



Managing sustainable development with management control systems: A literature review



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ABSTRACT

The purpose of this article is to synthesize evidence of management control systems (MCS) that are employed by organizations to enforce sustainable development (SD). We aim at suggesting a roadmap for coherent research.

For this, we conduct a 'systematic' review based on an initial sample of 12,139 sources between 1988 and 2013. We then discuss 83 empirical studies in natural and social sciences. The MCS framework of Malmi and Brown (2008) ensures a comprehensive understanding of SD enforcement in practice.

We identify diverse types of controls that organizations use to enforce SD. Our findings problematize examples where the MCS is unable to appropriately address all relevant aspects of SD. We find that organizations prefer to manage and control smaller aspects of SD, such as environmental responsibility. Social responsibility is addressed less frequently, and only few organizations implement a sustainable MCS (SMCS) that addresses all aspects of SD. Classic 'cybernetic' controls are the preferred choice in MCS, but organizations have advanced beyond them during the past decade.

Our main contribution is a structured map of contemporary research that points to areas where our understanding of SMCSs is still scarce, such as their interplay with contextual factors and the resulting, long-term performance effects.

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1. Introduction

The subject of sustainable development (SD) has entered popular discourse since the impacts of the industrial development. Issues such as changes in climate, exhaustion of natural resources, and growth in inequality have become increasingly apparent (Epstein & Roy, 2001; Montiel, 2008; Nixon, Burns, & Jazayeri, 2011). This has led to new regulations and pressure from stakeholders (Rodrigue, Magnan, & Boulianne, 2013). It has also created revenue opportunities, which organizations attempt to seize by implementing and communicating sustainability strategies (Bebbington, 2001; Bouten & Hoozée, 2013; Figge & Hahn, 2013). Nevertheless, SD remains only a good intention, unless organizations make serious efforts to enforce it. An increasing number of researchers suggests that management control systems (MCS) are essential for fostering the integration of SD with its social, environmental, and economic dimensions (e.g., Ball & Milne, 2005;

Covaleski, EvansLuft, & Shields, 2006; Durden, 2008; Gond, Grubnic, Herzig, & Moon, 2012; Norris & O'Dwyer, 2004; Stacey, 2010). MCS have their roots in the management control literature (e.g., Anthony, 1965) and comprise a wide array of mechanisms for directing employees' behavior toward organizational objectives (Merchant and Van der Stede, 2011). Rosanas and Velilla (2005) argue that MCS can also create an illusion of control, and that cybernetic controls are not sufficient anymore for attaining goals beyond profits. As a result, sustainability management control systems (SMCS) have become one of the emergent themes in the management control literature (e.g., Bebbington and Thomson, 2013; Contrafatto & Burns, 2013; Figge & Hahn, 2013).

However, research on SMCS remains fragmented in relation to definitions, theoretical perspectives, and performance effects. While diverse approaches offer valuable insights, they fail to provide a coherent picture of SD and its pertinent controls for enforcement (Gond et al., 2012). Nixon and Burns (2012) and Berry, Coad, Harris, Otley, and Stringer (2009) call for more studies of MCS applied in practice. This should enable researchers and practitioners to be more reflective about the design, use, and appropriate contexts of SMCS for SD (Norris & O'Dwyer, 2004). The purpose of

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this paper is to identify, analyze, and synthesize evidence to answer the related research question: “Which management control systems do organizations apply to manage and evaluate sustainable development?”

We conduct a systematic literature review to ensure validity and conclusiveness (Cooper, 1982; Tranfield, Denyer, & Smart, 2003). In order to contribute to practice-oriented research, we concentrate on empirical studies that focus on SMCS. We cast our net widely across literature from the social science, natural science, and interdisciplinary fields. We identify 83 studies published in 56 journals from the inauguration of SD in 1988 until 2013. We synthesize the literature with the MCS framework by Malmi and Brown (2008), which comprises diverse controls as one package.

We find that there are various types of SMCS in practice, and that far more studies were conducted on an environmental than a social or sustainability dimension. Yet, very few of these SMCS achieve a consistent link from SD to financial rewards and other kinds of compensation in contemporary organizations. Neither is there a single type of control that could ensure full enforcement. Instead, multiple controls seem to be required to reinforce each other. Traditional accounting-based MCS are not capable of addressing all aspects of SD and would require an adaptation (Ball & Milne, 2005). We find that the interplay of SMCS and their context is not as well understood as in other areas of MCS, and there is little evidence on the performance effects of SMCS. As a common pitfall in organizations, these MCS can even create dysfunctional trade-offs between social, environmental, and economic objectives instead of seizing their synergies (Byrch, Kearins, Milne, & Morgan, 2007). Last, we conclude that the link between conceptual and empirical contributions on SMCS is weak.

We first contribute to the literature by extending the MCS framework by Malmi and Brown (2008) and make it applicable to SD. Second, we uncover areas that have received limited attention and warrant future research. This includes the questionable transferability of findings from the environmental to the social dimension (and vice versa); an investigation of the context surrounding appropriate SMCS, such as industry or global region; their effect on SD/economic performance; as well as a better understanding of the interaction between different types of sustainability controls. Third, we discuss possible advancements in methodology, particularly challenging the overreliance on cross-sectional surveys and case studies.

The remainder is organized as follows: Section 2 presents the interface of SD and MCS. The research design is illustrated in Section 3. We then present a descriptive (Section 4) and a content (Section 5) analysis of the literature. Section 6 synthesizes future research opportunities. Section 7 outlines the implications for practice and academia as well as the review's limitations.

2. Conceptual background

2.1. Sustainable development

The concept of SD has attracted increasing attention over the last two decades (Bansal, 2005; Dyllick & Hockerts, 2002; Epstein, Buhovac, & Yuthas, 2012; Hopwood, Mellor, & O'Brien, 2005; Moon, 2007; Redclift, 2005), but has not been unambiguously defined (Bell & Morse, 2008; Carroll, 1999). One of the most prominent definitions was given by the World Commission on Environment and Development (WCED, 1987, p. 8) that view a development as sustainable when it “meets the needs of the present without compromising the ability of future generations to meet their own needs”. Inherent is the aim of balancing the environmental, social, and economic dimension equally, which Elkington (1994) summarizes as the *triple bottom line*. These three dimensions are

interdependent and can reinforce each other (Bansal, 2005).

Organizations often engage in SD to pursue a resource-based strategy and to respond to institutional demands. In the first case, SD is considered as a strategic intangible asset which is adopted to improve performance and to create opportunities from innovations and internal changes (Bebbington, 2001; Fisher, 1995; Hamoudah, Sulaiman, Alwi, & Abideen, 2013; Nixon et al., 2011). Peloza (2009) finds that 59% of the 128 academic articles assessed suggest a relationship between adopting a measure of social/environmental performance and financial performance. The review of Aguinis and Glavas (2012) uncovers that SD creates positive non-financial outcomes at the institutional, organizational, and individual level. However, such aggregated verdicts remain controversial due to a missing consensus on measures for the respective performance, differences in defining responsibility, and measurement errors (Linnenluecke & Griffiths, 2010; Meyer, 1994; Orlitzky, Schmidt, & Rynes, 2003; Otley & Berry, 1980; Roth, 2008). In the second case, organizations act in a social context and experience pressure from stakeholders. In order to keep access to resources and to uphold legitimacy, organizations attempt to comply with stakeholders' norms and beliefs. For this, organizations adopt SD that becomes institutionalized through regulations and agreements (Bansal, 2005; Deegan, 2002; Epstein & Roy, 2001; Peloza and Shang, 2011).

Various terms are used synonymously for similar concepts, e.g., sustainability, sustainable business, and corporate (social) responsibility (CSR) (Ebner & Baumgartner, 2006; Naudé, 2012). Yet, it is not only the terminology that impedes a common understanding, but the diverse application that creates different meanings across various contexts (Bebbington, 2001; Hopwood et al., 2005; Milne, Tregidga, & Walton, 2009; Redclift, 2005; Velázquez Gomar and Stringer, 2011). Due to the mixture of terms, meanings, and the scarce details given in the reviewed literature, we cannot be certain to what extent the definition by WCED (1987) is being followed. Since we aim at conducting a comprehensive review of the literature, we refer to SD for any concept that addresses the three dimensions of ecological integrity, social responsibility and economic prosperity.

2.2. Management control systems for sustainable development

An organization and its employees initially have divergent aspirations about the objectives to aim for. This is due to employees' diverse personalities, motivations, lack of direction, behavior, and personal limitations (Merchant, 1985). To align overall objectives, management employs MCS which are complete “systems, rules, practices, values and other activities management put in place in order to direct employee behavior” (Malmi & Brown, 2008, p. 290). MCS consist of formal and informal controls. Formal controls are contractual obligations that comprise rules, performance evaluation, reward criteria, and budgeting systems to control results through feedback and feed forward loops (Langfield-Smith, 1997; Norris & O'Dwyer, 2004). Informal controls comprise beliefs, shared values, norms, cultures, traditions, and self-control. They are less visible and might not be deliberately designed means to direct employees' attention to organizational objectives. Nevertheless, informal controls are seen as being at least as effective as formal ones (Flamholtz, Das, & Tsui, 1985; Langfield-Smith, 1997; Ouchi, 1979; Stacey, 2010).

Research on the interface of sustainability and MCS is an emerging theme (Berry et al., 2009). It is restrained by tension between the traditional understanding of MCS and the goals of sustainability: The former has its focus on growth and profitability through increasing efficiency at the cost of increasing resource depletion. SD is yet concerned with the maintenance of natural

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