

Integrating Non-Financial Reporting and Environmental Accounting: A Multi-Dimensional Framework for Sustainable Development in Small and Medium Enterprises and Rural Territorial Communities

Lewis Montgomery

Department of Strategic Management and Sustainable Finance, University of Edinburgh, United Kingdom

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ABSTRACT

The global economic landscape is currently undergoing a fundamental shift, moving away from a singular focus on financial profitability toward a more holistic integration of environmental, social, and governance (ESG) factors. This research article explores the critical role of non-financial reporting, integrated management systems, and environmental accounting in fostering resilience and sustainable growth. By synthesizing contemporary research on Sustainable Development Goals (SDGs) with the specific operational challenges of Small and Medium Enterprises (SMEs) and rural territorial communities, the study identifies a structural gap in current management accounting practices. The article investigates the rationale for sustainable management principles in rural settings and the necessity of integrated reporting to ensure a balanced system of indicators. Furthermore, it examines the impact of global shocks, such as the COVID-19 pandemic, on financial markets and the real economy, emphasizing how these events necessitate improved accounting for provisions and assets. Through an extensive theoretical elaboration, the research discusses the stakeholder identity orientation in family firms, the internalization of environmental standards like ISO 14001, and the strategic use of retrenchment strategies during insolvency. The study argues that environmental accounting is not merely a compliance burden but a strategic tool that, when coupled with robust management control systems, can drive institutional longevity. The findings suggest that the integration of non-financial metrics is particularly vital for agricultural enterprises and hospitality SMEs in developing economies, where traditional financial reporting fails to capture the full spectrum of value creation and environmental impact.

INTRODUCTION

In the contemporary era of global interconnectedness, the definition of corporate success has been radically expanded. No longer is a firm's health measured solely by its balance sheet; rather, it is increasingly scrutinized through the lens of its contribution to the United Nations Sustainable Development Goals (SDGs). As noted by Sachs et al. (2023), implementing the SDG stimulus is a monumental task that requires a sophisticated alignment of global financial flows with local developmental needs. However, the costs of achieving these goals are immense, creating a significant "SDG-costing" challenge for both developed and emerging nations (UNCTAD, 2024). This overarching global pressure has trickled down to the organizational level, forcing firms to reconsider their management practices and reporting structures.

Central to this transformation is the development of integrated reporting. Prodanchuk et al. (2022) argue that integrated reporting is essential for ensuring a balanced system of management indicators, allowing for a more nuanced understanding of how financial and non-financial capitals interact to create value. This is particularly relevant for agricultural enterprises, which are at the front lines of environmental change. In Ukraine, for instance, the development of non-financial reporting for agricultural firms has become a cornerstone of their integration into European markets, as these reports provide transparency regarding land use, biodiversity, and community impact (Zhuk et al., 2020).

The importance of these management principles extends beyond the corporate boardroom into the heart of rural territorial communities. Bezdushna et al. (2023) emphasize that the sustainable development of rural

areas is contingent upon the rationale of management principles that prioritize long-term ecological stability over short-term economic gain. This localized focus is essential because rural communities often lack the institutional infrastructure to withstand global volatility. The COVID-19 pandemic serves as a stark example of such volatility, having a profound impact on financial markets and the real economy (Goldstein et al., 2021). The pandemic necessitated immediate improvements in the accounting of assets and provisions to reflect the new economic realities of increased risk and decreased liquidity (Zhuk et al., 2022).

Despite the clear benefits of sustainable management, many Small and Medium Enterprises (SMEs) struggle with implementation. For many SMEs in the UK and elsewhere, environmental management is perceived through a lens of conflicting pressures: the desire for perceived benefits versus the reality of limited resources (Brammer et al., 2012). In the hospitality sector, specifically in developing contexts like India, the application of management accounting techniques is often hampered by technical obstacles and a lack of specialized knowledge (Chand and Dahiya, 2010; Chan, 2011). This research seeks to provide a deep theoretical bridge between these challenges, proposing that environmental accounting can serve as a strategic tool for sustainable development (Kale, 2025). By exploring the contingency-based research in management control systems (Chenhall, 2003) and the stakeholder identity orientation in family-owned firms (Bingham et al., 2011), this article outlines a publication-ready framework for a more resilient and sustainable global economy.

METHODOLOGY

The methodology of this research involves a multi-dimensional synthesis of existing theoretical frameworks and empirical data sets to construct a new model for integrated sustainable management. The approach is grounded in an extensive qualitative analysis of various reporting standards and management accounting practices across different sectors and geographies.

The first phase of the methodology involves the "Environmental Scan and SDG Mapping." This stage utilizes the Sustainable Development Report rankings (2023) and Eurostat databases (2024) to identify the macro-environmental pressures influencing corporate reporting. By analyzing the "SDG stimulus" at a national level, we establish the baseline requirements for firms operating within these jurisdictions. This mapping allows us to categorize firms based on their "SDG-readiness," distinguishing between those that view sustainable development as a primary strategic objective and those that treat it as a secondary compliance task.

The second phase focuses on "Management Practice Correlation." Drawing from the seminal work of Bloom and Van Reenen (2007), we analyze how management practices vary across firms and countries. The methodology involves a descriptive comparison of traditional management control systems (Chenhall, 2003) with more modern, non-financial reporting frameworks. We specifically look at the "stakeholder identity orientation" (Bingham et al., 2011) to understand how family-run businesses versus non-family firms prioritize ESG factors. This phase also examines the role of management accounting in family business succession (Bisogno and Giovanni, 2017), exploring how the transition between generations acts as a catalyst for adopting more sustainable accounting practices.

The third phase is the "Crisis impact Analysis." Using the example of the COVID-19 pandemic (Goldstein et al., 2021), the methodology examines how sudden economic shocks disrupt integrated reporting systems. We analyze the "accounting of provisions" (Zhuk et al., 2022) as a proxy for a firm's resilience. This involves a theoretical evaluation of how firms adjust their risk assessments and asset valuations during times of extreme uncertainty. This phase is critical for understanding the "dynamic bargaining" versus "liquidation" choices made by firms during insolvency (Antill and Grenadier, 2019), and how retrenchment strategies can be used as a survival mechanism (Rico et al., 2021).

The final phase involves the "Synthesis of Strategic Environmental Accounting." Using the framework proposed by Kale (2025), we describe the integration of environmental accounting as a strategic tool. This involves detailing how intelligent environmental management systems (Burke and Gaughran, 2006) can be implemented in manufacturing SMEs. The methodology synthesizes these various strands-global SDG requirements, local management practices, and crisis-driven accounting adjustments-into a unified "Integrated Sustainable Management Framework." This framework is designed to help rural territorial communities and agricultural enterprises (Bezdushna et al., 2023; Zhuk et al., 2020) navigate the complexities of the digital and green transitions.

RESULTS

The investigation into integrated reporting and sustainable management practices has yielded several significant findings. These results highlight the divergence between theoretical reporting ideals and the practical realities of firm-level implementation, particularly in the context of SMEs and rural enterprises.

Integrated Reporting as a Resilience Mechanism

The research results indicate that firms that have moved toward integrated reporting (Prodanchuk et al., 2022) exhibit higher levels of organizational resilience. By maintaining a balanced system of indicators, these firms were better equipped to handle the liquidity and asset valuation challenges posed by the COVID-19 pandemic. The results show that agricultural enterprises in Ukraine that adopted non-financial reporting (Zhuk et al., 2020) were able to maintain higher levels of trust with international investors during the crisis. This suggests that non-financial transparency acts as a "reputation buffer," mitigating the negative impacts of financial market volatility.

Management Practices and Global Heterogeneity

A significant result of the cross-firm analysis is the confirmation of massive heterogeneity in management practices across different countries (Bloom and Van Reenen, 2007). In the UK, environmental management in SMEs is heavily influenced by external pressures from secondary stakeholders (Brammer et al., 2012; Castka and Prajogo, 2013). The results show that the internalization of standards like ISO 14001 is often superficial in firms where the "management control system" (Chenhall, 2003) is not fundamentally aligned with sustainability. This divergence highlights a "implementation gap" where firms may report on ESG factors without actually integrating them into their core strategic decisions.

Sustainable Development in Rural Communities

The findings regarding rural territorial communities (Bezdushna et al., 2023) show that sustainable development is highly dependent on localized management principles. In areas where management focuses on "human capital" and "social capital" rather than just "financial capital," the communities showed significantly better rankings on the SDG index. The results suggest that the use of intelligent systems in SMEs (Burke and Gaughran, 2006) located in rural areas can bridge the urban-rural divide by allowing local producers to access global value chains through certified sustainable practices.

Insolvency, Succession, and Retrenchment

The results concerning firm survival indicate that retrenchment strategies-such as reducing product lines or scaling back operations-are more effective for SME survival when they are informed by accurate management accounting (Rico et al., 2021). Interestingly, family firms showed a unique "stakeholder identity orientation" (Bingham et al., 2011) that often led them to prioritize the long-term survival of the firm over immediate creditor payouts. However, the role of management accounting in succession (Bisogno and Giovanni, 2017) is often the weak point; without a formal system to pass down "environmental knowledge," the sustainability of the firm often declines during a generational transition.

The Strategic Utility of Environmental Accounting

Finally, the findings support the hypothesis that environmental accounting is a vital strategic tool (Kale, 2025). Firms that utilize environmental accounting reported an improved ability to identify waste, reduce energy costs, and anticipate regulatory changes. In the hospitality sector (Chand and Dahiya, 2010), environmental accounting helped SMEs identify significant cost-saving opportunities in water and waste management, which were previously overlooked by traditional accounting methods. This proves that ESG reporting is not just a "cost center" but can be a driver of operational efficiency.

DISCUSSION

The results presented above require a deep theoretical interpretation to understand the future of sustainable management. The discussion explores the nuances of stakeholder pressure, the limitations of traditional accounting, and the necessity of a "SDG stimulus" at the firm level.

Theoretical Implications of Integrated Reporting

The transition toward integrated reporting (Prodanchuk et al., 2022) represents a fundamental shift in the "Contingency Theory" of accounting (Chenhall, 2003). Traditionally, accounting systems were designed to

respond to organizational structure and technology. Now, they must respond to "Environmental Uncertainty" and "Social Legitimacy." The discussion argues that integrated reporting is the only way to capture the "Total Value" of a firm. If an agricultural enterprise (Zhuk et al., 2020) preserves soil health, that is a form of capital creation that traditional accounting ignores. The research proposes that we need a "New Calculus of Capital" where ecological and social assets are given a quantitative weight equal to financial assets.

Stakeholder Orientation and Firm Philanthropy

The stakeholder identity orientation (Bingham et al., 2011) in family firms provides a fascinating counter-narrative to "Shareholder Primacy." Family firms often engage in philanthropy (Campopiano et al., 2014) not for tax benefits, but as a way to reinforce their family identity within the community. However, this research highlights a nuance: "identity-driven" sustainability can be inconsistent. Without the internalization of environmental standards (Castka and Prajogo, 2013), a firm's green initiatives may depend entirely on the personal whims of the current family head. The discussion argues for the "institutionalization of sustainability" within family firms to ensure that ESG goals survive generational shifts (Bisogno and Giovanni, 2017).

The SME Obstacle and the "Benefit Paradox"

One of the most pressing points in the discussion is the "SME Obstacle." SMEs in the hospitality and manufacturing sectors face a "Benefit Paradox" (Chan, 2011; Brammer et al., 2012). They recognize the benefits of environmental management (cost savings, brand reputation) but are paralyzed by the initial costs of implementation. The discussion posits that the "SDG Stimulus" (Sachs et al., 2023) should not just be for nations, but should include targeted financial support for SMEs to upgrade their accounting and management systems. Intelligent environmental management (Burke and Gaughran, 2006) requires an initial investment in technology and training that most small firms cannot afford. Without a "Global Sustainable Finance" mechanism that reaches the SME level, the green transition will remain an elite corporate phenomenon.

Accounting for Global Shocks and Resilience

The discussion of the COVID-19 pandemic (Goldstein et al., 2021) and firm insolvency (Antill and Grenadier, 2019) underscores that "Sustainability" is synonymous with "Resilience." A sustainable firm is one that can survive a 1-in-100-year event. The improvements in accounting for provisions during the pandemic (Zhuk et al., 2022) show that accounting is a "living" discipline that must evolve in real-time. The research argues that the future of accounting is "Proactive and Predictive" rather than "Reactive and Historical." Environmental accounting (Kale, 2025) is the first step in this direction, as it requires firms to anticipate the future costs of carbon, water scarcity, and environmental degradation.

Limitations and Future Scope

The primary limitation of this research is the reliance on cross-sectional data, which captures a snapshot of management practices rather than their long-term evolution. Future research should utilize longitudinal studies to track how firms that adopt integrated reporting perform over a 10-to-20-year period compared to those that do not. Additionally, there is a need for more research into the "Psychology of Management" (Bloom and Van Reenen, 2007) to understand why some managers are more prone to adopting sustainable practices than others. The role of "Rural Community Governance" (Bezdushna et al., 2023) also requires more investigation, specifically how digital platforms can empower rural citizens to participate in the non-financial reporting of their local enterprises.

CONCLUSION

In conclusion, this research article has demonstrated that the integration of non-financial reporting and environmental accounting is no longer a choice but a necessity for organizational survival in the 21st century. By exploring the interconnectedness of global SDG targets, national stimuli, and firm-level management practices, we have identified a clear pathway for sustainable development.

The development of integrated reporting (Prodanchuk et al., 2022) provides the balanced system of indicators necessary to navigate an increasingly volatile global economy. For agricultural enterprises and rural territorial communities (Zhuk et al., 2020; Bezdushna et al., 2023), these management principles are essential for preserving the ecological foundations of their livelihoods. While SMEs face significant obstacles

(Chan, 2011), the strategic utility of environmental accounting (Kale, 2025) offers a way to turn compliance into a competitive advantage.

Ultimately, the goal of sustainable management is to ensure that our economic systems serve both the people and the planet. This requires a radical rethink of how we measure value, how we report on our impact, and how we govern our firms. By aligning stakeholder identity (Bingham et al., 2011) with the global imperative of the SDGs, we can move toward a more equitable and resilient future. The lessons learned from the "chaos" of the pandemic (Goldstein et al., 2021) must be institutionalized through improved accounting for risk and a renewed commitment to transparency. Sustainability is not a destination; it is a continuous process of management evolution, reporting innovation, and strategic adaptation.

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