criticism over incomparable global sustainability reporting frameworks (Caputo et al., 2021; Cho et al., 2015; Michelon et al., 2015) (e.g., GRI), commonly used within the mandatory NFRD disclosures. As such, the literature review sheds light on the inquiry and emerging field for a harmonized reporting context evolving in the European jurisdictions and on a global level to enhance transparency and bridge the asymmetric information gap between corporations and external stakeholders. Previous researchers have contributed to the management control strand of accounting for sustainable development by drawing attention to how organizations integrate SCS into their MCS to operationalize an emergent sustainability strategy (Arijalès & Mundy, 2013; Beusch et al., 2021; Crutzen et al., 2017; Gond et al., 2012). Their studies are ultimately derived from broad and holistic management control frameworks (e.g., Malmi & Brown, 2008; Simons, 1995), where the fundamental idea stems that external pressure influences the controls used, which complement one another and cannot be viewed in isolation. Even though these studies contribute to the management control literature with the understanding of mobilizing SCS within MCS, they are incomplete in capturing the evolving rigorous reporting environment, as the

mandatory reporting requirements might be subject to cause organizational change (Aureli et al., 2020; Christensen et al., 2021) depending on their institutional logic (Herremas & Nazari, 2016). This is relevant because the EU Taxonomy outlines a science-based framework defining environmentally sustainable economic activities, increasing transparency to external stakeholders, and potentially supporting corporations toward accounting for sustainability.

However, acknowledging the increasing attention to mandatory sustainability reporting requesting calls, little is known of the interaction between accounting, control, and reporting (Alessi et al., 2022; Christensen et al., 2021; Corsi & Arru, 2020). The influence within management controls to drive strategic sustainability agendas is coupled with the performance-oriented sustainability accounting approach (Maas et al., 2016). When such coercive pressure requires organizations to adopt new systems and processes accordingly (Baumüller & Sopp, 2021; Corsi & Arru, 2020; Di Marco et al., 2022) and are shown to actively use their MCS as a medium to respond to institutional pressures in divergent ways (Wijethilake., 2017). For these reasons, we aim to contribute to the existing literature and practitioners seeking to address the following research question: *How does an organization respond to institutional pressure following the EU Taxonomy, and how does it influence the MCS and SCS?* Hence, this paper aims to contribute to accounting for sustainable development field by answering calls on this issue with the exploration of accounting for sustainability, and the internal control dynamics of an organizational environment facing increasing external pressure.

2.2 Theoretical Triangulation: Institutional Pressures, Strategic Responses and Categorization

Institutional theory has a broad perspective with isomorphism and organizational similarity at its core, explaining organizations' influences by institutional pressure (e.g., coercive, mimetic, and normative) establishing organizational fields (DiMaggio & Powell, 1983). Isomorphism is closely related to legitimacy as a reason for an institution's survival and prosperity to conform. It also includes neo-institutional theory focusing on social behaviour, such as broader cultural norms and attitudes, whereas norms and rules within their environment influence organizations. This form of social theory focuses on examining organizations' responses and how consistent they are in the world of organizations. In contrast, institutional logics relies on organizational heterogeneity that defines the meaning and content of the institution, influencing the rational and mindful activity. Actors in the organization have some role in forming and altering logics and centres in organizations regarding how reactions change numerous conflicting conceptions exist simultaneously (Scott, 2014; Thornton & Ocasio, 2008). Scott (2014) extends DiMaggio & Powell's (1983) institutional mechanisms that explain institutional elements influencing organizational behaviour: *regulative*, *normative*, and *cultural-cognitive elements*. The *regulative pillar* proposes that regulatory bodies craft rules to sway future organizational or individual behaviour to meet greater standards. Consequently, organizations conform to attend rewards or avoid formal and informal sanctions (Scott, 2014). Moreover, the *normative pillar* encompasses

pressures such as expectations, customs, values, and norms. Values are for establishing benchmarks by which current structures or behaviours' may be examined and evaluated, while norms are appropriate ways to attain desirable goals; they outline how "things should be done" (Scott, 2014). The *culture-cognitive pillar* goes one step further, translating the influences from the conscious to the unconscious (Herremans & Nazari, 2016, taken-for-granted understandings (Scott, 2014). It offers a way of thinking, acting, and feeling, resulting in a mental program, or a "software of the mind" (Hofstede, 1991). The three pillars are theoretically distinct influences but are empirically intertwined. As a result, due to variances in beliefs and values, organizations absorb signals in their way and selectively react to different external pressures (Scott, 2014).

Institutional theory centres on regulative, normative, and cognitive-cultural elements that set expectations or intentions toward operational and structural conformity of the environment (Scott, 2014). Oliver's (1991) strategic responses framework relies on resource dependency theory, presuming that organizations exercise some level of control and responsiveness to their environment to gain legitimacy. The idea of resource dependence centres on agency and a variety of proactive choices or resistant behaviours' that actors may employ to manage external dependencies (Oliver, 1991). It involves interpretive processes through which actors reconstruct (Scott, 2014). Based on these assumptions, Oliver (1991, p. 152) has identified five strategic responses comprised of three tactics, ranging from passive conformity to active manipulation. *Acquiescence* reflects conformity to institutional pressure within three tactics (habit, imitation and compliance), following norms, mimicking institutional procedures under uncertainty, and consciously obeying rules. Under conditions of conflicting expectations among institutional pressure and internal objectives. Organizations *compromise* through balancing, pacifying, and bargaining with different stakeholder demands within ambiguous environments offering manoeuvres to interpret and compromise. *Avoidance* occurs when organizations attempt to avert nonconformity through concealment, buffering or escape with a shift in a domain or loosening institutional boundaries. *Defiance* reflects a more active resistant response where organizations openly disregard or question institutional pressures. Lastly, *manipulation* is the most active strategic response, attempting to alter values or impact the external force by co-opting, influencing or controlling to enhance legitimacy.

Reviewing organizational forms and logics can also be done through categorization (Negro et al., 2010). Categorization establishes a company's identity and what it is believed to be by its internal and external stakeholders. Category systems are generally considered communal constructs. Multiple audiences produce its meaning, not a sole authority or individual (Negro et al., 2010). Where they are placed in a socially constructed category spectrum affects the material, cultural and social resources they have at their disposal. Understanding this, organizations frequently attempt to strategically influence categorization systems and the categories where they have been placed (Negro et al., 2010; Pontikes & Kim, 2017). Therefore, it is suggested that organizations balance conformity and differentiation in strategic categorization, where institutional pressure conveys information and organizations promote favourable socially constructed categorical systems that contain ambiguity (Pontikes and Kim, 2017) within categories seen as legitimate

(Negro et al., 2010). The prospect of being perceived as illegitimate by key audiences forces institutions to conform (DiMaggio & Powell, 1983; Scott, 2014) or actively respond to ensure social fitness (Oliver, 1991). Such categorization resonates with institutional pressures within the cultural-cognitive pillar and symbolic carriers shaping perceptions and interpretations (Scott, 2014) as it touches the meaning through common concepts and frames.

2.3 The Lens of Strategic Responses toward Institutional Pressure

The internal and external theoretical concepts are synthesized in Figure 1, which are particularly useful to guide the empirical findings and discussion exploring the adoption and implementation of reporting standards subject to multiple of institutional pressures (regulative, normative, and cognitive). Where organizations approach external pressures in divergent ways depending on their respective institutional logic and MCSs (Herremans & Naziri, 2016). Despite the relevance of combining bottom-up strategic responses and top-down institutional theory, few have attempted combining these dual perspectives (e.g., Aureli et al., 2020; Esteban-Arrea et al., 2022; Wijethilake et al., 2017). As such, the EU Taxonomy can be perceived as an augmented regulative pressure contrary to prior directives and reporting standards. Therefore, the European Commission aims to close the gap by conveying information about the preparers with conformity under a common categorical system where the reward is investment appraisal (TEG European Commission, 2020b).

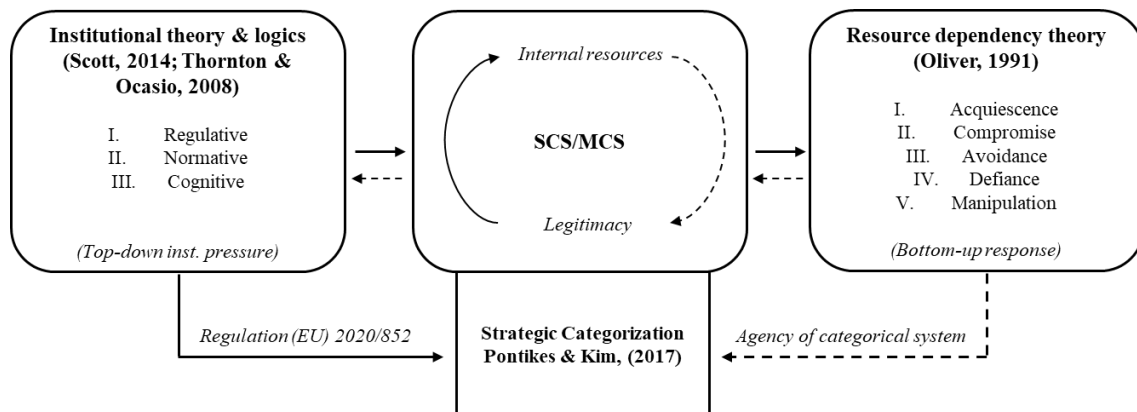


Figure 1. Theoretical framework: Strategic responses to institutional pressure

Aureli et al. (2020) combines institutional theory with Oliver's (1991) strategic responses framework and confirm the applicability of integrating these two perspectives in implementing the EU Directive 2014/95. They found that the case organization confronted by the reporting mandate firstly adhered to acquiescence. Subsequently, normative pressure led to a proactive response to the institutional pressure. Previous researchers recently showed that organizations passively and actively respond to regulative, normative, and mimetic (within cultural-cognitive pillar) pressure based on their MCS configuration (Wijethilake et al., 2017). According to

researchers' (Arijalès & Mundy, 2013; Beusch et al. 2021; Crutzen et al., 2017; Gond et al., 2012; Rodrigue et al., 2013) who explores SCS-integration can be perceived within strategic categorization as a response toward institutional sustainability pressures by strategically influence the choice of categories in which they belong.

As categories can be poorly defined (Pontikes & Kim, 2017), this suggests holding in sustainability reporting, which arguably stems from an insufficient definition of sustainability. This is derived from societal concepts (Gray, 2010) containing ambiguity (Soderstrom et al., 2017), and subject to active strategic responses toward institutional pressure (Oliver, 1991). Similarly, researchers (e.g., Aguinis & Glavas, 2012; Burritt & Schaltegger, 2010; Cho et al., 2015; Michelon et al., 2015; 2020) criticize corporate motives within sustainability reporting subject to external forces, for legitimizing or signaling purposes. Considering the former mandatory EU Directive 2014/95, preparers frequently exploit a favourable categorical system with an accounting mechanism to avoid disadvantageous information to stakeholders due to the unspecific standard underlying the Directive (Caputo et al., 2021). Providing the ability to utilize strategic responses with a compromise strategy to define relevant information to salient environmentalist stakeholders in their sustainability disclosures (Esteban-Arrea et al., 2022). Thus, there is no doubt that sustainability institutionalizes within SCS/MCS with contrasting organizational responses.

Concludingly, since categorization consists of dual perspectives defining social behaviour and organizational identities (Negro et al., 2010), preparers tend to promote a favourable categorical system (Pontikes & Kim, 2017). We propose that the EU Taxonomy with a defined classification system will likely force organizations into a category within sustainability, where the enforcement can lead to strengthening the regulative pillar above the other pillars of sustainable institutional pressure. Applying Oliver's (1991) strategic responses framework, we seek to address the internal responses and implications within a setting where the case organization has categorized itself as a sustainable organization ahead of the legislative enforcement.

3. Method

3.1 Qualitative Research Process using Abductive Approach

This study followed a qualitative and abductive research approach inspired by Pfister et al. (2022) methodology framework to address the research question depicted in Figure 2. Qualitative field studies within management accounting research observe accounting and organizational processes as a highly theoretical activity to explore human interactions (Ahrens & Chapman, 2006), orienting through the underlying causes, intentions, and viewpoints (Bryman & Bell, 2011). Therefore, since this study adhered to the theoretical social concepts, a qualitative single case-study methodology was chosen to enable an in-depth assessment of the case organization, InduDiv. The single case study allows for more profound insights into the practical implementation and application of the first Taxonomy-eligibility reporting.

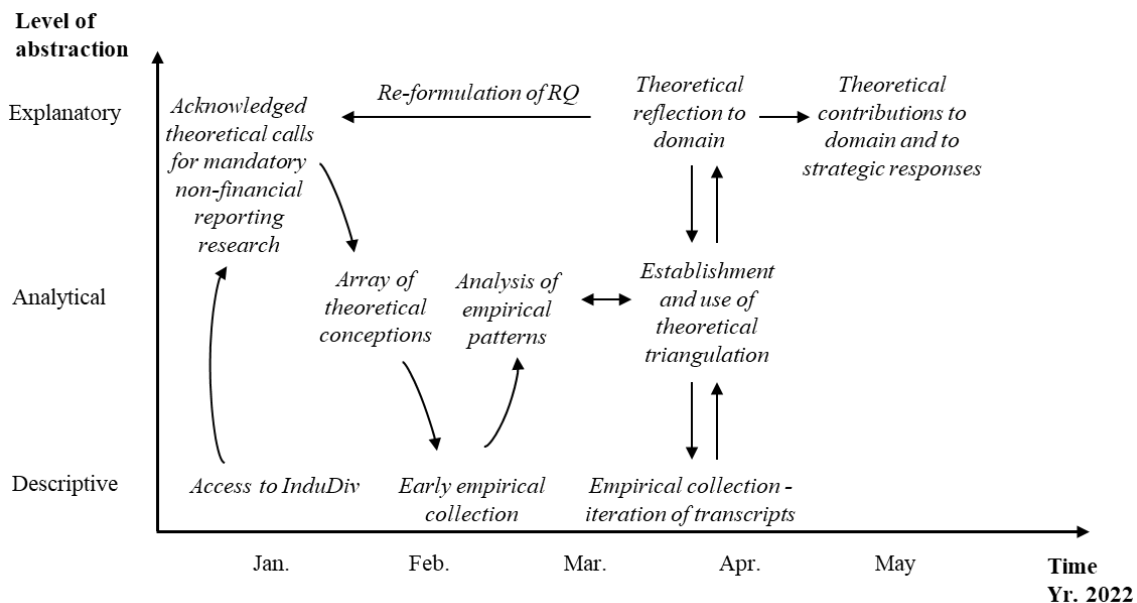


Figure 2. Abductive research process and analysis: adapted from Pfister et al. (2022)

Despite the confidence in studying the empirical phenomenon, we were unsure through which theoretical lens to guide the empirical material. Following the abductive process, an early collection of empirics was retrieved to gain greater familiarity within the research site with an array of theoretical conceptions in mind from the current domain. Since a single theoretical framework cannot be thorough in guiding a highly complex field accounting for sustainability entails (Chapman & Unerman, 2020). Subsequently, to address the reformulated research question on how an organization accounts for the EU Taxonomy and the internal implications following the exerted pressure. A theoretical triangulation consisting of strategic categorization theory, resource dependency theory, and institutional theory was formulated iteratively. It enables the possibility of moving beyond the descriptive level of observations into analytical and explanatory levels (Pfister et al., 2022). The ontological perspective views social reality as

emergent, dependent on an individual's perception (Slevitch, 2011). It is commonly predicated on objectivism and constructivism. This study followed a constructivist approach, where each individual and context is unique, and we may see reality as a social construct that is constantly changing (Richardson, 2012). From the epistemological perspective, this thesis took an interpretative approach commonly used within the strand of accounting for sustainable development (Chapman & Unerman, 2020). This methodology offers a diverse theorization to explore internal and external stakeholders via dialogue through interactions, attitudes, and behaviours (Sale et al., 2002). As such, this constitutes a suitable method for addressing the complex field underlying the research question with a theorization that facilitates an interpretive discussion beyond "what is" into "what could be" (Unerman & Chapman, 2020, p. 389), advancing the knowledge within the increasingly mandatory reporting environment.

3.2 Data Collection

3.2.1 Semi-structured Interviews

Adhering to the conceptual perspectives and the research aim, the primary source for data collection was retrieved from semi-structured interviews. Based on a prepared list of open-ended questions, the respondents were given leeway in how they responded, along with the researcher's ability to provide insightful follow-up questions (Bryman & Bell, 2011), primarily by exploring why certain decisions were made. This interview guide was tailored to each specific interviewee and iteratively developed to enhance our understanding of specific emerging topics. Hence, a diverse interviewee base was sought out for the paper to explore the perspectives of various professional groups who were directly or indirectly involved in the preparation of the Taxonomy report. Thereby, purposive sampling mainly took place with internal and external professional groups with a common denominator of being involved with the preparation. Internally, the interviewee sample primarily sought InduDiv implementation as the intended research limitation. However, acknowledging that the InduCorp consolidates and publishes the sustainability report. Individuals from InduCorp were also involved in adopting and implementing the regulation. Nonetheless, the interviewee sample contained different hierarchical levels from Group accounting and controlling, Group sustainability department, divisional controllers, sustainability department (SHEQ), Digital Finance, and Investor Relations. Externally, auditors involved in the implementation process through Taxonomy reviewing and consultancy were included. The diverse interview base is particularly relevant in qualitative research leveraging multiple actors involved (Denscombe, 2017), following the emic and etic views. To uncover and theorize a wide range of respondents' interpretations and emerging internal challenges.

Combined, 15 internal and external participants were involved in the open-ended, semi-structured interviews (*see Appendix 1 for a summary of semi-structured interviews*). These were primarily held through the Microsoft Teams video conferencing service, but a few interviews were conducted at InduCorp headquarters and InduDiv's manufacturing plant. Ahead of the interviews,

each interviewee was asked for permission to record the interview. The rationale of recording the interviews underlies the transcription ability, ensuring each statement was empirically interpreted correctly and minimizing bias (Bryman & Bell, 2011). Despite increasing reliability, it facilitated the iterative abductive approach since details during the interviews might have eluded the researchers and could be uncovered when listening to the recordings a second and third time, enhancing the opportunity for follow-up areas. In addition to the scheduled interviews, weekly meetings were held with the assigned supervisor at InduDiv with an average length of 30 minutes. The purpose was mainly to stay updated and discuss administrative matters, but there was also time to ask questions on learnings from other interviews. Therefore, it is added as additional data points as many insights were gathered from these weekly meetings. The scheduled interviews had an average length of 57 minutes, excluding the weekly meetings with the supervisor at the case organization. Most of the interviews were carried out by both authors to ensure reliable interpretation of the data collection. In the only case where this did not occur, the absent author reviewed the recording. Additionally, interviews were primarily held in Swedish and subsequently transcribed and translated.

3.2.2 Informal and Formal Data Points

Although the data collection is primarily derived from the semi-structured interviews, the empirical material was complemented with additional informal and formal meetings (*see Appendix 2 for a summary of formal and informal meetings*). Triangulating the data with multiple informants and data sources were sought to gain more comprehensive insights into the research site than otherwise possible (Bowen, 2009). As such, these included formal sustainability reporting meetings aimed at understanding the current practices of sustainability reporting, which is critical in understanding how the Taxonomy Reporting diverges from ordinary principles. Informal meetings included visiting the InduCorp's mine, which contributed to the understanding of InduDiv's products, customers, and organizational history. Additionally, the authors were allowed to visit a manufacturing plant for InduDiv, whereas discussions centred around Taxonomy reporting provided an extension of knowledge for the various tools and lean manufacturing processes within InduDiv. Additionally, in an informal meeting, the authors participated and engaged in ethnographic methodology at the HQ with two employees in interpreting and discussing a delegated regulation, supplementing Regulation (EU) 2020/852. Aside from the insights from the semi-structured interviews, such real-time meetings enabled the interaction and interpretation of specific topics and challenges underlying the preparation of Taxonomy disclosures, which were insufficient to be uncovered within the semi-structured interviews.

Acknowledging the organizational complexity, the authors utilized formal standardized documents beyond informal and formal meetings. These were primarily accessed through the intranet platform to learn about standardized procedures at the research site, including but not limited to sustainability reporting practices. Additionally, Excel files were retrieved with specific

Taxonomy-eligible accounting data within InduDiv, extending the knowledge in conjunction with internal and external stakeholders of how to account for the Taxonomy. Finally, the accessibility to the HQ contributed to informal discussions with employees. Although these did not have any material impact on the thesis, such discussions facilitated the knowledge base and intrinsic perspectives on sustainability overall.

3.3 Qualitative Coding and Data Analysis

In qualitative research, the analysis of empirical observations is a theoretical work to communicate the meanings of a phenomenon (Ahrens & Chapman, 2006), reliant on the researchers' perception of the reality and theoretical body of knowledge. Therefore, the data analysis and coding process should be viewed as an iterative process throughout the data collection, stipulating a learning process with an in-depth knowledge of what is going on within the phenomenon studied (Huberman et al., 1994). Following an explanatory abstraction to understand the phenomenon (Pfister et al., 2022) as illustrated in Figure 2. The authors developed prespecified codes against a broad scope of themes in the sustainability reporting and sustainability management control domain. Hence, throughout the early interview process, recurring themes emerged of individuals' perceptions and organizational responses towards the EU Taxonomy. It favoured the iterative process of developing a theoretical lens and modifying the research question that guides the data analysis (Pfister et al., 2022).

With an ongoing theoretical reflection of the empirical material, the authors relied upon Huberman et al. (1994) three iterative and overlapping phases: data condensation, data display, and drawing & verifying conclusions. Consequently, the first step in the data analysis followed by reviewing the transcription within a time-consuming process. Strengthening the data and the prespecified codes through emerging themes prior to the developed theoretical lens. This condensation was initially pursued through initial data display to categorize the observations in a matrix with defined columns of main empirical themes and rows of respondents to enhance our understanding of the field and facilitate comparison among categories (*see Appendix 3, Matrix for empirical themes*). Based upon the recurring empirical patterns recognized with openness in the data collection process. Re-reading the domain literature with the core empirical themes of specific implementation and intraorganizational structure challenges. Empirical codes were given theoretical reflection by applying the theoretical lens in the abductive process (*see Figure 2 for an illustration of the abductive research process and analysis*). Subsequently, the empirical material was sought to be guided by Scott's (2014) pillars of institutions, appearing to be empirically intertwined in contrast to theoretically distinct theories. In combination with the observations and reflections on the EU Taxonomy. Codes were developed and analyzed through Oliver's (1991) responses framework toward institutional pressure drawn from the organizational internal control systems and holistically viewed through Pontikes & Kims' (2017) strategic categorization framework. Such analysis facilitated the authors' understanding and interpretation

of the phenomenon, enabling differentiation between domain and method theory to allow a theoretical contribution (Lukka & Vinnari, 2014).

3.3.1 Ethical Consideration

Bryman & Bell (2011) raises attention to the ethical issues in qualitative research involving individuals, informed consent, anonymity, and any potential harm to individuals involved in the study. To carry out this research, the authors independently signed temporary employment within the case study organization receiving grants, which might be perceived as subject to an ethical risk and financial conflict of interests, interfering with researchers' values. However, the temporary employment enabled access to in-depth insights into the EU Taxonomy adoption, influenced by internal and external stakeholders to explore the current phenomenon. Thus, the temporary employment supports the availability of the research site while adhering to a neutral stance of influencing the research. Along with the compensation that is not significantly impacting our judgment through personal views or preferences. Although it is concluded that objectivity cannot be entirely ensured in studies, researchers can act in good faith (Bryman & Bell, 2011). Since this thesis was intended to be carried out through an interpretative approach, the authors signed consent in the commencement to investigate the phenomenon without conflict of interest. Thereby no means of confirming processes for legitimacy, signaling purposes, or else.

Similarly, the authors pledge to the ethical guidelines of the academic institution, Stockholm School of Economics, of ethical and responsible decisions in research. Moreover, informed consent was ensured by requesting the interviewees' permission to record the semi-structured interviews with the promise to keep the personal identity of the interviewees anonymized to uncover their actual perceptions. By strengthening the credibility of the findings with respondent validation, each interviewee was provided with their transcripts to confirm the individual accounts. The authors' promise to maintain confidentiality was further emphasized through the signed non-disclosure agreement concerning corporate affairs, such as pricing, constructions, experiments and studies, operating conditions, and business affairs. In conjunction with recorded and transcribed empirics were held confidentially, anonymized and stored adequately within InduDiv's laptops for corporate and individual security.

4. Empirical Findings

This section guides the main empirical findings through the theoretical lens developed in section 2.2.1. Firstly, section 4.1 begins with a brief overview of the case organization and current reporting practices. Section 4.2 outlines an introduction of the regulative pressure and the internal perceptions. Section 4.3 displays the internal strategic responses from a bottom-up view through the lens of Oliver (1991). Lastly, section 4.4 identifies the internal implications and challenges.

4.1 Empirical Background

InduCorp is a listed multinational industrial organization headquartered in Europe. This thesis is centred in one of their business areas, InduDiv, supplying the automotive and general industries. InduCorp has faced paradigm shifts with a proven historical track record of agility, renewal, and embracing change. Most recently, during the 21st century, the presence of the digital era and an increasing ambition toward lowering carbon emissions aligned with the Paris Agreement by setting new CO₂ targets with the Science Based Targets (SBT)⁵.

The uniqueness and interest in studying InduDiv are derived from the implementation of the mandatory Taxonomy disclosures enforced to be distributed externally within an organization with a perceived MCS-SCS integration. Within the statutory sustainability report, InduCorp is obligated to disclose non-financial information within the NFRD Directive, assessed and externally reported based on the GRI guidelines. Whereas the Safety, Health, Environmental, and Quality (SHEQ) function is primarily responsible for assisting in consolidating and supporting the required reporting entities on non-financial matters in InduDiv. Hence, InduCorp and, consequently, InduDiv fall under the EU Taxonomy, extending the scope of reporting entities (Taxonomy operating, and capital expenditure), whereas the Taxonomy revenue KPI explored in this study has currently been collected at a business area level through its divisions. Table 1 presents an overview of the multiple sustainability reporting frameworks assessed internally.

Table 1. Summary sustainability reporting frameworks within InduDiv

Reporting framework	Initiative	Environmental scope	Anchored to Paris Agreement	Perspective
GRI	Voluntary ⁶	GHG emissions	No	Inside-out
SBT	Voluntary	GHG emissions	Yes	Inside-out
EU Taxonomy	Mandatory	Economic activities	Yes	Inside-out ⁷

⁵ SBT reporting for the fiscal year 2022 is based upon two absolute reduction targets involving the entire value chain through scope 1-3, upstream and downstream carbon emissions supported by the initiative's Technical Advisory Group, Carbon Trust. Driven from the operations, each entity is expected to contribute to the targets. SBT is consolidated within InduDiv, hence reported to the Group (InduCorp).

⁶ GRI voluntary used within the mandatory Directive 2014/95/EU (NFRD).

⁷ The revised NFRD into CSRD proposal falls under the EU Taxonomy, introducing the double materiality principle from the fiscal year 2023. Supporting the TCFD framework to achieve a global convergence.

4.2 Exerted Regulative Institutional Pressure: EU Taxonomy

Regulative actions are derived from institutional settings to influence various actors' behaviour to comply and excel to higher levels as organizations conform to receive rewards or avoid scrutiny (Scott, 2014). To understand the internal strategic responses and implications, we outline an introduction to the perceived perception of the enforcement.

4.2.1 Regulative Influences within InduDiv's Categorization

Recently, ahead of the Taxonomy enforcement, InduCorp voluntarily committed to the SBT initiative with a decentralized anchoring following the Group structure. By that, they are setting direction increasingly within the organization toward its sustainability strategy to influence the firm's processes and employees' behaviour. In the case company, sustainability reporting is standardized through internal guidelines reported upon on an entity and divisional level, including InduDiv, and subsequently consolidated within the Group (InduCorp). Several respondents commonly adhered to the technical integration as a critical component and strength in pursuing an integrated sustainability strategy and efficient reporting process where non-financial reporting is integrated within their financial reporting system. However, the EU Taxonomy diverges; firstly, it stems from legal enforcement, enforced top-down contrary to bottom-up as of the SBT. Secondly, outlining a classification system defining environmentally sustainable economic activities varies in its structure targeting economic activities, whereas revenues are expressed as a percentage of turnover stemming from eligibility activities. The trend toward mandatory sustainability reporting is pressuring organizations within a common categorical system in contrast to prior reporting frameworks with autonomy by preparers in the content of reports. The following quotes illustrate this fundamental change and internal perceptions:

“What we have now seen in recent years is that there is more and more legislation, so far it has been quite voluntary and up to the companies themselves to define what is important and essential to highlight in external reports. But now there is more and more legislation and legal requirements, and the EU Taxonomy is a very good example of how the legislator's expectations of companies, are constantly increasing.” (Respondent 9, External Audit)

“I think many people have been surprised of the extent to this [EU Taxonomy] and how urgent it is.” (Respondent 8, Controlling, InduCorp)

Although the EU Taxonomy is intended to contribute to the market of sustainable activities, enhancing comparability among corporate disclosures within a common framework and providing companies with appropriate definitions. Various corporations are affected by the EU Taxonomy in divergent ways depending on their economic activities as of the sector-specific disclosure. A core concern raised throughout the interviewees concerned the vague regulatory definitions as a key implementation challenge. Despite this concern, many of our respondents generally shared a similar perceived positive conception:

“I think that the EU was pretty smart with its approach that no one demands that we have to be aligned. We do not have to be green but we must be open if we are not, it is a transparency question. Instead of everyone saying that “we are sustainable”, now you get this Taxonomy where everyone is measured against the same parameters even if it will take several years until it is perfected. But that is the purpose, to be able to compare apples with apples.” (Respondent 2, Sustainability, InduCorp)

The first eligibility reporting in the fiscal year 2021 limits the economic activities contributing to the environmental objective of climate change mitigation or climate change adaptation. The entire InduDiv’s economic activities from the product segments were identified under the scope of the broad 3.6 category: “*Manufacture of other low carbon technologies*”, eligible for the climate change mitigation objective in the supplementing Regulation (EU) 2020/852, and sectors served under categories 3.1-3.4.⁸ Thereby, interviewees shared the concerns that InduCorp and InduDiv operate in the middle of the value chain, enabling customers toward low-carbon technologies, and therefore operates in niches under the EU Taxonomy with less explicit definitions. Likewise, as communicated in the sustainability report 2021, InduDiv separated the Taxonomy-eligible revenues into product and customer segments. In line with the regulative pillar, this was argued to be of transparency to the market by the lack of strict definitions and norms. Hence, respondents commonly adhered to the corporate identity with a long history of innovating energy-efficient products. Facilitating manufacturing processes towards low-carbon emissions with customer-centric operations.⁹ The legal ambiguity set in motion the internal and external interpretation process contrasted the organizational identity and beliefs, raising concerns about the institutional attempt to convey a standardized category. There was a perceived internal perception of enhancing information to investors contrary to the intention underlying the EU Taxonomy of providing corporate support for sustainable development. This perception should not be interpreted as a threat to the organization’s legitimacy within a conveyed category. Instead, this is perceived as the EU Taxonomy fundamentally lacks clear descriptions to capture the fundamentals of the organization with integrated thinking derived from product innovations incorporating sustainability/energy-efficiency:

”I think the EU Taxonomy is very difficult to understand and also not fair because fundamentally, it [EU Taxonomy] wants us to sell only the very best we have. So it falls short where it would be possible to at least improve for customers’ who cannot really afford to choose the best option. So there, we have had a problem to identify, because we think that in everything we do, we always look at energy-efficiency and in the long run it is about GHG.” (Respondent 8, Controlling, InduCorp)

⁸ For specifics to the first delegated act, supplementing regulation EU 2020/852, outlining the description of economic activities with respective conditions of technical screening criteria and DNSH. Please see: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32021R2139&from=EN>

⁹ Energy-efficiency is defined as the: amount of energy required to perform a specific task is a boundary condition in R&D (Informal Meeting, ECO Design / PCF Tool).

Divisional controllers were partly responsible for gathering Taxonomy-eligible revenue data from their division to assess what streams of revenue should be accounted for in light of the ambiguity. When asked about their perception of the EU Taxonomy, respondents agreed that regulative pressure influences the agility of internal cross-functional discussions. Such as marketing functions and R&D, among others, possess superior operating knowledge of the products required in the Taxonomy assessment. Consequently, the external ambiguity is influencing the affective dimension of the cognitive pillar with confusion and uncertainty:

“It has been a bit difficult considering the great ambiguity about it. What does it mean and what content should you bring? But there has also been a discussion about, how should we see our products, and it also pushes R&D and the marketing departments, which have been involved to a greater extent than before.” (Respondent 6, Controlling, InduDiv)

These statements show a significant shift in the extent of non-financial disclosures with a deeply rooted organizational identity to fit within the institutional conveyed category. Although the case organization is willing to do things the right way and seek compliance with the EU Taxonomy, it depends upon engagement in an interpretation process explored in the following section.

4.3 Internal Strategic Responses

Whilst institutional theory focuses on regulative forces that constrain and regularize behaviour (Scott, 2014), the resource dependence theory relies upon organizational responsiveness to manage external pressure with internal interest (Oliver, 1991). In our empirics, we could observe that within the EU Taxonomy, InduDiv is forced into an environment, calling for the prerequisite to actively manage institutional demands by internal resources in the presence of ambiguity.

4.3.1 Accounting for Ambiguous Legal Coercion

As aforementioned stated, the case organization identified its product segment to account within the broad 3.6 category: “*Manufacture of other low carbon technologies*” with the following legal definition of an eligible economic activity (European Commission, 2021, p. L442/48):

“Manufacture of technologies aimed at substantial GHG emissions in other sectors of the economy, where those technologies are not covered in Sections 3.1 to 3.5 of this Annex”

Moreover, it explains the technical screening criteria for substantial contribution to the climate change mitigation objective:

“The economic activity manufactures technologies that are aimed at and demonstrate substantial life-cycle GHG emission savings compared to the best performing alternative technology/product/solution available on the market.”

In contrast to financial accounting, which is well established with intersubjective consensus, it was interesting to observe our interviewees' unanimous amongst the ambiguous definitions within the 3.6 category. Hence, to account for the Taxonomy, the description of the economic activity was dissected into word-specific components. In the description of the 3.6 economic activity mentioned earlier, the activity is defined as “*aimed at*”, i.e., with the objective to reduce GHG emissions in another sector substantially. Even though a technology is superior within the industrial sector, if it does not aim at life-cycle GHG emission reductions in another sector, these activities would not qualify for Taxonomy eligibility (European Commission, 2022). A frequent view amongst interviews was that the purpose of the products is not necessarily stemming from the aim of lowering GHG emissions. Instead, part of the sales pitch is driven by customer demands, reducing the total ownership cost, and reflecting contrasting institutional logics. InduDiv has promoted a strategic category and assessed the company's identity for decades as a differentiator and core focus of developing energy-efficient products. This allowed InduDiv to reframe with a collective understanding of the ambiguity in line with the exerted word-specific component:

”[...] in the end we came to the conclusion that no matter the reason a product was sold; if it has the capability, we consider them [the products] aimed at.” (Respondent 2, Sustainability, InduCorp)

Additionally, the 3.6 category is further subject to unspecific definitions underlying the qualitative word-specific definition “*substantial*” related to being “*best on the market*”, lacking quantifiable thresholds. Most of our respondents mentioned the challenges in determining how to assess accordingly. Thereby, multiple questions arose about where the line should be drawn for a product that is sustainable enough? In addition, what level of improvement should suffice to account for an eligible product? Taken together, this drove the incentives of a more passive acquiescence response:

”Then we struggled with the word “substantial”, what is it? It's also about being the best on the market, which made us quite conservative. However, we say that electricity is better than air tools, so why are not all electrical tools better than air tools? The next question is also what is a substantial improvement? So how much better must it be than the previous generation for this to be considered realized? At the start of our internal process, we considered this to mean 5% better than previous generation.” (Respondent 2, Sustainability, InduCorp)

Another accounting challenge pertains to the definition “*best performing alternative technology/product/solution available on the market*” reflecting a technical screening criteria applicable to the forthcoming Taxonomy-alignment reporting, yet arguable in line with determining “*substantial contribution*”. Thereby the interviewees adhered to a vast discussion concerning the lack of market standards to assess the criteria. Accounting for the EU Taxonomy suggests inhibiting intersubjective challenges. An external auditor supporting both InduCorp and InduDiv with interpretation issues explained this conceptual thinking with an analogy:

“Household products and appliances have, for example, an energy labelling. You can have a dishwasher and when you buy it you know what energy rating it holds. Is it A + or A or something else? Then you can think that ok, but if you were to apply like 3.6-classification then you might take like only those who are A and then nothing else, or you could think only those who are A, AA or AA+.” (Respondent 9, External Audit)

In this vein, InduDiv possesses a boundary of a 5% life-cycle improvement threshold in R&D. This contrasts with business areas’ differentiated products, where “*substantial*” GHG emissions improvements and impact are not 1:1. Thereby, there are signals of various interpretations among independent business areas, compromising with internal assessed differentiated benchmarks in the ambiguous environment. The differences stems from the perceived inadequate institutional classification from the European Commission, where one controls the evaluation to fit the narrative of being eligible:

“It was also a discussion, if we can agree on a common internal threshold, and we came to the conclusion that, no, we cannot, so in the end everyone [Business Areas] had to evaluate their own products based on their specific market context and capabilities.” (Respondent 2, Sustainability, InduCorp)

Finally, the complexities in accounting for the EU Taxonomy were further emphasized, given the internal perception and identity of enabling others to justify accounting of economic activities in line with substantial contribution to climate change mitigation. Within the EU Taxonomy, some respondents felt uncertainty with the Article 10 (i) enabling paragraph in Regulation (EU) 2020/852 (p. 198/30), which subsequently is referenced to “*enabling activities*” in Article 16 (p. 198/34). It is interpreted that the enabling activity suffers lexical ambiguity with a two-fold meaning, whether it refers to the organization’s economic activity itself that has a substantial positive environmental impact or counterparties’ end-products:

””Enable someone else” [...] if you follow this [definition], what should be done then? [...], Our legal department read this and confirmed that no, you cannot with 100% certainty say what the text refers to.” (Respondent 2, Sustainability, InduCorp)

The compromise prevailed initially, yet a change from the EU shows the strength of the institutional pressure to conform. This meant they could interpret the EU Taxonomy aligned with their organizational identity according to the latest delegated act (e.g., European Commission, 2022), which shed light on a few questions companies were struggling with. In the end, the organization sought to comply with the new delegated act, which changed its reporting close to publishing the annual sustainability report. However, since InduCorp perceives itself as enabling key manufacturing processes by delivering tools and machines rather than components. Customer segments eligible within the Taxonomy were accounted for through identity framing, enabling others:

”A FAQ was released where the EU wrote that just to provide a component that someone else uses does not automatically mean that you are eligible which made us panic a bit as it could

indicate that we cannot claim this link, that we enable our customers. Then we adjusted the double-reporting, moving all revenues applicable to the product segment reporting from the customer segment reporting. It was a percentage point so it made no big difference, but it was still a last minute change [...] regardless of what we sold, we consider that enabling key manufacturing processes as our customers is eligible.” (Respondent 2, Sustainability, InduCorp)

Against this backdrop, it was concluded that InduDiv applied an overall conservative approach to account only for the latest generation of electric power tools and the latest range of battery-driven products, offering substantial energy savings in contrast to its air tools within the product segments. Hence, internal strategic responses and interviewees’ attitudes are not perceived as drawn from active organizational resistance to the institutional pressure but as a consequence and necessity to engage with the ambiguous classification to conform actively. Their external auditor (Respondent 9) justifies these accounting complexities at present *“The Taxonomy leaves room for interpretations, but I believe that with additional guidelines from EU and with time, a praxis will be developed around these concerns.”* The conservative approach was applied for legitimacy and validity reasons conforming to regulative pressure without clear tendencies to manage external dependencies to ensure social fitness. One divisional controller mentioned the importance of obtaining reliable information in this aspect. Though, this requires a balancing act between reliable information and actors’ power. The conservative approach was argued to be due to the quality of the data and developed Product Carbon Footprint (PCF) tool to quantify life-cycle GHG emission savings compared to previous generations of products. Subsequently, by not appearing to be considered illegitimate and scrutinized by external market participants:

“We need to develop support structures for how we can obtain this [Taxonomy] data and we do not want to report anything now that turn to be false, for instance if we would report that 50% of our products would be [eligible] within the EU taxonomy. But if we see over time that we get better data since now for example, CO2 calculations are made on tools. When they are produced, we would then see that “oh, it was not as large share” and then it does not look so good that we have reported a little more [liberally].” (Respondent 6, Controlling, InduDiv)

These results provide important insights into the complexities of accounting for the EU Taxonomy with arguably intersubjective challenges pertaining to the description of the economic activities and determining eligible activities. In seeking a shared understanding, InduCorp developed an internal definition to deal with the ambiguous definitions to conform to the coercive pressure to the best of their abilities, as expressed in the statutory sustainability report 2021. Aligned with internal cognitive frames, the 3.6 category definition *“substantial GHG emission reductions”* were substituted into *“substantial energy savings”*.¹⁰

¹⁰ Technologies which enable substantial energy savings and/or other means to avoid, reduce, remove, or store greenhouse-gas emissions compared to alternative technologies commonly used on the market. (InduCorp, Annual Report, 2021)

4.3.2 Seeking Consensus through Normative Dialogues

Many laws that appear to be ambiguous can be supported by cognitive and normative pillars over coercive effects (Scott, 2014). As such, following the cognitive, interpretive process within the identity of InduDiv for the eligibility disclosures. Our findings additionally support the normative response to the coercive pressure by interactively seeking dialogue among various external stakeholders. As the case organization hired external consultants specialized in sustainability reporting. Additionally, collaboration was sought from their external auditor in combating the challenges in interpreting the definitions. Moreover, in response to the enabling definition as previously mentioned and clarifications from the 22 February FAQ, where intermediary activities might not qualify for eligibility. The case organization opened dialogues with industrial peers, equivalently absent of manufacturing end-products in coping with the uncertain and broad definitions:

”I know we talked to [X industry peer] about this and if someone were to sell an engine to Tesla, it is a so-called essential component in Tesla’s end-product, while if someone would sell a windshield wiper, maybe it is not as essential. We think that we are part of key manufacturing processes at our customers and that was also what [Auditor] said, who can really challenge us and say: no, but you are not. But the instructions are a bit vague and I am myself hesitant as the EU has not address this issue as we have interpreted it. If it was what everyone should do, I think it would at least have been a question in the FAQ.” (Respondent 2, Sustainability, InduCorp)

Several attempts have sought normative standards to motivate or enhance the understanding of the outlined definitions. Various internal and external stakeholders are curious to peer with the first upcoming public eligibility disclosures (Q1, 2022). Likewise, by gaining an understanding of the normative endorsement and following praxis of the uncertainty:

”[...] companies have done this differently, some have included this type of segment revenues, but not everyone so there we will see how praxis develops [...] What our auditors have always said is to aim for a best effort approach [...] Now we will be able to benchmark with other companies. What did they write, what are their figures? Are we low / high, do we say too much / too little? I think it's very interesting just to see how companies have addressed the Taxonomy. How much did they write and what did they write? Because it was not easy to know what level of detail to write and how to formulate our processes, so there is a lot we can learn just by looking at others [...] but also then to see what the media will do, will they respond to this? And how will investors act?” (Respondent 2, Sustainability, InduCorp)

The statement mentioned above illustrates InduDiv’s internal responses through the resource dependency view of operating in an environment with various demands from external stakeholders such as the media, investors, and others with the capacity of scrutinization with greater visibility. Thereby, it is indicated that InduCorp exerts control by seeking normative understanding and reduction of uncertainty seeking an establishment of a consensus within the 3.6 category disclosures. Through interactions with external consultants, their auditor justifies the intersubjective challenges, lacking a clear understanding of the elements to report upon with

consistency. On the other hand, acknowledging the newly established regulatory area, the competence of the auditing profession is in a similar position and can interpret what is defined within the Taxonomy. This process applies to the individual case organization and indicates that the Big Four auditing firms apply a normative understanding of the Taxonomy. This actor commonly seeks a collective understanding and interactively shares knowledge from their external and internal colleagues within their cross-border networks, aiming to seek consensus as subsequently expressed by Respondent 9:

“In each country there are corresponding organizations’ such as FAR: the auditors’ industry organization. Within FAR, representatives from audit firms have discussed Taxonomy-related questions to create a common interpretation and understanding of the reporting requirements [...] And sometimes it is perhaps the most important thing is to identify issues so that you can discuss, and I know that is how it is done in different countries in France, Germany, and Italy etc. After all, information is generated both locally where you spread information and share knowledge between Big 4 and the other agencies, and then you have our internal networks where we belong. [...] There is a genuine common ambition to develop a common interpretation for it. It creates stability in the market as well, if you see that you have discussed towards a common view to the best effort.” (Respondent 9, External Audit)

”Even what you receive from [Auditor/sustainability consultants] are things that you cannot give directly to our operations. They do not understand what they need to do, so I was very active together with some others, to first understand it ourselves and then make it understandable for our operations.” (Respondent 8, Controlling, InduCorp)

External audits play an essential role in accounting practices carrying out negotiation and compromise by balancing institutional demands by carrying their shared perception on to legally binding corporates. Following this discussion, the fact that even auditors are also adhering to the interest in corporates’ disclosures becoming public shows the lack of established benchmarks and present norms to conform:

“I think everyone is curious to study how different interpretations are made. But our expectation is that it will not be too much comparable during the first reports, now everyone has had to work in-house and then it will be calibrated and hopefully it will converge in the coming years and then we also hope that it will gradually publish more guidance within some of these issues.” (Respondent 9, External Audit)

As this statement illustrates, it is anticipated that the first eligibility disclosures are not expected to be comparable among corporates which are hypothetically viewed as gradually moving towards established normative rules of conformity. Similarly to InduDiv’s conservative application, it appears from Respondent 9 that most corporates have applied a prudent accounting principle, partly because it is a new legislation and increased transparency. With a perceived threat of entering the spotlight as illegitimate and accused of greenwashing relative to its counterparts:

“There has been a high level of interest from investors and analysts on companies Taxonomy reporting, which may lead to a pressure to report high outcomes on the Taxonomy KPIs. Many companies want to hear how others reasoned so they [corporations] sometimes have had such various discussion forums and platforms where auditors are not always present or even welcome. [...]. But I think it also shows how complex the Taxonomy is and how much leeway for interpretation there is, and I do not think there are companies out there that intend to purely make use of the Taxonomy. It is more about depending on what business you conduct and what the conditions are. Then you can draw very different conclusions from the Taxonomy.” (Respondent 9, External Audit)

Acknowledging the EU Taxonomy is a framework with definitions developed from the regulatory and institutional interest, it may not always provide the entire story. While external stakeholders possess resources to exert pressure on organizations, one interviewee mentioned that there were no questions about the Taxonomy disclosures on InduCorp’s capital markets day. It was followed by an absence of discussions and comparisons between companies in the media (*Respondent 11, Investor Relations*). However, this might be explained by the first eligibility reporting, which might differ significantly from the taxonomy-alignment reporting, fundamentally assessing how “green” firms’ activities are.

4.4 Institutional Influences on Control Systems

4.4.1 Information Systems Challenges

Despite the difficulties in making sense of the ambiguous classification, the subsequent challenge is concerned with the collection of revenue attributable to eligible activities. InduDiv consists of multiple divisions with an abundance of operational entities, where a few have been acquired recently. Commonly, all respondents shared the perception of insufficient and detailed master data to meet the requirements underlying the Taxonomy and streamline the Taxonomy reporting. These issues arise when the current transaction data is stored in multiple ERP systems, which are currently absent of the additional master data, including the qualitative and quantitative characteristics, to assess the current definitions compared to financial transactions and previous sustainability reporting practices. Since the Taxonomy-eligible economic activities were collected based on product and customer segments, controllers need additional data inputs. Whilst the EU Taxonomy classifies eligible economic activities within European NACE codes, InduDiv internally classifies according to NAICS codes, of which translations were made from the Group, InduCorp. Controllers felt that customer segments were more reliable and more easily reported upon, although this varies among divisions as they fundamentally operate independently and differ in the customer, products, and information systems. From a divisional controller perspective, Respondent 6, in a division within InduDiv, adhered to the more favourable customer segment reporting as these segments were strategically reported based on NAICS codes, hence reliable data. In contrast to another division with sales to the automotive industry, insufficient

sales data prevailed within the customer segments, whereas reasonably reliable estimations had to be made as this division constitutes a significant part of eligible activities:

“So in that way there is no infrastructure, I would say, for the companies to report this in a credible way, but then we would still as a division have to go in and adjust, “we think this is reasonable”.”
(Respondent 6, Controlling, InduDiv)

Information systems have historically been tailored to store monetary data, which requires additional non-monetary information with the EU Taxonomy. Both Respondents 4 and 6 gave examples where they made conservative decisions, neglecting accounting treatment for potential eligible activities, due to insufficient reliable estimations. Generally speaking, the divisions operate through non-standardized products, which are grouped within the information systems. Controllers particularly felt the difficulties of collecting reliable data among product segments. Subsequently, problems emerged regarding following the revenue underlying these economic activities and assessing the use of the product at the end of the value chain. Just as regulative pressure seeks to influence organizational behaviour, organizations seek appropriate behaviour to minimize scrutiny by external parties. Respondent 4 felt uncertain about what to report upon, due to the subjective definitions and researched the directives alone which took time from other obligations. Following this, Respondent 4 decided not to include any products as sustainable in its division as none could be reliably proven. Though they still had the customer segment to report upon, NAICS codes are not applied to every customer. Based on reporting guidelines from the InduDiv and InduCorp, the Divisional SHEQ collected customer segment information and felt disorientation by the lack of traceability of the revenues:

“We received an Excel file which said only products used to manufacture the end product, not components. So [X subsidiary] for example, they produce machines. Not to assemble the final product, but for components. I just received revenues and customers and I guessed from the customers. So, when the customer is [X], I know they don't assemble because they produce components. [...] But to be honest. I contacted all the controllers of the different entities and I'm sure they don't know the background of the revenues. They don't know the machines and don't know the end-product. They cannot judge whether it's to assemble or to manufacture the end-product or just components.” (Respondent 4, Divisional SHEQ, InduDiv)

Since machines can be used for diverse purposes and therefore give rise to further complexity in accounting for the Taxonomy without an extensive insight into the products, intermediary customers, and the end customers' operations, controllers and divisional managers cannot always determine. It became clear that the enforcement stipulates modifications to the internal information systems to store non-monetary information within the monetary transactions to streamline processes and improve data quality. Moreover, it is suggested possible to use the existing ERP systems to tag products with various attributes. However, this should be interpreted carefully since the Digital Finance specialist is unaware of the complexities of the EU Taxonomy, which appears to require a multiplicity of information, subject to change over time.

”If you can apply attributes on the product that mean something. You can load ERP systems [...] But it must be quite clear and must be there registered on every single product.” (Respondent 7, Digital Finance, InduDiv)

4.4.2 Intraorganizational Structure Challenges

The direct consequences and internal responses required engagement in the fuzzy interpretation process with additional administrative costs to ensure compliance with the EU Taxonomy legally. Besides, prior sections have outlined the higher anticipations stemming from the EU non-financial disclosures. Subsequently, the empirics signal the strength in the enforcement contrary to previous reporting frameworks, which now combine carbon emissions at an aggregate level stored under conventional financial accounting information. The challenges mentioned earlier seemingly stem from facing integrated non-financial and financial reporting as depicted by the external audit:

“You could question whether the Taxonomy's key ratios are financial or non-financial, if you say that it is the share of turnover; then turnover is clearly a financial key figure, but then you have to evaluate and analyze it from the outside as well the sustainability parameters so that it is like the first that the taxonomy has much, much clearer financial perspective that it is not pure sustainability key figures, and then of course the second is that it is very detailed defined how the key figures should be presented, even if the definition leaves room for uncertainty.” (Respondent 9, External Audit)

Acknowledging the reporting changes, while the Taxonomy reporting assessment diverges from the financial reporting practices, where the divisions are held responsible for collecting relevant Taxonomy revenues in contrast at an entity level within InduDiv. A controller (Respondent 6) mentioned the compact divisional controlling function with multiple areas of responsibilities that primarily operate as a traditional finance function. There was a primary presence of financial discourse, whereas the EU Taxonomy acts as an additional package of control. Requiring an abundance of additional information where divisional controllers possess insufficient time and competence to act upon non-financial information. Which does not equate with cognitive barriers toward sustainability but rather with the prominence of diagnostic processes within the financial logic:

“The difficulties with the controller function is that it is quite a lot to keep track of already, and [with] one more step here now it is difficult to know how to balance it [...] we want to understand more, but it is quite slow because we also have to take care of all the financial figures and the development with it. And we also have a lot to do so it is easily underemphasised. Sustainability is not given priority, maybe I should say not because we do not think it is interesting or relevant, but more because we also have to present the financial figures every month.” (Respondent 6, Controlling, InduDiv)

Likewise, the dominance of financial concerns among controllers aligns with our observations. Several respondents experience that the sustainability strategy has been operationalized and supported by a high degree of competence within an isolated SHEQ function. With core non-financial matters responsibilities, which has arguably been an efficient institutional structure. Interestingly, a core finding concerns the form and design of the EU Taxonomy signals as the first step of an organizationally integrating financial accounting and non-financial accounting. Where controllers become involved and responsible for gathering EU Taxonomy relevant information under which view they support mobilizing finance and sustainability as facing an increasingly integral reporting structure in contrast to non-financial matters underlying GRI reporting guidelines:

”Previously, we have worked in accordance with the business code of practice, water supply etc. and it is these figures that we from the financial-controlling side have not been able to put in relation, but with the EU Taxonomy, now we start looking at revenue and costs, then we get a natural bridge to connect these elements, and where we are the ones who know the numbers best. So, I absolutely believe that the Taxonomy, considering we are facing a more financial perspective has led to us becoming more involved.” (Respondent 6, Controlling, InduDiv)

As depicted in the above quote, divisional controllers perceive the EU Taxonomy as adjacent to their core competence and financial logic. This perception aligned with Respondent 12 from a strategic point of view, who positively anticipated that the mandatory regulation would influence the organization in the forthcoming years. Since it was argued as insufficient to direct the Taxonomy reporting to one specific function requiring cross-functional collaboration in light of intraorganizational structure challenges:

”That is also what makes this very exciting, it is a test of how a business will need to be managed going forward [...] It is not a new way of reporting, it is a new way of thinking and working.” (Respondent 12, Sustainability, InduCorp)

”There are different functions that need to work together, and the question is how we should do this. Something needs to change, but how? Is it in finance that we should staff up with additional controllers [...] or should a new sustainability department with dedicated resources be created? Regardless, we need to bring in resources.” (Respondent 2, Sustainability, InduCorp)

It becomes clear that the decentralized structure and separate functions support how the business areas are organized to enable agility financially and non-financially historically with specialist competencies. However, controllers operate far from their products and customers with insufficient time and knowledge to define what to report upon the Taxonomy. A controller emphasized this with a solid operational focus (Respondent 5), arguing that the Taxonomy reporting requires an in-depth understanding of the operations that cannot be left to accountants distant from the operations. Hence, the EU Taxonomy indirectly stipulates a structural change process where the aggregated level of Taxonomy requires interactions across functions by gathering competence within Councils:

”Now, I think we have come much further, as it was decided that we should run this project [Sustainability Reporting Project]. All Business Areas should identify some sort of Council structure, or how they want to govern this. But I mean, it will take time to get it in place.” (Respondent 8, Controlling, InduCorp)

The recently initiated project is intended to involve IT, Marketing, accounting, controlling, and purchasing, among other departments, to cope with the increasingly complex environment. To enhance stability and structure in non-financial reporting processes, it should involve individuals with non-financial and accounting competence from each business area. However, it appears that conflicting institutional logics underpin the resource constraints:

”It’s about resources and we are always careful about adding resources that do not generate income. But of course, this is also about compliance and risk, so it is very important. But it’s always a little harder to get approval for this kind of resources.” (Respondent 8, Controlling, InduCorp)

However, the current presence of the endeavour with the EU Taxonomy is illustrated as several interviewees had not received information regarding the Sustainability Reporting Project. Though, proactively, support structures were suggested to facilitate upcoming regulations:

”I hope that it [EU directives] will be decided upon soon. You might feel that CSRD is far away but I see links in terms of what we need to change to ensure the Taxonomy Reporting, there are certainly synergy effects, and to have those in mind for our taxonomy reporting infrastructure could also benefit the upcoming CSRD reporting. Hopefully we will get there.” (Respondent 2, Sustainability, InduCorp)

The proposed structures are intended to cope with the technicalities of sustainability reporting interactively. However, some interviewees raised concerns according to the support structures needed as, in all cases, the internal informants adhered to a greater interactive collaboration cross-functionally. The necessity of integrating non-financial and financial competence was additionally strengthened from the auditor perspective, challenging pre-existing structures in their roles where financial auditing specialist competence needs joint efforts with their non-financial specialists. Concludingly, the primary importance at this stage concerns a structure to support data traceability issues within the reporting process at this early stage and efficiently cooperate across functions. We find early evidence of real effects from internal adjustments within sustainability management accounting, configuring MCS and SCS with integrated financial and non-financial indicators into its formal controls:

“In our investment approval process, we have, for example added CO₂ and whether it is an EU Taxonomy-aligned investment or not. We start to adapt our processes and it goes a little slow maybe, but on the other hand we have not had that much time.” (Respondent 8, Controlling, InduCorp)

5. Discussion

This paper sought to explore the internal accounting responses and internal influences from the EU Taxonomy enforcement. Following the empirical findings, the discussion centres around two parts of sustainable development's accounting domain. Firstly, through the theoretical lens of institutional theory and Oliver's (1991) strategic responses framework. We discuss how and why InduDiv balances passive and active responses towards ambiguous legal coercion in contrast to prior research, summarized in Table 2. Lastly, a discussion is provided around the internal influences impacting the institutionalized structures and intraorganizational challenges.

5.1 MCS-SCS shape Strategic Accounting Responses

The literature review illustrated criticism of sustainability reports as a legitimacy device (e.g., Aguinis & Glavas, 2012; Burritt & Schaltegger, 2010; Cho et al., 2015; Michelon et al., 2015; 2020), stemming from a largely voluntary reporting environment. Even the mandatory NFRD relying mainly on the GRI framework has shown that corporates avoid unfavourable information (Caputo et al., 2021; Esteban-Arrea et al., 2022). To date, sustainability reporting standards are entering the EU accounting context (Baumüller & Sopp, 2021) and are likely to reach a global consistency with the newly established ISSB under the IFRS. Thus, there is a widespread consensus on the need for harmonization of sustainability reports (Christensen et al., 2021), suffering complexities within accounting for sustainability (Chapman and Unerman, 2014; Gray, 2010). The newly enforced EU Taxonomy represents a significant effort by policymakers within the evolutionary mandatory reporting environment, intending to bring conformance to sustainability activities. In contrast to conformity, it is shown that organizations can strategically respond to institutional pressure (Aureli et al., 2020; Esteban-Arrea et al., 2022; Wijethilake et al., 2017).

The European Commission can be perceived as an actor setting increasing pressure on categorizing individual corporations with the establishment of the EU Taxonomy, enhancing transparency by conveying information about the preparers [conveying a categorization] (Pontikes & Kim, 2017). Thereby, multiple internal issues arose following the enforcement of the EU Taxonomy, how and to what extent reporting should be pursued [mobilizing a favourable categorical system], and how peers obligated to disclosure are confronting such issues. However, as legitimacy concerns achieving credibility within the social structures, including rules to conform (Scott, 2014), where categories are socially constructed, companies have leeway in strategic categorization (Pontikes & Kim, 2017). Conflicting tensions emerged among legitimization and strategic categorization of the cultural-cognitive pillar in preparing the disclosures. For instance, InduDiv's taken-for-granted understandings of innovating energy-efficient products conflict with the regulative efforts with the rigorous definitions internally interpreted to only account for the best products. Oliver (1991) alerts that various levels of active or passive strategic responses derive from an organization's agreement and interests with the

imposed institutional pressure that frequently tends to involve multiplicity expectations. Indeed, the legal coercion fragmented the shared conscious with ambiguity and triggered an occasion for interpretation of the EU classification, avoiding any harm to the legitimacy. Conformance to unspecific guidelines under coercive regulatory pressure relies on greater dependence on cognitive and normative internal responses (Scott, 2014) and therefore is experimented with through operational use (Johnstone, 2019). In managing such tension with uncertainty reduction, the EU Taxonomy implementation process of InduDiv follows similar normative traits to Herremans & Naziri's (2016) study, which showed that cognitive-motivated companies collaborated with internal and external stakeholders to define practices and excel to proactively seeking understanding of their role affected regulative pressure.

Similarly, falling under the scope of the vast 3.6 category implied further cognitive and normative interpretation in coping with the regulation to decide how to position within the ambiguous category. Contrary to financial accounting inhibiting intersubjective consensus facilitating financial measurement (Chapman & Unerman, 2020), the challenges involved in accounting for the EU Taxonomy illustrated that it is not a straightforward implementation process. Instead, it requires involvement on a word-specific level. InduCorp and InduDiv performed a thorough qualitative interpretation by carving out the regulatory definition (description of the 3.6 economic activity) into components. The constraints of understanding the definitions resulted in carved-out internal strategic responses to institutional pressures, portrayed in Table 2, attempting to seek conformity.

Table 2. Carved-out accounting, and strategic responses to regulative institutional pressure

Component	Constraint	Strategic Responses	Accounting Principle
<i>"Aimed at"</i>	Clash in identity/sales pitch	Reframing/collective understanding	Qualitative reasoning of a technology capacity of energy savings
<i>"Substantial contribution"</i>	Inability of reliable, quantifiable thresholds	Compromise/reframing	Internal differentiated benchmarks/energy savings
<i>"Best on the market"</i>	Insufficient data	Acquiescence/normative discussions	Conservative approach - Latest range of electrical tools
<i>"Enabling activities"</i>	Lexical ambiguity	Influence tactics	Identify framing through enabling others

By carving out the description of the economic activities, InduDiv pursued multiple strategic responses to cope with the ambiguity drawn from the MCS-SCS. This engagement partly supports Wijethilake et al. (2017) study, which found that organizations actively manage regulative pressures with relatively high use of MCS. However, our findings differ from previous research that has not previously described how the accounting treatment of a sustainability report requires

engagement by carving out specific components to the best of our knowledge. However, in contrast, previous researchers' (Caputo et al., 2021; Esteban-Arrea et al., 2022) criticized active organizational resistance responses (compromise and avoidance) to gain legitimacy within mandatory NFRD disclosures. The outcome by dissecting the economic activities reveals that the active responses from InduDiv diverges from being less favourable to the organization. The active responses are not consistent with the ability or intent to persuade users of non-financial reports with compromise tactics previously found by researchers within mandatory sustainability reports, by disclosing favourable information to a particular stakeholder (e.g., Esteban-Arrea et al., 2022) or the avoidance of unfavourable information (Caputo et al., 2021). For instance, influence tactics would be considered the most active organizational resistance to conformity with a strategic reinterpretation to resist pressure (Oliver, 1991). However, drawn from the organizational beliefs of enabling key manufacturing processes, products attributable to customers eligible under the Taxonomy were accounted for. One of the employees alluded to the internal argument that electrical tools are superior to air tools (measured in CO₂). Thereby all air tools could have been argued to be accounted for in the eligibility disclosures. These were excluded due to prudence, whilst the EU Taxonomy arguable provides more transparency in contrast to the NFRD being the fundamental reason CSRD amending the NFRD. Combined with uncertainty following disclosures of how media, investors, and other stakeholders where the case organizations are highly subject to scrutiny given its visibility and market presence might explain the divergent responses.

Against this backdrop, moving away from the dissected accounting responses to an aggregated accounting level as disclosed publicly. An unexpected core finding was that the organization's response toward institutional pressure, following the EU Taxonomy appears to be more passive to conformity than theoretically proposed by Oliver's (1991) strategic responses framework. This finding contrasts as acquiescence would be expected when uncertainty and the anticipated legitimacy are high to avoid public scrutiny (Oliver, 1991). Moreover, compromising in ambiguous settings offers organizations a leeway to interpret and manoeuvre to ensure social fitness (Oliver, 1991). This empirical and theoretical difference may be explained by cause of the lack of current abilities to follow taken-for-granted norms, mimetic behaviour, and ambiguity in obeying the guidelines. As such, the mere conservative approach was mainly derived from two fundamental principles and interrelated challenges (1) insufficient reliable data and (2) ambiguity of rules and norms. These findings are aligned with Baumüller & Sopp (2021) and Corsi & Arru (2020), who expect increasing data and practical challenges when CSRD enters into force with the principle of double materiality. Our findings are not only consistent with such assumptions as it illustrates the complexities and difficulties already at the implementation of the EU Taxonomy. More specifically, insufficient reliable data pertained to the challenges of obtaining the relevant sales data and appropriate master data to combine economic activities with the qualitative information required within the Taxonomy disclosures. Whilst previous research has raised criticism of sustainability reports (e.g., Aguinis & Glavas, 2012; Burritt & Schaltegger, 2010; Cho et al., 2015; Michelon et al., 2015; 2020), our findings of InduDiv's strategic responses, employees' and the auditors' point of view contrasts with the ability to utilize the EU Taxonomy

as a legitimacy device. However, due to the interrelated challenges aforementioned, comparability among EU Taxonomy reports is likely to be in its infancy. Furthermore, the primary focus of accounting for the EU Taxonomy was primarily derived from an outside-in, transparency perspective contrary to an inside-out perspective (Maas et al., 2016). Such perspective diverges partly from Aureli et al. (2020) study on how a corporation responded to the mandatory compliance with 2014/95/EU Directive, which acted as a stimulus in driving improved disclosures and internal measurement. Such discrepancies are not perceived to be due to cognitive barriers. Instead, more likely to be explained by the level of the mode of the sustainability integration within InduDiv and other integrated strategies toward a variety of institutional pressures and reporting frameworks (e.g., SBT) with adopted proactive diagnostic measurement and controls toward a twin-track approach (Burritt and Schaltegger, 2010; Corsi & Arru, 2020). The early stages of the EU Taxonomy include the uncertainties and complexities attached to preparing the disclosures. Likely, proper structures, information systems, and procedures around Taxonomy reporting must be in place before any mobilization of proactive inside-out sustainability accounting approaches to the Taxonomy.

Nevertheless, despite the short time horizon, the case organization complemented its formalized SCS procedures with specific attributes from the Taxonomy. Although Oliver (1991) presumes reconstructions beyond isomorphism and conformity, there is a widespread belief internally and among external auditors in reaching comparability as time compasses. The new data organizations need to withhold suggests that following the regulatory mandates with subsequent corporate responses could enhance investors' further reliable non-financial disclosures (Christensen et al., 2021). In this scenario, it is possible to enhance comparability over time gradually, yet, as we argue, investors should currently view disclosures with a pinch of salt. Approaching comparability may not be the case at the beginning of the evolving EU accounting context, as there is an arguable disparity among firms. The breadth of market participants' involvement when the disclosures enter fully into force is expected to be high. The latter is particularly relevant for policymakers to monitor if the information remains material to a limited number of stakeholders with benefits above proprietary costs and time spent preparing disclosures.

5.2 Toward Organizational Integration

Extending beyond the mere interpretation challenges of the internal categorization toward the exerted legal coercion drawn from the MCS. The traditional MCS is primarily theorized from a financial logic, of which the SCS has been theorized as an additional package of control to deal with a wider range of stakeholders. Prior studies emphasize the core differences found between the traditional MCS and SCS relate to the importance of external stakeholders (Herremans & Nazari, 2016) associated with a broader scope and long-term impacts (Chapman & Unerman, 2014). There is an extensive domain of accounting literature centring around organizations' adoption of SCS onto pre-existing MCS, adhering to the necessity of interactive controls (Arijalès & Mundy, 2013; Beusch, et al., 2021; Gond et al., 2012) to cope with sustainability-related issues.

In contrast to these prior studies, they are primarily perceived through increasingly normative pressures. That neglects the impact of the increasingly regulative pressures on the internal control systems. The empirical findings provided illustrations of the interdependence of the M(S)CS, sustainability accounting and reporting. In this study, we found internal influences from the reporting mandate, leading to accounting challenges, from the uncertainty in assessing the regulatory definitions. Thereby, from an outside-in approach, seeking to conform to the regulation (Burrit & Schaltegger, 2010; Maas et al., 2016) through the sustainability assessment process. In this respect, the challenges in developing accounting-based systems to collect and analyze relevant Taxonomy-relevant information are necessary before any possibility of using the Taxonomy within an integrated performance-oriented approach. Di Marco et al. (2022) mentions that organizational reporting systems are primarily directed toward reporting firms' impact on the environment, which resulted in information system challenges in implementing the TCFD standard that measures the climate-related risks and opportunities within the financial statements. Consistent with the case organization's current reporting practices following GRI standards and SBT with a present technical integration, consolidating non-financial and financial information. On the other hand, this appeared not to be the case for the Taxonomy reporting, which could be explained by the integral structure of linking firm financial activities with the sustainability goals under the European Green Deal in an attempt to address complexities in accounting for sustainability (Gray, 2010).

The most interesting finding was that the structure of the EU Taxonomy requires competence to be derived from multiple functions, which initiates a discussion toward organizational integration. A possible explanation for this might be that the regulative pressure causes a structural overlap where distinct functions, such as the SHEQ and finance with competing logics are forced into an association (Greenwood and Suddaby, 2006; as cited in Thornton & Ocasio, 2008) challenging the institutionalized way of conducting business. It is empirically proven that the EU Taxonomy integrates non-monetary and monetary accounting information logic, which certainly causes difficulties retrieving reliable data to report. The integrated framework requires additional master data to be applied to the existing transaction data in the ERP systems. This structure also leads to the joint effort of interpreting the definitions, involving multiple functions with different competence. This finding broadly supports the work of a recent study of the TCFD implementation linking non-financial with financial information resulting in interprofessional competence challenges and the need for cross-functional collaboration (Di Marco et al., 2022). From a financial materiality perspective, this suggests the view of a forthcoming complex reporting environment within the CSRD and ISSB as proponents of the TCFD framework with an overlap of structures seemingly required to facilitate the efficiency and quality of the reporting process. This kind of integrated thinking seemingly requires cross-functional interactions among various functions. SHEQ, R&D, marketing, sales and controlling function, among others, has been involved in the Taxonomy reporting assessment. This also accords with earlier observations which showed that interactive use of control is a critical component of integrating MCS-SCS (e.g., Arijalès & Mundy, 2013; Beusch et al., 2021; Gond et al., 2012) through dialogue across the business area, facilitating technical integration and organizational integration. Extending the

importance of interactive use of control, we observe that the external environment and integral reporting structure impact the internal management control tools used for sustainability assessment, sustainability accounting and reporting (Corsi & Arru, 2020; Maas et al., 2016), requiring multiple of functions to interact. This study also supports evidence from Beusch et al. (2021) and Narayanan & Boyce (2019) regarding boundary systems as a component in facilitating organizational integration by combining TBL. For instance, such boundary conditions can be illustrated with the dual rationale of incorporating both economic and sustainability aspects, combined with extensive environmental reviews before market entry of a new product within R&D theoretically aligned with an integrated sustainability strategy (Gond et al., 2012). It also shows that the Taxonomy has the potential despite the ambiguity in influencing functions such as R&D and formal investment approval processes to strengthen the MCS-SCS integration.

The integral structure not only provides a natural path for controllers to become engaged in sustainability. It also serves as a foundation to plausibly perceive their financial figures with an applied broader perspective and an overlap of responsibilities across functions. Despite the technical challenges providing uncertainty, the structural change in the reporting was mainly considered a positive change among internal and external respondents. Considering the organizational structure of InduDiv has predominantly operated through separate functions with distinct responsibilities, the mandatory reporting requirements indeed support the notion of causing proprietary costs and administrative burden (Baumüller & Sopp, 2021; Christensen et al., 2021). The findings support Corsi & Arru (2020) indication that the presence of a sustainability department could be seen through the resource dependence theory, contributing to specialist competence among firms. However, it also seemingly aligns with their proposals of inadequate SCSs in response to further mandatory reporting regulation, with the need to adjust the operational structures. These challenges have implications for practice considering the effort of collecting data and support for efficiency reasons, where proposed support (Council) structures are currently within discussions internally.

To conclude, it is indicated that the EU Taxonomy impact the MCS-SCS in several ways. It is primarily within its aggregated structure, seen as revolutionary within current non-financial reporting practices. However, it is too early to determine whether or not the case study organization fully aligns the EU Taxonomy within its SCSs, such as the SBT, when the reporting structure is improved. This is due to the ongoing process of aligning the Taxonomy within existing processes and applying the remaining four environmental objectives and technical screening criteria. The implementation seemingly requires cross-functional cooperation and possibilities for accountants to become increasingly involved in moving towards an organizational, and reporting integration. Our study contributes to the prior literature on management control for managing sustainability-related processes and strategies (Arijalès & Mundy, 2013; Beusch et al., 2021; Crutzen et al., 2017; Gond et al., 2012). By indicating how mandatory regulations beyond meeting external requirements influence intraorganizational dynamics, whether or not such mandatory requirements are managed inside-out or outside-in.

6. Conclusion

This study was undertaken to enhance the understanding of sustainability accounting, control, and reporting amid an increasing trend of mandatory sustainability reporting in the EU jurisdiction. As such, initiatives such as the EU Taxonomy are setting increasing pressure on organizations to comply with new, more rigorous sustainability reporting guidelines. Tackling the vast amount of criticism around present incomplete sustainability reporting standards and corporates legitimacy behaviour is insufficient to cause real effects (Aguinis & Glavas, 2012; Burritt, & Schaltegger, 2010; Cho et al., 2015; Michelon et al., 2015; 2020) and avoidance of adverse sustainability information in NFRD disclosures (Caputo et al., 2021). It is suggested that external pressure can influence internal control systems (Herremans & Nazari, 2016) and respond accordingly (Aureli et al., 2020; Wijethilake., 2017). Against this backdrop, our study addresses recent top-down calls on how firms account for and respond to specific sustainability reporting requirements (Alessi et al., 2022; Christensen et al., 2021; Corsi & Arru, 2020) with the following research question: *How does an organization respond to institutional pressure following the EU Taxonomy, and how does it influence the MCS and SCS?* In this vein, the EU Taxonomy endeavour to combat the divergent meanings of “sustainability”, defining environmentally sustainable activities through sector and activity-based definitions. As such, it is suggested to provide transparency and direct investments to sustainable activities, supporting and creating incentives for corporations for organizational change. Drawing upon a theoretical triangulation of institutional theory, resource dependence theory, and strategic categorization. Our findings contribute to two domains in the previous literature in the strand of accounting for sustainable development (Chapman & Unerman, 2020). To the best of our knowledge, the implementation of the EU Taxonomy has not been empirically explored previously. In essence, we provide early insight into how and why InduDiv, with a seemingly mobilized integrated sustainability strategy, accounts for and is impacted by the EU Taxonomy.

Our findings support the idea that corporations balance conformity and differentiation (Pontikes & Kim, 2017) through strategic responses to institutional sustainability pressure (Wijethilake et al., 2017) and specifically to sustainability reporting regulation (Aureli et al., 2020; Esteban-Arrea et al., 2022). With the use of Oliver’s (1991) strategic responses framework, this paper contributes to the domain of strategic responses to regulative institutional pressure. Firstly, the research has identified that accounting for the EU Taxonomy is not a straightforward process of implementing the external requirements; it is a mere question of interpretation. We document in detail how the description of the economic activities requires engagement on a word-specific level within the institutional category. InduDiv carved out the Taxonomy definition, partially responding through various passive and active strategic responses. Ranging from acquiescence, normative discussions, compromise, and influence tactics - all distinguished methods to obey the external requirements drawn from the MCS-SCS, with cognitive and normative elements to seek best practices (Herremans & Nazari, 2016). Taken together at an aggregated level of responses our core findings contrast with prior research, which showed active agency toward NFRD in line

with organizational interests (Caputo et al., 2021; Esteban-Arrea et al., 2022), possibly explained by the more rigorous reporting environment by avoiding possible public scrutiny.

The paper then provides a theoretical contribution to the resource dependency theory. Strategic internal responses at InduDiv were notably more passive toward conformity than theoretically proposed by Oliver (1991) in light of two interrelated challenges (1) information systems challenges and (2) ambiguity of rules and norms leading to an overall level of a conservative approach. The ambiguity of rules and norms seems particularly pronounced if a company falls under the broad scope of the 3.6 category “other” in the supplementing Regulation (EU) 2020/852. In this conception, internal and external parties expect to gradually converge into a praxis following additional guidelines and public disclosures. Divergent from the EU’s objective of supporting corporations in becoming more climate-friendly, this study shed light on other control mechanisms and the complexity concerning the path toward sustainability. These findings are relevant to regulators and governing bodies, raising concerns about the unspecific definitions inhibiting intersubjective challenges. It is rather discouraging than incentivizing an inherently committed organization to sustainable innovations, where regulations are not enabling a wide range of manufacturing processes as a driving force. Even though we study the implementation and internal implications in InduDiv, we argue that these observations indicate the abilities and the intent underlying the EU Taxonomy to prevent greenwashing in the market. It also supports investors in understanding the complexities underlying the disclosures as it may not be interpreted as a pure proxy of “greenness” at present.

Finally, the study contributes to the existing literature management control strand of accounting for sustainability development, which has relied on management control theories to explore how organizations can mobilize an integrated sustainability strategy (Arijalès & Mundy, 2013; Beusch et al., 2021; Crutzen et al., 2017; Gond et al., 2012), to a large extent absent of regulative stakeholder influence on the MCS-SCS. Contributing to this field, most interestingly, this study provides early empirical insights into how regulative pressure with the EU Taxonomy’s non-financial and financial interdependence challenges the separate institutionalized organizational structures. That is as an external change mechanism toward organizational integration, requiring cross-functional competence. These findings are aligned with recent research on the challenges of TCFD implementation (Di Marco et al., 2022), likewise possessing an integrated reporting structure. Confidently expecting further mandatory sustainability enforcements such as the TCFD framework to be applied within the forthcoming CSRD under the EU Taxonomy and ISSB. These emerging mandatory non-financial reporting requirements strengthen our argument of acknowledging the interface across functions. It is vital to develop appropriate structures early and adjust accordingly in a changing reporting environment. The findings also provide food for thought, raising the awareness of various employees and functions to embrace a broader role with integrated thinking, particularly in the finance function.

6.1 Limitations and Avenues for Further Research

This research was conducted in a single case organization amid the evolvement of the EU Taxonomy. The primary limitation of this study is the reporting period for eligibility requirements for the fiscal year 2021. Nevertheless, further environmental objectives beyond climate change mitigation and climate change adaption, including technical screening criteria's, DNSH and minimum safeguards, are to be disclosed for the fiscal year 2022. Hence, it is likely that the case organization might categorize within alternative economic activities that may be less ambiguous, suggesting cautious interpretations of the strategic internal responses to hold over time. Subsequently, considering the specific context of the case organization involved in accounting for the EU Taxonomy drawn from their organizational identity might reduce comparability across organizations.

Notwithstanding these limitations, it is argued that case studies have capabilities of theoretical generalizations (Bryman & Bell, 2011; Scapens, 1990). As such, our research provides theoretical insights when the regulative pillar of institutional pressure is becoming more prevailed. Thus, little is known about whether external stakeholders act upon the full adoption of the EU Taxonomy. Including how various organizations respond to these rigorous requirements in different settings, publicly and privately within EU jurisdictions and beyond. To determine variation among Taxonomy disclosures and whether these support investors with comparable and reliable non-financial accounting information and any unintended consequences.

As the current research on how external reporting requirements influence internal management control practices is relatively young, there is interesting empirical research to be pursued over time. To leverage the insights of the reporting standards aggregated structure and how it might be embedded internally to influence the accounting practice. Additionally, as the knowledge is limited within the present phenomenon, we adhere to Alessi et al. (2020) calls on the adoption and implementation of the EU Taxonomy, offering a wide range of suggestions for further research. While our study touches upon the external auditor's perspective, without the opportunity for in-depth research, issues of divergent auditors' perspectives were raised. Auditors play a critical role in creating an effective mandatory reporting regime that often lacks the necessary technical and scientific knowledge (Christensen et al., 2020). Future research could determine the consistency among various external audits' perceptions of non-financial information falling under similar economic activities.

Lastly, this thesis is conducted within a multinational industrial company with a long history of being involved in the various dimensions of sustainability. Where energy-efficiency is internalized within the organization in a context where customer demands are a strong indirect driving mechanism for GHG emission reductions. As it is suggested that real effects are likely to be drawn from organizations with poor sustainability performance that is disclosed under the mandatory disclosures (Christensen et al., 2020). Therefore, exploring less integrated MCS-SCS, or an organization's economic activities that entirely fall outside the scope of Taxonomy-eligibility or alignment would be of interest.

7. References

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8. Appendix

8.1 Interview Respondents and Additional Data Points

Appendix 1: Summary table of semi-structured interview respondents

Respondent	Date	Function	Mode	Time (min)	No.
1	2022-02-07	Sustainability (InduDiv)	On-site	60	1
2	2022-02-23	Sustainability (InduCorp)	Microsoft Teams	89	1
3	2022-03-01	BD Manager (InduDiv)	On-site	40	1
4	2022-03-03	Divisional SHEQ (InduDiv)	Microsoft Teams	62	1
5	2022-03-08	Controlling (InduDiv)	Microsoft Teams	55	1
6	2022-03-10	Controlling (InduDiv)	Microsoft Teams	60	2
7	2022-03-11	Digital Finance (InduDiv)	On-site	60	1
8	2022-03-15	Controlling (InduCorp)	Microsoft Teams	60	1
9	2022-03-16	External Audit	Microsoft Teams	65	1
10	2022-03-29	External Audit	Microsoft Teams	45	1
11	2022-04-05	Investor Relations	On-site	40	1
12	2022-04-11	Sustainability (InduCorp)	On-site	45	1
13	2022-04-11	SHEQ (InduDiv)	On-site	60	1
14	2022-04-11	Controlling (InduDiv)	On-site	80	1
15	2022-04-11	Controlling (InduDiv)	On-site	30	1

Appendix 2: Summary of additional formal and informal meetings

Topic	Date	Level	Mode	Time (min)
Science Based Targets	2022-02-16	InduDiv	Microsoft Teams*	45
General / org. structure	2022-02-28	InduCorp	Competency Platform*	80
InduDiv (mine visit)	2022-03-01	InduDiv	On-site	240
EU Taxonomy, annexes	2022-03-08	InduCorp	On-site	135
Sustainability reporting	2022-03-09	InduDiv	Microsoft Teams*	60
EU Taxonomy, data	2022-03-23	InduDiv	Microsoft Teams	60
EU Taxonomy, revenues	2022-04-05	InduDiv	On-site	45
Eco Design / PCF Tool	2022-04-07	InduDiv	On-site	60
InduDiv, mfg. plant	2022-04-11	InduDiv	On-site	90
Annual General Meeting	N/A	InduCorp	On-site*	90

Note: *Formal. N/A: to preserve anonymity.

8.2 Coding Document

Appendix 3: Matrix - Identified and consolidated empirical themes

	Regulative influences on MCS/SCS <i>(Top-down pressure)</i>	Accounting for the EU Taxonomy <i>(Bottom-up Response)</i>	Intraorganizational Structure Challenges <i>(Internal implications)</i>	Information Systems Challenges <i>(Internal implications)</i>
Respondent 1				
Respondent 2				
...				
Respondent n				