

# Chapter 1

## The Role of Small and Medium Practices in the Sustainability Reporting of Italian Small and Medium Enterprises

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### ABSTRACT

*Small and medium enterprises (SMEs) have a prominent role in both the European and the Italian economies, but their approach towards corporate social responsibility (CSR) and sustainability is still underdeveloped. The reasons are mainly related to perceived low economic returns, lack of enforced compliance of the legislation, limited financial and practical support. In overcoming these problems, the role of small and medium practices (SMPs) can be determinant due to the relationship between SMEs and their (not only accounting) consultants. This chapter focuses on SMPs' role in promoting SMEs' initiatives and also considers the academic debate about their sustainability reporting. The investigation of this stream of research and the results of a web survey (involving SMPs in the Northeast of Italy) emphasize how SMPs can support SMEs' sustainable practices and reporting.*

### INTRODUCTION

Nowadays a considerable emphasis is placed on CSR, *i.e.* Corporate Social Responsibility (Ali *et al.*, 2017; Mio & Venturelli, 2013; Vázquez-Carrasco & López-Pérez, 2013; Venturelli *et al.*, 2017). The European Commission believes that CSR is important for sustainability, competitiveness, and innova-

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tion in European enterprises and the European economy (European Commission, 2011). According to the European Commission, CSR should be company-led by integrating social, environmental, ethical, consumer, and human rights concerns into their business strategy and operations. This integration should also be applied to the sustainable initiatives and reporting of Small and Medium Enterprises (SMEs). The present chapter aims to investigate the incentives promoting sustainability for SMEs and the role of the main SMEs' accounting consultants (i.e. SMPs or Small and Medium Practices) in supporting SMEs' sustainable practices and their reporting of such practices. These research items are especially relevant given the data recently distributed by the Organization for Economic Cooperation and Development (OECD, 2016). It has recently emphasized the massive proliferation of SMEs and highlighted the key role of these firms in global economic development. SMEs make up 99.8% of all enterprises, 57.4% of value added, and 66.8% of employment. In 2015, just under 23 million SMEs in the non-financial business sector generated €3.9 trillion of added value and employed 90 million people. Moreover, start-ups are SMEs in most cases and they are key contributors to the innovation and growth dynamics of the European economy (European Commission, 2016). This is especially relevant in the Italian context: Italian SMEs are considered the engine of the national economy. They represent 99.9% of Italian enterprises and account for 80% of the industrial and service labor force (Eurostat, 2011; OECD, 2016). They share a number of common recurring features: almost half of them have a 'unicellular' structure, with a small number of employees, sole proprietorship and average turnover comparable to that of micro-firms (Unioncamere & Ufficio Studi di Mediobanca, 2016).

In parallel to these descriptive studies concerning the ubiquity and typology of SMEs, the latest report issued by the 'International Federation of Accountants' (2016, p. 10) emphasizes that SMPs are the main suppliers of accounting support to SMEs and are indeed themselves SMEs. The role of SMPs has been extremely important in the Italian economic system for a long time (Agostini et al., 2018), but it has not been deeply investigated in the literature. According to the International Federation of Accountants, SMPs are "practices that exhibit the following characteristics: their clients are mostly SMEs; they use external sources to supplement limited in-house technical resources; they employ a limited number of professional staff" (IFAC, 2010, p. 10). Moreover, SMPs "do not ordinarily audit the accounts of listed companies, and most of their work is the provision of non-assurance services (e.g., regulatory compliance, tax, advisory services)" (IFAC, 2016, p. 10). This definition highlights the strong professional/client relationship between SMPs and SMEs. Given their usual features as described above, SMEs often suffer from a lack of in-house specific expertise (Jarvis & Thompson, 2014). They resort to SMPs' services mainly to obtain accounting, legal and fiscal external support for both mandatory tasks and business advice. Such a supply relationship tends to go beyond the statutory service provision: it promotes the development of accountants' non-conventional services; it facilitates the understanding of mutual needs and the establishment of a relationship based on trust between SMPs and SMEs (Gooderham et al., 2004). In this way, SMPs can provide both accountancy-based services and other forms of value-adding business advisory services such as advice on strategic planning, financing, risk and sustainability.

This second category of SMPs' services is today especially relevant. Several European Directives (especially 2014/95/EU and 2003/51/EC) continue to push for disclosure on social and environmental matters. In particular, the 51/2003 European Directive had a deep impact in the Italian context (Agostini & Costa, 2018; Costa & Agostini, 2017). It introduced for the first time the consideration of "both financial and, where appropriate, non-financial key performance indicators relevant to the particular business, including information relating to environmental and employee matters" (2003/51/EC, 14) in order to enable a balanced and comprehensive analysis of the development and performance of the

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