

**HOW GOVERNMENTAL REGULATION SHAPES MICRO-INSTITUTIONAL
COUPLING IN THE FIELD OF CORPORATE SUSTAINABILITY – THE CASE OF
THE EUROPEAN NON-FINANCIAL REPORTING DIRECTIVE**

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ABSTRACT

In this article, we examine the interaction between governmental regulation and business governance structures in the field of sustainability. We are investigating the output of the first European mandatory non-financial reporting directive (NFRD) and explore if and how this new type of sustainability regulation is changing organizations on the micro-institutional level. Our study is based on a qualitative, inductive analysis. We find that the NFRD tightened micro-institutional coupling by having strong effects on actor constellations, structures and processes within businesses, a phenomenon which we describe as reconfiguration of intra-organizational institutional elements. We make three main contributions: First, we provide rich empirical data on micro-institutional outputs of non-financial reporting regulation. Second, we contribute to theoretical debates about institutional decoupling by shedding new light on micro-institutional changes in element structures and their interaction caused by regulation. Third, we inform the non-financial reporting and accounting literature by providing new findings and perspectives related to the introduction of the first mandatory non-financial reporting legislation

at EU-level. Our study is also relevant for policy makers as it highlights relevant, previously unknown outputs of governmental regulation on micro-institutional organizational levels.

Keywords: non-financial reporting, regulation, decoupling, institutional theory

INTRODUCTION

Institutional theory is one of the most established frameworks explaining the functioning of organizations in their specific institutional contexts (Patriotta, 2020; Voronov & Weber, 2020; Tolbert & Zucker, 1996; Greenwood, Oliver, Sahlin & Suddaby, 2008; Scott, 2008; Schneiberg & Clemens, 2006). The theoretical approach emphasizes the influence of the social surrounding on organizational action (Weick 1976; Cohen, March & Olsen 1972). One of the main recent discourses in the field of sustainability concerns the phenomenon of institutional decoupling defined as the gap between formal policies and their organizational implementation (Bromley & Powell, 2012). Decoupling can occur for instance when a policy is only symbolically implemented and no substantial actions are taken by the organization (sometimes also referred to as greenwashing or hypocrisy) (Talpur, Nadeem, & Roberts, 2023; Jastram, Otto & Minulla, 2022). Such decoupling can be caused by tensions between compliance and efficiency as well as the failure to choose adequate means to reach the intended goals (Meyer & Rowan, 1977; Elsbach & Sutton, 1992; Westphal & Zajac, 1998; MacLean & Behnam, 2010; Haack, Schoeneborn & Wickert, 2012; Bromley & Powell, 2012; Wijen, 2014; Orton & Weick, 1990; Weick, 1976; Lom, 2016; Bird, Short & Toffel, 2019).

Besides analyzing causes of decoupling, researchers are also interested in mechanisms of coupling, trying to understand when and how policy and practice are linked (Orton & Weick, 1990; Hallett & Ventresca, 2006; Sauder & Espeland, 2009; Spillane, Parise & Sherer, 2011). In this context, Orton & Weick (1990) shaped the idea that elements can cause coupling through their linkage and mutual determinacy. Within this perspective, the term elements can refer to organizational members (Hagan, Hewitt, & Alwin., 1979; Lom, 2016) as well as to

organizational routines and formal structures (Spillane et al., 2011; Meyer & Rowan, 1977). Weick further explains that whether or not these elements are coupled depends on the degree of interaction and mutual responsiveness (1976). In this regard, institutional theory has differentiated between loose and tight coupling referring to different forms of interdependency such as sudden versus continuous, occasional versus constant, indirect versus direct, and eventual versus immediate coupling (Orton & Weick, 1990). Within this framework, scholars have called for deeper analyses of micro-institutional coupling processes in order to better understand how organizations change and how organizational participants shape that change (Bird et al., 2019; Lom, 2016; Bromley & Powell, 2012). Against this background, our study aims to contribute to a better understanding of micro-institutional coupling mechanisms in the context of governmental business regulation.

The role of governments in stimulating and shaping organizational sustainability structures (Soderstrom & Weber, 2020) and corporate social responsibility (CSR) has been highlighted in various previous studies (e.g., Kourula et al., 2019; Jackson et al., 2020; Shin & Gond, 2024; Knudsen, 2018; Knudsen et al., 2015). Knudsen & Moon (2022) have, for example, identified different relationships between public policy and corporate responsibility: CSR beyond public policy (filling voids), CSR through public policy (conforming with policies), and CSR for public policy (enhancing public policy). However, existing research has often focused on material commitments such as sustainability and CSR reports, policies, programs and initiatives (e.g., Knudsen, 2017; Jackson et al., 2020; Liu et al., 2024.) while investigations on micro-institutional organizational elements and their relationships are scarcer. Yet, micro-institutional perspectives are highly important and increasingly in the focus of management research as they help to better understand “how individual-level factors impact organizations, how the interaction of individuals leads to emergent, collective, and organization-level outcomes and performance, and how relations between macro variables are mediated by micro actions and interactions” (Felin et al., 2015: 576).

Against this background, we investigate the implementation of Directive 2014/95/EU (also known as Non-Financial-Reporting-Directive (NFRD)), which was passed by the European Commission (EC) in 2014 and came into force in 2017 (EC, 2014). The objective of the NFRD was to raise transparency and comparability of social and environmental information related to corporate behavior across EU Member States and to encourage companies to develop accountable, transparent, and responsible business behavior towards sustainable growth (Ibid.). The directive addressed large, listed companies, banks, and insurance companies (public interest entities) with more than 500 employees requiring them to disclose policies and action relating to environmental matters, social matters (including human rights), anti-corruption and bribery, as well as company board diversity. The NFRD offered a useful case to examine how regulation influences organizational micro-level processes, firstly, because of its novelty, which allowed for timely output studies. Secondly, because the directive's topical content matches research in the fields of Sustainability and CSR, where decoupling frequently occurs (Kalev, Dobbin, & Kelly 2006; Cole, 2012; Lim & Tsutsui, 2012; Velte, 2023). Additionally, the broad scope of the NFRD across industries and its European regulation context are making research on potential coupling effects particularly relevant for policy makers as well as for managers and other stakeholders.

Our main research interest concerns the following questions: *What is the output of the NFRD on micro-institutional coupling within business organizations?* When using the term output, we refer to behavioral changes of an addressee and implementer of a policy as part of a logic impact model (Jastram & Försterling, 2023) (see Table 1). Logic impact chain concepts assume that impact creation takes place in sequences and each stage has its own determinants that need to be understood in order to assess the success or failure of governance approaches. In this context, outputs constitute a relevant stage of an impact chain model as ultimate impacts for beneficiaries (intended by a CSR regulation for example) can only be achieved if businesses as addressees of the regulation change their behavior beforehand (outputs). Outputs are,

therefore, a crucial condition for ultimate impact creation while the latter can be defined as property changes of beneficiaries (Ibid.).

<< insert Table 1 about here >>

To explore the output of the NFRD, we pursued a qualitative, inductive approach including 31 semi-structured expert interviews as well as document analyses, secondary data analyses, and one event.

Our results reveal that the NFRD tightened micro-institutional coupling by having strong effects on actor constellations, structures and processes within businesses, a phenomenon which we describe as reconfiguration of intra-organizational institutional elements. Our findings contribute to the existing literature in several ways: First, we provide rich empirical data on micro-institutional outputs of non-financial reporting regulation. Second, we contribute to theoretical debates about institutional decoupling in the fields of sustainability and CSR by shedding new light on micro-institutional changes in element structures and their interaction caused by a new regulation. In doing so, we further develop the academic discourses about micro-institutional effects of governmental business regulation as well as the wider institutional theory and (de)coupling literature (Orton & Weick, 1990; Weick, 1976; Aurini, 2006; Sauder & Espeland, 2009; Spillane et al., 2011; Lom, 2016; Bird et al. 2019; Jastram & Klingenberg, 2018; Risi et al., 2023; Ben Khaled & Gond, 2020; Giamporcaro et al., 2020). Third, our results inform the non-financial reporting and accounting literature as we differentiate existing knowledge on the interaction between reporting regulation and corporate sustainability governance (Jackson et al. 2020; Venturelli et al., 2018; La Torre et al., 2018; Venturelli et al., 2020; Aureli et al., 2020; Christensen et al., 2024). Our findings are also relevant for policy makers because they highlight relevant, previously unknown outputs of governmental regulation on micro-institutional business levels.

The rest of the article is structured as follows. First, we give an overview of the current state of the (de)coupling literature in institutional theory. Next, we present our methodological approach and subsequently reveal the results of our study. Finally, we discuss our theoretical findings as well as practical implications and suggest further research opportunities.

STATE OF THE LITERATURE

In this section, we present the state of the literature on (de)coupling, the role of elements in institutional theory, and we highlight the need for theory development on micro-institutional effects of regulation.

Institutional theory and decoupling in the field of sustainability

Institutional theory offers a framework, which intends to explain how organizations work (Patriotta, 2020; Voronov & Weber, 2020; Tolbert & Zucker, 1996; Greenwood et al. 2008; Scott, 2008) and how contextual factors influence organizational action (Schneiberg & Clemens, 2006; Jackson & Apostolakou, 2010; Campbell, 2007). In this theory, organizational behavior is understood as reflection of environmental pressures rather than the pure need for production. External pressure is driving the need of organizations to meet public expectations, to avoid legal sanctions and, thus, to secure organizational legitimacy while simultaneously maintaining efficiency (Bromley & Powell, 2012). In this setting, conflicting internal and external pressures can result in symbolic action (Westphal & Zajac, 1998) and in the detachment of behavior from official rules. This phenomenon has been termed decoupling and defined as “building gaps between [...] formal structures and actual work activities” (Meyer & Rowan 1977: 341). Decoupling research has entered a wide range of academic disciplines, including management science (Elsbach & Sutton, 1992; Greenwood & Hinings, 1996; Fiss & Zajac, 2006; MacLean & Behnam, 2010), administrative science (Cohen et al., 1972; Weick, 1976; Tolbert & Zucker, 1983; Scott, 1987; Westphal & Zajac, 1998), and sociology (Meyer &

Rowan, 1977; Zucker, 1977; DiMaggio & Powell, 1983; Edelman, 1992; Kalev et al., 2006; Sauder & Espeland, 2009; Hallett, 2010; Dobbin, Kim & Kalev, 2011; Cole, 2012). The phenomenon emerges mostly in complex and globalized contexts, which are accompanied by ambiguity, uncertainty as well as limited regulatory commitment and compliance monitoring (Greenwood & Hinings, 1996). In this context, authors have examined, for instance, the effectiveness of laws and regulations concerning the coupling of human rights and employment (Kalev et al., 2006; Cole, 2012; Lim & Tsutsui, 2012), or the adoption of sustainability and CSR standards (Wijen, 2014; Jastram, Otto & Minulla, 2022). Edelman (1992) has shown, for example, that laws relating to employment relations often give organizations a wide margin of compliance which can lead to symbolic action while management interests are maintained. This gap between formal policies and effective organizational adoption is known as policy-practice decoupling (Bromley & Powell, 2012), referring to firms not living up to their own or others' policies. Another form of decoupling is known as the gap between means and ends where policies are implemented but the intended goals are not achieved (Ibid.; Jastram & Försterling, 2023). Velte (2023) describes CSR decoupling as the difference between external CSR efforts (reporting/"talk") and internal CSR actions (performance/"walk") and he argues that due to extended sustainability reporting regulations, CSR decoupling continues to be a current topic for researchers, business practice, and standard setters.

Micro-institutional coupling and regulation

Within this strand of research, scholars have not only investigated reasons for decoupling but also analyzed how and under which conditions policy and practice are likely to be coupled. In this context Orton & Weick (1990) describe the central role of elements, which, if coupled, are "linked and preserve some degree of determinacy" (204). Here, the term elements can refer to organizational routines and formal structures (Spillane et al., 2011; Meyer & Rowan, 1977), organizational members (Hagan et al., 1979; Lom, 2016), hierarchical levels

and subunits (Bird et al. 2019; Firestone, 1984; Murphy & Hallinger, 1984), measures of performance and narratives (Sauder & Espeland, 2009; Haack et al., 2012), as well as the organizational environment (Weick, 1976). Regardless of the position in an organization, elements exist and vary in their number and in the strength of their interdependencies. Their degree of interaction and mutual responsiveness determine the level of coupling between the elements (Orton & Weick, 1990; Weick, 1976). Orton & Weick (1990) differentiate between tight and loose coupling: Tight coupling refers to systems where elements are responsive and do not act independently (such as closely linked teachers and administration in a school studied by Yair & Khatab, 1995) while loose coupling refers to independent elements not acting responsively. In other words, the degree of coupling between elements depends on their activity and on the responsiveness between them.

For Perrow (1999) the main difference between tight and loose coupling lies in the flexibility and the extend of dependence between the elements. In this view, tight coupling is allowing only one way of action without flexibility and is only adjustable by formal rule changes (Lom, 2016). Due to its low flexibility, the effect of tight coupling can be negative because adaption to new conditions can be very slow (Yair, & Khatab, 1995; Perrow, 1999). On the other hand, loose coupling allows more flexibility and offers more potential solutions to one problem (Orton & Weick, 1990; Mitchell & Zmud, 1999). Here, elements are responsive to each other but retain their own identity. As an example, for loose coupling, Weick (1976) refers to an educational organization, where the counselor's office is loosely coupled with the principal's office. They are somehow attached but each of them retains separateness and their own identity. In this context, Firestone (1984) found that when elements are loosely coupled, innovation is likely to happen incrementally rather than as major, systematic change.

With regards to the effects of regulation on the coupling of policy and practice, DiMaggio & Powell (1983) describe isomorphism as the increasing mutual adaption of institutions during a process of change. In this context, coercive isomorphism is based on

political influence, rules and regulations, and an organizational aspiration for legitimacy relating to institutional pressure (Dobbin & Kelly, 2007; Short & Toffel, 2010; Tsutsui, Whitlinger, & Lim, 2012; Toffel, Short & Ouellet, 2015; O'Rourke, 2003; Distelhorst, Locke, Pal & Samel, 2015; Toffel et al., 2015; Amengual & Chiro, 2016). Corresponding research focusses on the effectiveness of laws and regulations, for instance, in the context of employment, diversity, or sustainability (Kalev et al., 2006; Cole, 2012; Lim & Tsutsui, 2012).

Besides existing research on isomorphism, the literature focusing on micro-institutional aspects of (de)coupling as well as the role of regulation in this context is limited (Bromley & Powell, 2012). As Lom (2016) argues “institutional theory has treated coupling too broadly, mainly discussing organizations as either coupled or not, [therefore] we need a better understanding of what [...] coupling looks like at the micro level” (36). Against this background, we aim to analyze the interaction between governmental regulation and micro-institutional coupling in a business context. Our objective is to further develop institutional theory based on an empirical analysis of the output of EU Directive 2014/95/EU on corporate structure and actor constellations. In the following sections, we present the empirical research context and methodological approach of our study.

METHOD

Research Context

The aim to protect the environment and to foster sustainable development has a long history on European level. In 1992, a major initiative called “Towards Sustainability” was introduced, encouraging companies to report on financial aspects relating to the environment (EC, 1992). Further on, the EC published a “recommendation [...] on the recognition, measurement, and disclosure of environmental issues in the annual accounts and annual reports of companies” (2001), followed by a proposal for Directive 2013/0110 including a disclosure claim concerning non-financial and diversity information. Until then, in most European Union

(EU) member states, non-financial reporting was based on the principle of voluntariness. Whilst companies had to disclose their revenue, profit, and losses, they enjoyed a wide discretion concerning the publication of information regarding social responsibility and environmental sustainability (Kinderman, 2013). Even though many companies recognized the importance of being transparent concerning their non-financial business actions, a need for mandatory disclosure remained out of many stakeholders' perspective (Korca, Costa & Farneti, 2021).

In 2014, after an intensive consultation period involving multiple stakeholders, mandatory non-financial reporting was introduced on EU level through Directive 2014/95/EU, also called Non-Financial-Reporting-Directive (Kinderman, 2019). With this new directive, the EC formalized its conviction that “disclosure of non-financial information is vital for managing change towards a sustainable global economy [...] [and that] non-financial information helps the measuring, monitoring and managing of undertakings' performance and their impact on society.” (EC, 2014: 1). Since 2018, referring to the financial year of 2017, large public interest entities including listed companies, credit institutions, and insurance companies with more than 500 employees have been required to report on environmental and social matters as well as on anti-corruption and bribery (EC, 2014).

While mandatory non-financial reporting at European level can be considered a milestone in the field of sustainability regulation, its output, outcome, and impact (Jastram & Försterling, 2023) for sustainability are contested (La Torre et al., 2018; Aureli et al., 2020; Venturelli et al., 2020). Correspondingly, the directive has been subject to a revision in 2021 due to strong stakeholder criticism. Even though the EC had published non-binding guidelines to support companies in disclosing relevant, useful, and comparable non-financial information (EC, 2017), in 2021 the European Financial Reporting Advisory Group (EFRAG, 2021) pointed out that the reported information was not sufficiently comparable nor reliable, not sufficiently relevant to stakeholders, and not sufficiently digitalized. Therefore, the EC adopted a proposal for a Corporate Sustainability Reporting Directive on April 2021, which complements the

NFRD by extending its scope to all large companies and all companies listed on regular markets, requiring auditing of the reported information, demanding more detailed information based on EU sustainability standards, and requiring machine readable digital presentation of the reported information (EC, 2021).

Data Collection

To capture a broad set of possible outputs of the NFRD, we employed a qualitative, inductive methodological approach (Glaser & Strauss, 2017). Our findings result from multiple rounds of data collection. Our research started in 2013 with the initial (and thereafter continued) analysis of documents and secondary data relating to the new regulation, followed by a phase of qualitative interviews from 2018 - 2021 and an industry event in 2023 for validation purposes.

Regarding interview partners, we employed theoretical sampling and started to interview representatives of German companies which were formally addressed by Directive 2014/95/EU. As first research insights emerged, further interviewees were added representing consultancies and auditing companies while the interviews developed in focus and depth (Mair, Marti & Ventresca, 2012). In total, 31 qualitative semi-structured interviews were conducted which mostly took place at the companies' premises or via phone. Three interviews were short (less than 10 minutes) but nevertheless contained valuable insights for our study. All other interviews ranged from 18 to 66 minutes with an average duration of 30 minutes (see Table 2). The interviews were audio recorded (except four interviews, where handwritten notes were taken), transcribed, and followed by a protocol to capture emerging relevant topics (Strauss & Corbin, 1998). Due to our explorative research approach, guiding questions were pre-defined as rough outline only (Glaser & Strauss, 2017). During the first 10 interviews general questions were asked as for example: "Has anything changed for you since the directive came to force?" and if the answer was positive: "What kind of effects do you observe?".

After each interview, we discussed preliminary results within the team of researchers and drafted field notes and first theoretical memos. Subsequently, we reviewed possible theoretical frameworks for our research and findings in an iterative manner. We started considering the political CSR and governance literatures (e.g., Scherer, Palazzo & Baumann, 2006; Scherer & Palazzo, 2011; Hussain & Moriarty, 2018) but rejected these frameworks because fitting analytical constructs on micro-management levels were missing. Next, we reviewed the institutional theory literature (Meyer & Rowan, 1977; DiMaggio & Powell, 1983; Greenwood et al., 2008) because of its focus on organizational responses to external (regulatory) influences (Patriotta, 2020; Schneiberg & Clemens, 2006). We firstly considered the macro-theoretical concept of isomorphism as a lens for our findings (DiMaggio & Powell, 1983) but as various interviewees described internal outputs during the first round of interviews, we shifted our focus towards the micro-institutional (de)coupling discourse (e.g., Weick, 1976; Orton & Weick, 1990).

While theoretical categories emerged during our research process, we further refined our interview questions and asked more specifically for outputs of the directive on internal actors, strategy, structure, and resources. We asked for example: “Have new actors been involved in non-financial reporting since the directive came to force?”, “What are their interests and actions?”, “Did your sustainability strategy change due to the implementation of the directive? If so, how did it change?”, “Did the reporting change?”, “Did sustainability budgets change?”, “Did other organizational processes change?”. Data gathering and preliminary data analysis were iterated until a level of maturity was reached where further interview data confirmed our previous insights without adding new findings (Janesick, 2000; Richardson 1994).

The interviews were supplemented by official documents on non-financial reporting such as the text of the directive, guidelines, and reports by the EC, as well as corporate sustainability reports, annual accounts, and secondary data (e.g., Global Compact, 2017; Aureli

et al., 2020; López Piqueres, 2020; Maas & Sampers, 2020; EC, 2020; KPMG, 2020; BDO, 2021). The documents and secondary data were used to understand the genesis of non-financial reporting on European level, to observe the ongoing legislative process, to get an impression of disclosed reports, and to review the current state of research.

Data Analysis

Our qualitative data analysis comprised several rounds of iterative interview coding and discussions among the researchers going back and forth between the gathered data and the theoretical arguments (Miles & Huberman, 1994; Strauss & Corbin, 1998). We started with open and descriptive coding (Saldaña, 2009) to identify all organizational changes relating to the NFRD. In a second round of coding, we clustered codes into categories such as “processes”, “actors”, “strategy”, “structure”, and “resources”. Analyzing the interaction of these categories highlighted the critical role of reconfigured elements in the coupling of policy and practice (Orton & Weick, 1990; Weick, 1976). As a next step, we conducted axial coding (Strauss & Corbin, 2008; Saldaña, 2009; Daovisan & Chamaratana, 2020) to further differentiate changing interactions of elements related to the NFRD.

In addition, we triangulated our interview results with findings from other studies in order to increase the validity of our study (Hopper & Hoque, 2006; Longoni & Cagliano, 2018; Mair et al., 2012). Furthermore, we validated our findings during an industry event that we organized in collaboration with the Chamber of Commerce in (city to be disclosed after the review process) where we presented and discussed current sustainability regulation as well as the results of our study with about 50 managers working in the field of sustainability. Our results are presented in detail in the next section.

RESULTS

The results of our study indicate a reconfiguration of organizational elements as an output of Directive 2014/95/EU resulting in an increased coupling between policy and practice on the micro-organizational level. We identified a strengthened coupling between elements related to an increased activity and responsiveness between them (Orton & Weick, 1990). Specifically, our interviews revealed changes concerning the role of actors in sustainability departments, supervisory boards, boards of management, audit companies, as well as other departments (as illustrated in Figure 1). We will elaborate on this in the following sections. Moreover, interviewees described increased information, control, and communication levels after the NFRD came into force relating to changed organizational routines and formal structures.

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Concerning the new roles and responsibilities of actors, we learned, for instance, that before the NFRD became effective, sustainability departments often only had limited direct touchpoints with the supervisory board and board of management. Now, there is an increased interest in sustainability activities, especially regarding sustainability reporting as Interviewee No. 5 (manager of an auditing company) describes: *“The board of management is responsible for the [non-financial] report as they are for the financial statements. This means, the board of management must [now] deal with these [sustainability related] topics and this was previously [...] not everywhere the case”. [...] [And also] the supervisory board was maybe not so involved with these topics before”* [All interviews were translated from German into English by the authors]. Correspondingly, a sustainability manager stated: *“A direct dialogue with the supervisory board has now been established. [...] Before, we, the [sustainability]department, did not have direct exchange [with the supervisory board] about [sustainability] topics”*

(Interviewee 14). Moreover, we learned that after the NFRD came into force as a new legal obligation, the perceived significance of sustainability topics and of the sustainability department increased within organizations. Accordingly, Interviewee No. 18 (sustainability manager) stated: *"In general, the topic has gained relevance due its mandatory legal character. Definitely, it is perceived differently within the organization now. We [the sustainability department] are simply being taken more seriously"*. Interviewee No. 5 (manager of an auditing company) argued similarly: *"Because the topic is now legally mandatory, the overall awareness within companies has increased. [...] Now the legislator is paying attention, and it is not a voluntary report anymore, but a legally required report. This has internally increased the importance of the whole topic"*.

Additionally, the NFRD influenced organizations on the strategic level as explained by Interviewee No. 14 (sustainability manager): *"It [the sustainability reporting obligation] was a requirement, which we took into account [...] when further developing our [...] [sustainability] strategy"* and Interviewee No. 5 (manager of an auditing company) added: *"We are using this [sustainability topic] now and really implement it into our corporate strategy"*.

Furthermore, our research found that the information and communication flow between the sustainability department and other actors within the organization was newly established or intensified since the launch of the NFRD. Accordingly, Interviewee No. 14 (sustainability manager) states that *"the frequency of exchange [between the sustainability department and the board of management] has increased"*. Other interviewees similarly emphasized the increased information demand from the board of management concerning sustainability activities: *"Actually, this year there were presentations in front of the board of management [...] especially about the topic of non-financial reporting and how we are approaching it. This was not necessarily on the agenda before"* (Interviewee No. 18, sustainability manager) or *"Our board members need to be prepared now. They need to be much more knowledgeable regarding these topics"* (Interviewee No. 7, sustainability manager) and *"We went with our*

questionnaires to the executives, board members [...] and explained everything from the beginning, why we have to do this, what is the reporting directive about and what impact does it have. Insofar there has been a sensitization throughout the whole company” (Interviewee No. 13, sustainability communication manager). Overall, the relevance of the sustainability department towards the board has been increased with the launch of the NFRD. Interviewee No. 18 (sustainability manager) illustrated this by stating: *“One can say that the workload has increased. I do not experience this so much as pressure but [...] it’s more effort because now we are much more involved in committees and calls with board members and their assistants in order to explain things or to provide slides for the board of management”*.

Another increased information flow was observed between the sustainability department and the supervisory board as described by Interviewee No. 14 (sustainability manager): *“A direct dialog developed between the supervisory board [...] and us of the sustainability department. Before, we were not in a direct exchange about sustainability topics [with them]”*. Interviewee No. 15 (sustainability manager) illustrates the new, direct communication between sustainability department and supervisory board as follows: *“[We are] certainly closer to the supervisory board now, because before the sustainability director [...] was actually not a guest in the [meetings of the] supervisory board. In 2018, it was the first time that I was invited multiple times to the audit committee of the supervisory board [...] to speak about the [reporting] process: How do we do that, what will happen and when? And later also about contents, about the results of the audit [of the report] by the auditors etc.”*

Overall, the NFRD strengthened the role and control function of the supervisory board with regard to sustainability policies and practice. Two interviewees described this as follows: *“Before, the [sustainability] topic was certainly not on the agenda of the supervisory board and now it is on the agenda”* (Interviewee No. 18, sustainability manager) and *“The [new] pressure was mainly resulting from the obligation of the supervisory board to approve the non-financial report in their meetings”* (Interviewee No. 5, manager of an auditing company).

Furthermore, this new duty of the supervisory board leads to increased budgets as stated by Interviewee No. 5 (manager of an auditing company): *“The new supervision by the supervisory board, certainly is accompanied with financial resources, which a classical [sustainability] department did not have before. Especially this audit, which was often financed by the [sustainability] department before, is now paid by a different source [...] because it is now mandated by the supervisory board”*.

Additionally, the role of audit companies as relevant actors in the context of sustainability increased because supervisory boards often do not have the capacity to assess the quality of sustainability reports. Hence, the information flow between the audit company and the supervisory board has increased. At the same time, audit companies gained a major control function in the reporting process as Interviewee No. 7 (sustainability manager) explains: *“When the law tells you to report and [...] the supervisory board [...] is normally only used to approve the annual financial report supported by an audit committee etc. and now they hire KPMG because the supervisory board cannot conduct the audit [of the sustainability report] themselves, then it reaches a completely different level for us”*. In consequence, the pressure for high-quality reporting was rising and led to the emergence of new structures and processes within the organization, as a sustainability manager reported: *“The fact that they [the auditors] are looking at it, simply this fact and the attempt to provide comprehensible, transparent information, leads to [...] changed approaches by my colleagues [...] ensuring [a higher level of information] accuracy”* (Interviewee No. 12, sustainability manager), or, as formulated by Interviewee No. 3 (manager of an auditing company): *“Well, here comes the auditor now. If this is new for companies - needless to say - they must put a little bit more effort into it [sustainability reporting]”*.

Moreover, collaboration between departments and team structures were intensified. Corresponding interview statements were, for instance: *“There was a working group [...] [and] corporate accounting, risk management and the legal department were participating [...]. They*

were already sparring partners [...] before the reporting, but we did not have a dedicated project team for this [before the NFRD]” (Interviewee No. 14, sustainability manager), or: “We are working closely together with our colleagues from the finance department, which was partially also the case before, but now we are of course perceived totally differently” (Interviewee No. 18, sustainability manager).

Our industry event confirmed our findings and additionally unveiled that information requests by business clients for non-financial data intensified the sustainability related information flow within and between organizational departments and actors.

In sum, it can be stated that the launch of the NFRD lead to a micro-institutional reconfiguration of roles and relationships within businesses as well as of organizational structures, processes, communication and information flows. In the following section, we will discuss these results in the light of the existing literature and derive theoretical implications.

DISCUSSION

Our study revealed that the introduction of the first mandatory non-financial reporting regulation by the European government had strong effects on micro-institutional actor constellations, structures and processes within businesses, a phenomenon which we described as reconfiguration of intra-organizational institutional elements. As Orton & Weick (1990) have explained, an increased activity and responsiveness between organizational elements can entail a tighter micro-institutional coupling between policies and practices and we argue that the NFRD has activated and fueled this process within business organizations.

This is an interesting result as the link between mandatory reporting and increased board level attention, for example, is not necessarily intuitive. The explanation for this interaction can be related to the fact that along with the progressing institutionalization of CSR and sustainability through formal regulation (Jackson et al., 2020) duties and liabilities for top-management bodies such as the board of directors and the supervisory board as well as for

influential external actors such as auditing firms increase. In consequence, new interrelated legal responsibilities elevate the joint need for increased information and control with cascading consequences for other institutional actors, structures and processes as described above.

These findings are relevant for researchers as well as for society and policy makers (Wickert et al., 2021) and lead to several scientific contributions: Firstly, we provide rich empirical data on business responses to non-financial reporting regulation and, by focusing on outputs on the micro-institutional level, we contribute new analytical perspectives to related research (e.g., Jackson et al. 2020; Kinderman, 2019, Knudsen & Moon, 2022).

Secondly, we contribute to theoretical debates about institutional decoupling by shedding new light on micro-institutional changes in element structures and their interaction caused by a new regulation (Bird et al., 2019; Lom, 2016; Bromley & Powell, 2012). Previous research has been trying to understand reasons for the success or failure of policy-practice-coupling as well as for different strength (loose or tight) of coupling (e. g., Hallett & Ventresca, 2006; Sauder & Espeland, 2009; Spillane et al., 2011). Our findings contribute to this discourse by demonstrating how regulation can trigger a micro-organizational reconfiguration of actor constellations, as well as new interrelationships between these actors, which leads to tightened institutional coupling. In this context, Orton and Weick (1990) have explained the importance of interaction between elements and our study indicates that due to an increased flow of information, the activity and responsiveness of organizational elements rises, suggesting that coupling becomes tighter as a consequence of governmental regulation. In this vein, we also contribute to the so-called “Voice of Causation” literature (Ibid: 206), that aims to clarify causes for tight and loose coupling. Parts of this literature discuss a fragmented external environment as a root of loose coupling (Orton and Weick, 1990), governmental regulation, however, has rarely been investigated in this context.

While Spillane et al. (2011) have demonstrated how regulation can change organizational routines, we unearth further changes to organizational structures by focusing on

actors, their roles, interests, and responsibilities as well as information flows and control functions between them. Our findings, thereby, contribute to the further development of the institutional coupling discourse, as they provide new insights on how policy-practice-coupling can be achieved by governmental regulation. In that sense, our findings also contribute to the debate about the role of governments in the context of CSR (Wickert, 2021; Scherer et al., 2016; Scherer & Palazzo, 2011; Knudsen & Moon, 2022; Kourula, et al., 2019; Eberlein, 2019).

Thirdly, our results inform the non-financial reporting literature (Jackson et al., 2020; Venturelli et al., 2018; La Torre et al., 2018; Aureli et al. 2020) by providing micro-institutional data and new findings related to the introduction of the first mandatory non-financial reporting legislation at EU-level. Prior analyses demonstrated that while the quantity of corporate reports significantly increased due to the NFRD, the quality of information disclosed has been rather poor (The Alliance for Corporate Transparency, 2020; Korca et al., 2021). In this vein, Jackson et al. (2020) state that although mandatory disclosure may provide top management with external legitimacy to act upon CSR criteria, it can be a “somewhat ‘toothless’ tiger” (335). Hence, large parts of the existing literature on the NFRD take a critical perspective on its output and the quality of sustainability reporting (García-Sánchez, Hussain, Aibar-Guzmán, & Aibar-Guzmán, 2022; Pizzi, Principale, Fasiello, & Imperiale, 2023). In this context, our study goes beyond the analysis of reporting and information disclosure by highlighting effects of the NFRD on intra-organizational levels. As such, our findings are also relevant for policy makers, because they show that while the NFRD received strong criticism concerning its limited effects on the quality of corporate reporting, it had relevant micro-institutional outputs within companies.

Our study has limitations with regard to the generalizability of qualitative data. It would, therefore, be interesting to conduct quantitative surveys on micro-institutional coupling related to governmental regulation to complement our findings. Moreover, it would be interesting to further investigate whether the coupling of elements remains tight over time or if flexibility

increases and dependence between elements declines again, once the process of reconfiguration has been completed.

Furthermore, it would be worthwhile investigating possible outputs of the Corporate Sustainability Reporting Directive (CSRD) (EC, 2022), which has been replacing the NFRD in 2024. In this context, it will be interesting to analyze, if the adjusted regulatory framework further tightens the coupling between policy and practice within organizations, or whether the reconfigured structure of institutional elements will remain stable during regulatory developments. With the implementation of the CSRD, the comparability of reported information will increase due to the mandatory application of the new European Sustainability Reporting Standards (ESRS). In addition, reporting reliability will be strengthened because of mandatory auditing requirements. At the same time isomorphism is likely to rise and it will be important for companies to continue evaluating and addressing new emerging social and environmental issues that existing regulation does not (yet) capture (Jackson et al., 2020). As others have argued, regulation can lead to more homogeneous but also more rigid forms of CSR (Ibid.) which may weaken businesses' search for new and innovative solutions to social and environmental challenges.

Overall, our study shows that the idea to mainstream sustainability in business practice by means of mandatory reporting regulation can be considered a promising approach. Yet, further impact studies need to be undertaken in order to investigate whether the identified organizational adjustments effectively contribute to solving today's grand challenges (Ferraro et al., 2015; George et al., 2024).

CONCLUSION

In this paper, we have examined the interaction between governmental regulation and micro-institutional coupling within businesses at the example of the first European directive on mandatory non-financial reporting. Our study revealed a reconfiguration of institutional

elements related to an increased coupling between organizational policies and practice in the field of sustainability. These findings contribute to a refined understanding of the output of regulation on institutional actors, structures, and processes with relevant implications for public as well as private sustainability governance.

The European Union is currently launching an unprecedented wave of new regulatory initiatives and laws in the field of sustainability and the outputs on organizational levels as well as further societal and ecological impacts will remain an interesting research topic in the following years. While we expect increased isomorphism in sustainability practices due to new formal compliance requirements, it will be important to closely evaluate whether this regulation will ultimately benefit people and planet in a sustainable way.

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TABLE 1

The Logic Impact Chain Model (Jastram & Försterling, 2023)

Sequences	Input	Output	Outcome	Impact
Indicators	Initiator	Implementer	Beneficiary	Beneficiary
Key Actor	Initiator	Implementer	Beneficiary	Beneficiary
Type of Change	Directional Changes	Behavioral Changes	Intermediate Changes	Property Changes

TABLE 2

Interview No.	Duration/ Minutes	Position
1	00:48	Sustainability Manager
2	00:22	Head of Corporate Communications
3	00:18	Managing Director, Consultancy
4	00:08	Sustainability Manager
5	00:36	Senior Manager, Sustainability Services, Auditor
6	00:29	Managing Director, Consultancy
7	00:29	Sustainability Manager
8	00:40	Sustainability Manager
9	00:23	Sustainability Manager
10	00:47	Sustainability Manager
11	00:28	Sustainability Manager
12	01:06	Sustainability Manager, Head of Corporate Sustainability
13	00:47	Communications Manager, Head of Corporate Communications
14	00:37	Sustainability Manager, Head of Corporate Sustainability
15	00:26	Director Global Sustainability
16	00:53	Press Spokesperson
17	00:19	Sustainability Manager
18	00:36	Group Communications and Corporate Responsibility Manager
19	00:44	Senior Manager Sustainability Services, Auditor
20	00:20	Sustainability Manager
21	00:09	Director Global Sustainability
22	00:31	Executive Board Member
23	00:34	Communications Manager
24	00:23	Senior Sustainability Manager
25	00:05	Corporate Affairs Manager
26	00:36	Managing Director
27	00:25	Managing Director
28	00:30	Chief Financial Officer
29	00:20	Head of Controlling
30	00:34	Managing Director
31	00:22	Managing Director

Figure 1: Micro-institutional elements in organizational structure before and after the introduction of the NFRD

