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# The British Accounting Review

journal homepage: [www.elsevier.com/locate/bar](http://www.elsevier.com/locate/bar)

## Levers of eco-control and competitive environmental strategy



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### ARTICLE INFO

#### Article history:

Received 16 August 2015

Received in revised form 8 June 2016

Accepted 9 June 2016

Available online 11 June 2016

#### Keywords:

Environmental strategy

Eco-control

Levers of control

Management control systems

### ABSTRACT

An emerging stream of literature has investigated the link between management controls and the environmental strategy. However, this literature has provided an incomplete picture of that link, notably because of the lack of distinction between the intended and realized strategy and the lack of attention devoted to multiple environmental strategic intentions. The purpose of this study is twofold: (i) to examine the ability of eco-control to support competitive environmental strategies by translating strategic intentions into eco-practices, (ii) to examine the extent to which the role of eco-controls, when translating environmental strategic intentions into eco-practices, varies when strategic intent is predominately based on eco-efficiency or eco-branding. Using survey-data from a sample of 249 manufacturing firms, the results suggest that the predominance of either eco-efficiency or eco-branding intent leads to variations in the use of beliefs, boundaries, diagnostic and interactive levers of eco-control. More specifically, the results suggest that firms focusing predominately on eco-efficiency intent rely on the levers of eco-control to convert their strategic intentions into eco-production practices to a greater extent than organizations focusing predominately on eco-branding intent to implement eco-marketing practices. Also, the results suggest that, while the adoption of the levers of eco-control framework seems to be driven by eco-efficiency intentions, organizations may act on cost reduction before using eco-controls to implement eco-marketing practices when increasing revenues.

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## 1. Introduction

The adoption of an environmental strategy has become an important consideration for a growing number of organizations worldwide (Deloitte, 2012; Kiron, Kruschwitz, Haanaes, & von StrengVelken, 2012; Unruh & Ettenson, 2010). This trend may in part be the result of increasing concerns about climate change, greenhouse gas emissions and biodiversity impoverishment, or the consequence of more stringent regulations and increasing pressures from stakeholders (Buysse & Verbeke, 2003; Delmas & Toffel, 2008; Henriques & Sadosky, 1999; Perez-Batres, Doh, Miller, & Pisani, 2012), leading the organizations to adopt ethical, compliance or legitimacy-related environmental strategies (Bansal & Roth, 2000; De Marchi, Di Maria, & Micelli, 2012; Orsato, 2009). However, this tendency may also be explained by competitive motivations where managers are becoming more aware of the economic benefits obtained from an improvement in environmental performance (Bansal &

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Roth, 2000; Paulraj, 2009; Porter & Kramer, 2006, 2011). These economic motivations lead to the adoption of competitive environmental strategies, that is, the integration of ecological factors into organizational strategy in order to create a competitive advantage (Stead & Stead, 1995). Past literature has notably identified two main competitive environmental strategic intentions, namely eco-efficiency and eco-branding (e.g. De Marchi et al., 2012; Orsato, 2009; Porter & Van der Linde, 1995; Shrivastava, 1995; Stead & Stead, 1995). On the one hand, eco-efficiency is a process-oriented intent aimed at improving productivity in order to achieve cost reduction. On the other hand, eco-branding is a market-oriented intent aimed at differentiating firms from competitors in order to increase revenues. While organizations may decide to pursue both types of competitive environmental strategic intentions at the same time, a predominance of either strategic intent is going to occur with varying degrees of intensity.

Past research has convincingly demonstrated that for organizations to implement strategy, management control practices constitute a valuable tool that can be used to translate intentions into practices (Langfield-Smith, 2007, 2008). In the strategy literature, the intentions refer to the 'intended strategy', whilst the observed patterns of practices refer to the 'realized strategy' (Mintzberg & Waters, 1985; Mintzberg, 1978). Another stream of research has suggested that management control practices operate as a system and cannot be studied in isolation from each other (Grabner & Moers, 2013; Otley & Berry, 1980). Reconciling those streams of research, the levers of control (LOC) proposed by Simons (1990,1995) has become an influential framework to examine the link between strategy and management controls operating as a system (Bisbe & Otley, 2004; Henri, 2006; Mundy, 2010; Tessier & Otley, 2012; Tuomela, 2005; Widener, 2007). It depicts the role of four levers of control, namely beliefs, boundaries, diagnostic and interactive, in managing basic organizational tensions between the need to stimulate and control opportunities, as well as between intended and emergent strategy. However, little is known about the integration of environmental aspects into management controls, i.e. eco-controls,<sup>1</sup> to translate environmental strategic intents into eco-practices (notable exceptions include Arjaliès & Mundy, 2013; Gond, Grubnic, Herzig, & Moon, 2012; Perego & Hartmann, 2009; Pondeville, Swaen, & De Rongé, 2013). Although these past studies provide valuable insights into the role of eco-control to support environmental strategy, they provide an incomplete picture of that link.

First, this literature has mainly operationalized environmental strategy based on the level of implementation of eco-practices. For instance, Perego and Hartmann (2009) and Pondeville et al. (2013) measure the level of strategic environmental proactivity based on the implementation of various eco-practices, such as the adoption of environmental policies and the inclusion of environmental aspects within the employees' training. However, as mentioned, the strategy literature argues that a distinction should be made between intended and realized strategy (Mintzberg & Waters, 1985; Mintzberg, 1978). Hence, following this view of strategy, it is expected that eco-controls would be driven by the strategic intents in order to lead to eco-practices. Thus, by focusing on the level of implementation of eco-practices (i.e., realized strategy) as antecedent of eco-control and by avoiding the strategic intents, past research has provided an incomplete picture of the link between eco-controls and environmental strategy. More generally, the strategy-MCS literature has also been relatively silent about the distinction between intended and realized strategy (Langfield-Smith, 2007). Hence, the first purpose of this paper is to use the LOC framework to examine the ability of eco-control to support competitive environmental strategy by translating strategic intentions into eco-practices.

Secondly, past studies have overlooked the use of eco-control in the context of multiple environmental strategic intentions. They have mostly considered firms more globally as being more or less environmentally proactive. Conceptualizing environmental strategy based on a unique and uniform intention prevents from carry out a refined analysis of potential variation in the intensity of use of LOC. In other words, by overlooking the joint strategic intentions, i.e. the simultaneous importance devoted to eco-efficiency and eco-branding intentions, past studies have partially addressed the complexities surrounding the use of LOC. Indeed, the simultaneous consideration of these two environmental strategic intentions, notably their respective predominance, may send different signals throughout the organization, contributing to an increase in the complexity of decision-making and control-setting and potentially leading to different levels of LOC use (Dekker, Groot, & Schoute, 2013; Lillis & Veen-Dirks, 2008). At a more general level, the strategy-MCS literature has provided some evidence of the impact of joint strategies on management control practices, notably performance measurement, but not in the context of controls operating as a system (Chenhall & Langfield-Smith, 1998; Dekker et al., 2013; Lillis & Veen-Dirks, 2008). This is a source of concern as controls do not operate in isolation from each other (Grabner & Moers, 2013). Hence, the second purpose of this study is to examine to what extent the importance of eco-controls in translating environmental strategic intents into eco-practices varies when strategic intent is predominately based on eco-efficiency or eco-branding.

Using survey-data from a large sample of manufacturing firms, the results first suggest that organizations displaying predominately eco-efficiency intent will more extensively implement eco-production practices than organization displaying predominately eco-branding intent. In contrast, organizations displaying predominately eco-branding intent will more extensively implement eco-marketing practices than organization displaying predominately eco-efficiency intent. More importantly, the results suggest that the predominance of either eco-efficiency or eco-branding strategic intent leads to

<sup>1</sup> Eco-controls are the application of financial and strategic control methods to environmental management (Henri & Journeault, 2010; Schaltegger & Burritt, 2000). Based on the generic work of Simons (Simons, 1987, 1990), eco-controls are defined as the formalized procedures and systems that use financial and ecological information to maintain or alter patterns in environmental activity. The concept of eco-control has also been referred to as sustainability control systems (SCS) (Gond et al., 2012), environmental management control systems (EMCS) (Pondeville et al., 2013), and environmental management accounting (EMA) tools (Boutens & Hoozée, 2013).

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