

# Implementing sustainability strategies through accounting controls

- An exploration of practices in seven multinational corporations

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# Introduction

- A growing body of literature argues that **management control is essential in promoting corporate sustainability** (e.g. Norris and O'Dwyer, 2004; Durden, 2008)
- Yet, **scepticism** has been raised **about the existence** and, especially, about the **role** of (accounting) control mechanisms in promoting sustainability within the organizations (Deegan, 2002; Norris and O'Dwyer, 2004; Durden, 2008)
- **Few empirical insights exist** on practices and intra-organizational aspects of management control for sustainability (Epstein and Wisner, 2005; Henri and Journeault, 2010; Bennett et al. 2013)

# Introduction

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## **Aim of study**

Based on an exploration of firms' practices, this paper investigates how accounting controls support the implementation of a sustainability strategy in multinational corporations

- **Clarification of the concept of sustainability, sustainability strategy (>< separate programs, actions)?**
  - Rationale for choosing these 7 companies (why? Published explicit sustainability strategies, sustainability reports, awards → exposed themselves of being more sustainable than others)
  - In these conditions, we would like to know whether formal accounting based management controls exists with regard to sustainability (link with core business)
  - Definition of sustainability – broad understanding – lots of definition, issues – some are social, environmental – quantitative/qualitative – business/physical → we consider all controls which have been designed with regard to « sustainability activities »
- **Sustainability management control? What do they include? Or not? Is it part of conventional control or not? How can we check this?**
- **Integration – how do we measure the level of integration or not? Can we say it is not integrated simply?**
- **Explicit sustainability strategies → they should promote sustainability (activities) → do they have sustainability accounting controls (cf literature which says that (accounting controls play a role)? (to be checked with Simons, etc.)**
- **Do companies ignore management controls for sustainability?**
- **No they don't – they have but very basic, isolated from conventional controls and not full package !**
- **The professionalisation and mainstreaming of the job of sustainability managers**

# 1. Literature

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- Management control should play a key role in shaping processes of (sustainability) strategy implementation  
e.g. Anthony, 1965; Simons, 1990; Figge et al., 2002; Epstein and Wisner, 2005; Schaltegger and Wagner, 2006; Gond et al., 2012
- Particular role of formal and accounting-based controls  
e.g. Dent, 1991; Langfield-Smith, 1997; Brisbe and Otley, 2004; Epstein and Roy, 2007; Gond et al., 2012
- A growing body of academic literature on management control and sustainability has emerged  
e.g. Epstein and Wisner, 2001; Figge et al., 2002; Schaltegger and Wagner, 2006; Chung and Parker, 2008; Durden, 2008; Schaltegger, 2011
- Yet, only a **limited number of empirical studies** based on surveys or case studies investigate how management control has been deployed in practice to promote sustainability  
e.g. Epstein and Roy, 2001; Norris and O'Dwyer, 2004; Epstein and Wisner, 2005; Schaltegger and Wagner, 2006; Durden, 2008; Morsing and Oswald, 2009; Perego and Hartmann, 2009; Henri and Journeault, 2010; Riccaboni and Leone, 2010
- None of these **studies** explores practices in **several** multinational corporations

## 2. Framework for analysis

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- **Malmi and Brown (2008)**

<b>Cultural Controls</b>					
Clans		Values		Symbols	
<b>Planning</b>		<b>Cybernetic Controls</b>			<b>Reward and Compensation</b>
Long Range Planning	Action Planning	Budgets	Performance Measurement Systems including Financial Measurement Systems, Non-Financial Measurement Systems and Hybrid Systems		
<b>Administrative Controls</b>					
Governance Structure		Organization Structure		Policies and Procedures	

# 3. Research methodology

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- **Explorative and inductive qualitative approach**

- **Sample**

7 large multinational corporations (Belgian, Dutch and French firms)

All the large sampled firms have an **explicit** sustainability strategy

- **Data Collection**

- Primary data: Semi-directed interviews with the sustainability managers
- Secondary data: Publicly-available data like sustainability reports or websites + internal documents like budgets, lists of indicators
- Examination of the existence of **accounting controls** to promote sustainability including planning; cybernetic controls; reward and compensation system.

- **Data Analysis**

Qualitative content analysis (in-depth vertical and horizontal analyses)

## 4. Findings – General observations

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- **Selection of observed accounting controls + Awareness** of the importance of accounting controls to support the sustainability strategy implementation
  - Nevertheless,
    - While social and environmental issues are related to the core corporate/business strategy, they are still not integrated into conventional management control systems. In most firms, a **clear divide between conventional management controls and sustainability management controls** exists.
    - The majority of the sustainability managers were “uncomfortable” with some questions related to accounting-based controls
      - ✦ **Lack of information** *“I do not know if we have this system in our company” “I am not sure that social and environmental issues are considered by the team responsible for traditional budgeting”*
      - ✦ **Lack of understanding** *“I don’t understand what you mean with “full cost accounting systems” – I have never heard about that”*
- ➔ In practice, a **limited (technical, organizational or cognitive) integration** of sustainability controls within traditional controls exists (see also Gond et al., 2012).



## 4. Findings – Individual controls

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- **Planning**

Formal strategic planning system in all corporations

Five firms clearly envisage the translation of these corporate strategic goals at all levels of the company (different business units, operating units and departments)

- **Cybernetic controls**

- Budgets – key sustainability-related costs/revenues integrated into the conventional budgets but, in most cases, specific CSR/sustainability budgets
- Performance measurement systems – rough list of sustainability indicators based on GRI (under the responsibility of the sustainability department in 6 firms)  
Sustainability Balanced Scorecard ?

- **Reward and compensation**

Whereas all firms have reward and incentive systems related to the achievement of economic objectives, only two sampled firms also consider social and environmental aspects in their compensation systems

# 4. Findings - Synthesis

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- **Literature:** Largely scepticism expressed about the development of control mechanisms to support the implementation of a sustainability strategy
- **Our findings:** multinational corporations have developed a selection of accounting controls:
  - All firms have **long range plans** concerning sustainability issues and most of them (5 out of 7 firms) translate these long-term plans into concrete **action plans**
  - All firms consider sustainability aspects in their **budgeting** (in an integrated way or not)
  - All firms have **hybrid performance measurement systems** to track sustainability performance and to check the achievement of their sustainability objectives
- However, we also observe some major **gaps in corporate practices:**
  - Some of the controls observed are **very basic** mechanisms
  - Most sampled firms have **not developed a complete package** of accounting controls
  - These controls are generally kept **separate** from the “package” of conventional management controls

# 5. Discussion

- As Masanet-Llodra (2006) or Perderson and Neergaard (2008) observed, there are **incongruities between explicit speeches and sustainability strategy implementation**
- These corporations communicate statements of sustainability, explicit commitment or overall sustainability policies but **few** of them **are able to prove** that they are successful in achieving these intentions. Due to the **lack of linkages between societal and mainstream management** (tools and framework), these issues are likely to remain isolated add-on activities.
- Based on previous literature, we identify a series of **potential reasons** for this situation:
  - Unconsciousness
  - Unwillingness
  - Inability (technical, organizational or cognitive barriers)
  - Emerging process ?

# Conclusion

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- This paper investigates in depth how accounting controls support the implementation of a sustainability strategy in seven multinational corporations
  - Selection of accounting controls observed
  - Incongruities between communication and ability to prove successful implementation of sustainability strategy
- **Limitations**
  - Limited number of cases (7)
  - Interviews with sustainability managers only
  - Focus on accounting controls only
  - Deliberate view of strategy
- **Directions for future research**
  - Distinct sustainability control patterns?
  - Larger scale study?
  - In-depth longitudinal case study?

Thank you for your attention.

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