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**How PMS can be used to implement sustainability in food
manufacturing companies**

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Abstract

Title	How PMS can be used to implement sustainability in food manufacturing companies
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Key words	Corporate social responsibility, sustainability, management control system, performance management system
Purpose	The aim of this study is to shed a light on the possible link between CSR and PMS. We explore whether and under which conditions PMS can be used as a tool to enforce sustainability. In order to do that, we provide a set of propositions about the factors that influence the decisions of organizations to implement a PMS to realize the objectives of sustainability.
Methodology	Qualitative research based on an inductive method. We based our findings on the extant academic literature and interviews conducted in three Scandinavian food companies.
Theoretical framework	In the first part we examine the literature on sustainability and we discuss its three dimensions (economic, environmental, social). In the second part we use the studies made by Otley and Ferreira (2009), Malmi and Brown (2008) and Simons (1995) to describe the four cornerstones of PMS: objectives, measures, targets, rewards.
Empirical framework	We have conducted three semi-structured interviews in three Scandinavian food companies: Findus Sverige AB, Cloetta AB and Arla Foods. We have collected archival material on these companies (websites, annual and CSR reports) and examined their sustainability practices along both the three dimensions of sustainability (economic, environmental, social) and the four steps of a PMS (objectives, measures, targets, rewards).
Analysis	We compare both the three companies interviewed for our study and the findings of our research with the theory examined in the theoretical framework. In addition, a set of propositions that summarize our findings is presented.
Discussion and conclusion	In the final part, the results of our research are synthetized. What we found is that the companies interviewed extended their PMS for standard operations to the CSR field. All of them had some sort of CSR strategy, strive to measure sustainability objectives, fix targets and provide financial or non-financial incentives, but not punishments, for having achieved the prefixed targets.

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1. INTRODUCTION

1.1. BACKGROUND

The inception of the debate on social responsibility can be traced to 1953, when the American scholar Howard Rothmann Bowen wrote the book *Social Responsibilities of the Businessman* (Loew, T.; Ankele, K.; Braun, S.; Clausen, J., 2004). The debate on corporate social responsibility (CSR) came first and developed independently from the one on sustainable development (SD). While CSR focused on the micro-level of businesses and on social issues, SD was more related to the macro-level of the society as a whole and to the environmental issues. Today the two terms almost overlap, they are merged and harmonized so that they are commonly used as synonyms. However, in this master thesis we will use the term CSR when talking about the sustainability practices through which companies show their responsible behaviour. Companies, indeed, are the main focus of this work since we investigate whether they use their performance measurement systems (PMS) to implement sustainability objectives.

Below we make three examples, one for each of the sustainability perspective identified by Elkington (1994), in order to make clear why companies have been more and more convinced to adopt a responsible conduct and which could be the consequences of a shallow behaviour.

Example 1 (environmental perspective): In late 2015, Volkswagen Group faked the tests of diesel cars manipulating the results. The US environmental agency (EPA) discovered that the German company intentionally manipulated the cars so that they displayed lower emissions during testing than they would under normal conditions. The emissions, during these tests, were way lower than the true emissions of the cars on the streets. When this scandal, named “Dieselgate” by the media, was discovered, Volkswagen suffered legal consequences, a big fine, a significant decrease in stock value and reputation. The CEO Martin Wintercorn had been forced to resign.

Example 2 (economic perspective): Enron Corporation was a big US Texas-based energy company and in October 2001 was discovered to have faked its financial reports. Enron hid billions of dollars of debt. It misstated its financial statements in collaboration with Arthur Andersen (the fifth biggest consultancy company in the world at that time). This caused the bankruptcy and dissolution of Enron and of Arthur Andersen. In 2002, as a consequence of this accounting related scandal, the Sarbanes-Oxley act was released.

Example 3 (social perspective): Nike’s subcontractors made use of sweatshop, with workers facing unacceptable conditions (extremely low wages, dangerous working environment and child labour). Nike refused to be held accountable for the actions of its suppliers. This had a huge echo in the media, press, US universities (with students’ protests in the campuses) and Nike had to spend billions of dollars to repair this image damage introducing codes of conduct (Zadek, 2004).

The examples provided above illustrate why sustainability has become an “hot topic” in today’s management theories. The Scandinavian countries are global leaders in the implementation of sustainable management practices (Strand, Freeman and Hockerts, 2015). The reason why this is so

may be related to both cultural and institutional factors. The Scandinavian countries (Denmark, Norway and Sweden) are dominated by more secular-rational than traditional values and more self-expression than survival values (World Values Survey, 2015). In an important survey about the relation between culture and management control systems (MCS), Geert Hofstede (1981) defined culture as “*the collective programming of the mind that distinguishes the members of one group of people from another*” (Hofstede, 1981, p.201) and found that in these countries there is a short power distance (refusal to accept unequal distribution of power), a rather high degree of individualism (self interest is placed ahead of the group) and more femininity than masculinity characteristics (people are modest and pay attention to the quality of their lives). Institutional factors, such as the ones identified by Campbell (2007), i.e. presence of strong regulations enforced by the state, presence of self-regulations of companies and industries, presence of independent organizations that pressure companies to behave responsibly, contributions of education by the academy, affiliation of companies to socially responsible associations, intensity of dialogue between companies and stakeholders, are adopted in countries like Finland, Sweden and Denmark. The adoption of these sorts of institutions have, according to Campbell (2007), allowed these countries to become highly competitive performers in the global economy both from a financial and a sustainable point of view. We may thus argue that the reason why sustainability is so important in Scandinavia rests on the cultural intelligence that these countries have shown in understanding the potential of sustainability for competitiveness.

Sustainability assumes more relevance in certain industry sectors than others. Our research focus on the manufacture of food products for two main reasons. The first one is the wide range of sustainability issues that food companies have to face due to the relevance that these issues assume when talking about nutrition. The second concerns the ease of finding food producers committed to sustainability in the geographical region in which we are based. Some of the most relevant problems with which food companies have to deal with, when it comes to sustainability, are animal welfare, biotechnology, environment, fair trade, health and safety, and labour and human rights (Maloni and Brown, 2006). The Øresund region, which incorporates Skåne region in Sweden and the island of Sjælland in Denmark, is particularly rich of companies and food manufacturers in particular. This circumstance constitutes a good opportunity for us to conduct our investigation in this sector.

Another focus of our research will be on the management control system (MCS) and in particular on the performance measurement system (PMS). Several authors have provided interpretations of control that go beyond accounting and cybernetics (Ouchi, 1979; Merchant, 1982; Simons, 1995; Speklé, 2001; Zimmerman, 2014). With MCS we mean all

“those systems, rules, practices, values and other activities management put in place in order to direct employee behaviour” (Malmi and Brown, 2008, p.290).

MCS are tools to achieve goal congruence, that is to align the interests and purposes of the company with the ones of the people who work for it. This alignment can be achieved in several ways, one of them is to implement a PMS, which can be considered as a specific form of MCS similar to a cybernetic model. In other words, we consider the PMS as a MCS compatible with the first three forms of control identified by Hofstede (1981): routine control, expert control and trial and error control. A PMS can be described as

“the evolving formal and informal mechanisms, processes, systems, and networks used by organizations for conveying the key objectives and goals elicited by management, for assisting the strategic process and ongoing management through analysis, planning, measurement, control, rewarding, and broadly managing performance, and for supporting and facilitating organizational learning and change” (Ferreira and Otley, 2009: 264).

1.2. RESEARCH PROBLEM

The literature in the field of sustainability extensively covers a number of related topics, such as the motivation behind responsible behaviour, the relationship between financial and sustainability performance and the resources that firms employ for CSR. For example, in their study of Swedish companies in the textile industry, Edefjäll, Möller and Ståhl (2012) concluded that, according to their size, firms employ different kinds and amounts of resources when engaging in CSR activities. On the other side, literature regarding the Performance Management Systems (PMS) is increasingly becoming comprehensive by investigating a variety of interesting interrelated topics. However, managing sustainability performance through PMS still lacks proper research, despite the attempts of several scholars (Elkington, 1994; Hubbard, 2009; Figge, Hahn, Schaltegger and Wagner, 2002; Epstein and Roy 2001). In this regard, our study aims at filling this gap. In doing so, we take a management control perspective to understand whether and how Scandinavian companies in the food industry are implementing PMSs in order to achieve sustainability objectives. From a PMS standpoint, it means to analyse if and how managers formulate strategic objectives when it comes to sustainability, what indicators companies set to gauge the level of performance to be achieved and, ultimately, what rewards or punishments they assign to employees.

Corporate financial performance and sustainable performance can be in conflict, at least in the short period (López, Garcia and Rodriguez, 2007). This also means that their related objectives could potentially be so. This is nothing new, as companies in their daily activities often face and need to meet competing objectives, stemming from different stakeholders (Ferreira and Otley, 2009). However, assigning priorities helps to establish the extent to which a company is committed to the achievement of different objectives. Moreover, since sustainability is becoming a strategic issue among companies (Kivivirta, 2010), we could infer that firms that actively engage in CSR, also consider this topic very high on their agenda and therefore integrate the sustainability in their PMS. This is not to say that if sustainability is among a company’s top priorities, sustainability performance will automatically increase, but rather that it at least shows an actual commitment towards CSR. Another issue relates to the way CSR performance is measured. The difficulty in measuring CSR performance is well documented in the literature (Ilinitch, Soderstrom and Thomas, 1998). It partially stems from the lack of a precise definition of what CSR is and partially from the absence of CSR indicators, at least in the social dimension. With business performance we usually refer to the economic-financial performance of a company. CSR measures, however, should be multidimensional and capture all the three pillars of the TBL. Various scholars have attempted to establish commonly accepted measurement systems such as the Triple Bottom Line (Elkington, 1994) and the Sustainable Balanced Scorecard (SBSC) (Hubbard, 2009). The latter took either the form of a BSC with the added perspective of sustainability, the integration of social and environmental indicators into the existing perspectives (Figge, et al., 2002) or the form of an ad-hoc BSC for managing and measuring

sustainability performance (Hubbard, 2009). The BSC is multidimensional. It balances short-term and long-term aspects (especially in the financial perspective), internal and external perspectives (employees and internal processes vs. shareholders and customers) so that they all serve the long-term viability of the firm. All the measures should be linked via cause and effect. The BSC talks about different dimensions (four) related to the firm performance. The TBL rests on the same principle with its three pillars. Both the BSC and the TBL include an economic perspective. Thanks to all these similarities, it is possible to create a TBL scorecard or, alternatively, a SBSC. However, one problem with such a tool is that firms tailor their SBSC by establishing context-specific KPIs to reflect the needs of the industry or the country they operate in. Despite it is generally regarded as a strength for a PMS to be tailored to different contexts, this could also represent a potential drawback. In fact, evaluating the performance against KPIs that are not consistent across industries and countries makes difficult the comparison of sustainability performance among companies. Nevertheless, the SBSC becomes a more useful tool when it comes to comparing the performance of a single company over time. In other cases, (Lopez et al., 2007; Clarkson, Li, Richardson and Vasvari 2008; Hahn and Lülfs, 2014) scholars have used proxies (such as indexes) to determine whether a company was a good or a bad performer. In addition, organizations and international forums have developed indexes and guidelines, such as the Environment Sustainability Index and the Global Reporting Initiative (GRI) guidelines. Yet, the variety of guidelines a company could decide to comply with, makes it difficult to benchmark and tells little about the concrete actions companies ought to undertake to achieve acceptable levels of sustainability performance. In addition to that, it has to be considered that the GRI guidelines, in contrast with the financial IFRS, are not compulsory. In other words, companies are not obligated to comply with the GRI even though they are the most widespread when it comes to sustainability reporting. Nevertheless, the need for setting sustainability performance evaluation metrics that are also linked to incentives systems is highlighted both by authors such as Epstein and Roy (2001) and by the GRI guidelines (Clarkson et al., 2008).

1.3. PURPOSE

The research question that we will answer is the following:

How do Scandinavian companies, in the food manufacturing sector, use PMS to achieve sustainability?

The purpose of this master thesis is thus to shed a light on the possible link between CSR and PMS. A vast literature can be found on both these topics, but little has been written on whether these two concepts interact with each other. Since “SD remains only a good intention, unless organizations make serious efforts to enforce it” (Lueg and Radlach, 2016), we will explore whether and under which conditions PMS can be used as a tool to enforce sustainability. In order to do that, we will provide a set of propositions summarizing the common practices used by Scandinavian food companies when it comes to implement a PMS to realize the objectives of sustainability.

1.4. OUTLINE OF THE THESIS

The remainder of the study is structured as follows. In the next chapter, the methodology used will be discussed. Subsequently, a literature review on the topics of CSR, PMS and PMS to manage CSR

performance will be discussed in the theoretical framework chapter. Empirical results based on interviews with CSR managers of food manufacturing companies in Scandinavia and empirical material, such as sustainability reports and archival data, will be presented. Following, the analysis chapter is drawn up to compare both the three companies interviewed for our study among each other and the findings of our research with the theory examined in the theoretical framework. Finally, the conclusive chapter of the thesis will discuss limitations, practical as well as theoretical implications, and possibilities for further research.

2. RESEARCH METHODOLOGY

2.1. METHODOLOGICAL DESIGN

In order to implement our research, we have conducted in-depth semi-structured qualitative interviews to CSR managers of food companies in Sweden and Denmark. These interviews have allowed us to collect a sufficient amount of qualitative data for reaching our purpose of establishing a set of propositions on the relation between CSR and PMS. The qualitative data has been collected under the form of tape recorded interviews, written notes and companies' sustainability reports. In order to conduct the interviews, we prepared a list with 10 questions that covered the topics that we were interested in exploring. To create these 10 questions, we have used a conceptual framework along two dimensions: CSR and PMS.

CSR \ PMS	Objectives	Measures	Targets	Rewards/punishments
Environmental				
Social				
Economic				

Table 2.1 framework for the 10 questions to the CSR managers

In the conclusion to the chapter of the empirical framework we present the table depicted above after having identified which companies have objectives, measures, targets and rewards in the three dimensions of sustainability.

In order to select the companies to analyse we used three criteria:

1. The sector in which they operate: manufacture of food products.
2. The geographical area in which they operate: Sweden and Denmark.
3. Their commitment to CSR: proven by the presence of a sustainability report and/or a section dedicated to the CSR in the company website.

Here we will not make an evaluation of whether the companies selected are authentically sustainable or not. We deem such an assessment as not possible because of the lack of an accurate, clear and recognized definition of sustainability. Other authors have used internationally recognized indexes, such as the Dow Jones Sustainable Index (DJSI), in order to legitimize their choice of considering certain companies sustainable and others not (see Lopez et al., 2007, and Hanh and Lülfs, 2014). The

companies that we have included in our research issue statements on sourcing, CSR reports, codes of conduct and so on. For these reasons, we have considered them as committed enough to sustainability to be deemed relevant for the purpose of our research.

Since this type of investigation does not involve the testing of hypotheses by means of empirical tests, collection of data from databases and use of statistical tools, the research we conducted cannot be defined as quantitative. What we attempted to do in our study was rather to provide a set of propositions about the factors that influence the decisions of organizations to implement a PMS to realize the objectives of sustainability. We tried to build a bridge and explore the existence of a relation between two well documented topics in business literature: CSR and PMS. We did that on the basis of prior knowledge and limited empirical material (data collected through semi-structured interviews). The sample used was not designed to be representative of a population, but to represent the reality of a specific context and of a specific industry. This way of proceeding is more compatible with a qualitative study (Easterby-Smith, Thorpe and Jackson, 2015). The propositions that we provide can then be tested, as hypotheses, by quantitative researches. To conduct a qualitative study was the most appropriate way of achieving our purpose of providing a set of propositions that reflect the *modus operandi* of real businesses. In order to achieve that, we have limited as much as possible our assumptions and we have let the interviewees free to describe to us how do they handle CSR matters and whether they consider the PMS as an efficient way of incrementing the sustainability performance. We wanted to conduct our qualitative study in an inductive rather than deductive way since we considered an *a posteriori* method based on observations and specific experience as the most suitable, even obligated, to achieve our purpose and collect information otherwise difficult to obtain (Yin, 2003). In total, we conducted three interviews lasting approximately one hour with CSR managers. The list of interviews is provided in table 2.2. Two interviews were conducted via Skype due to logistical constraints. The interviews have been conducted in English, tape recorded and then transcribed.

Company	Number of interviews
Arla Foods	1
Cloetta AB	1
Findus Sverige AB	1

Table 2.2 List of interviews

We have decided to circumscribe our research to a specific geographical area (Scandinavia) because, as explained in the background of this thesis, sustainability practices often differ depending on the cultural and institutional context. In order to make our results more reliable, we thus preferred to present them as applicable to the Scandinavian context only. Furthermore, we believe that the Scandinavian context is particularly suitable for studying CSR issues since companies, individuals and institutions show a deep involvement in sustainability.

2.2. DATA SOURCES

In order to conduct our research, we approached up to 25 companies within the food sector in Sweden and Denmark. We have solicited their involvement and obtained the collaboration of three of them: Arla Foods, Cloetta AB and Findus Sverige AB. The data presented in the empirical part of this thesis and used to conduct our analysis are both primary and secondary.

Primary data: we conducted in-depth semi-structured qualitative interviews with CSR managers and CFOs of the companies included in our case studies. The interviews have been tape recorded and transcribed. We have chosen the form of guided open interviews because the questions that we asked should have been answered in a flexible way. We believe that, to be valid, an inductive approach must contain a certain degree of uncertainty on the outcomes that the researchers want to obtain and so it is important to leave the possibility to the interviewees to express their thoughts freely, to add information that the researchers were not purposefully looking for but that may result of importance afterwards. Within the questions about the objectives, we asked the managers whether their company has a CRS strategy, on which aspects of CSR do they focus the most and why. We asked them whether they distinguish between the three pillars of sustainability and which objectives did they set for each of these pillars. Once we understood which were the objectives, we asked them which concrete actions did they put in place in order to realize them and who was held responsible for the achievement of the objectives. In the questions about the measures we asked which KPIs were put in place to measure the objectives outlined before. Concerning the targets, we asked the managers what is the level of performance that the company aims to achieve for any of the selected KPIs, who establishes them and if they differ across departments. Finally, we asked whether the company rewards and punishes the people held accountable for achieving the intended level of performance. If yes, how, and if not, why. When asking the questions, we have used both the techniques of laddering up and laddering down, i.e. why they decided to use certain practices and to give us some explanatory examples (Easterby-Smith, Thorpe and Jackson, 2015). A complete overview of the questions is available in appendix 1.

Secondary data: they have been collected mainly from companies' websites, sustainability reports, annual financial statements and integrated reports (archival documents). We considered these secondary textual data relevant because, even though sustainability reporting is mostly done on a voluntary basis, it is becoming more and more relevant. The criteria according to which companies are supposed to report about sustainability is regulated at an international level by the Global Reporting Initiative (GRI). The GRI issues reporting guidelines on how and what to report. Companies do not have to adhere to these guidelines but many firms do that nevertheless. The GRI guidelines are applied to sustainability in the same way as IFRS are applied to financial reporting. The difference between IFRS and GRI mainly consists in the fact that usually financial guidelines are mandatory, while sustainability guidelines are not.

In considering the sustainability reports, we have acknowledged the fact that there are two opposing theories on why and how much companies report on these issues: the voluntary disclosure theory and the socio-political theories. According to the voluntary disclosure theory, there is a positive relation between the amount of sustainability reporting and the environmental performance of the company (Dye, 1985; Verrecchia, 1983, cited in Clarkson et al., 2008). This positive relation is explained with

the consideration that the more a company is sustainable, the more will be willing to show this aspect in an attempt to fill an information asymmetry. At the same time, a company that is not enough sustainable will try to hide this aspect in an attempt to maintain the information asymmetry. On the other hand, the socio-political theories (such as legitimacy theory and stakeholder theory) predict a negative relation between the amount of voluntary disclosure and the level of sustainability performance of the companies. The negative relation is explained with the external pressures on unsustainable companies to give a more detailed account about their actions and pushing them to become more responsible. At the same time, responsible companies receive less pressures from stakeholders to report on their sustainability practices (Patten, 2002, cited in Clackson et al., 2008).

Another issue that we want here to acknowledge is the ongoing debate about the difference between Scandinavian and US companies on the topics of sustainability disclosure and performance. On the one hand, Sweden, and Scandinavian countries in general, have a strong CSR tradition, and it seems that they adopted responsible behaviours even before the term CSR was introduced in the US, without being concerned about information disclosure. In fact, advocates of the stakeholder theory acknowledge that the term “stakeholder” has a Swedish origin. Scandinavia is thus “walking the walk” of CSR. On the other hand, US firms are committed to show and disclose as much information about their sustainability performance as possible, without really engaging in responsible activities. For this reason, the US is “talking the talk” of CSR (Strand et al., 2015). This is not to say that all the US companies are irresponsible, but rather a way to explain the difference occurring between U.S. and Scandinavia when it comes to sustainability reporting. In addition, somehow consistent with socio-political theories, Hahn and Lülfs (2014) found that companies mainly report positive sustainability performance information and adopt various communicative legitimation strategies when conveying negative results in their sustainability reports. Indeed, they do so in order to prevent the endangerment of their own reputation and legitimacy. Nevertheless, such communicative strategies have been historically used by companies also when legitimating financial results below shareholders’ expectations (Sandell and Svensson, 2016).

2.3. LIMITATION OF THE APPLIED METHOD

To have access to companies has not been an easy task. It took us a lot of time and efforts and we do not deny that we would have liked to collect a higher number of interviews both inside the companies presented here and with other companies not considered in this research. We did not have the time and the possibility, for example, to look for a Norwegian company and cover, in this way, all the three Scandinavian countries. The limited amount of empirical material, however, is one of the characteristic that distinguishes qualitative studies from quantitative studies. The time and budget constraints have also heavily influenced the amount of empirical material.

Applying a qualitative method can shed a light on certain aspects that the theory has not yet considered or explored enough (Yin, 2003). At the same time, it does not provide certainties on whether the businesses not considered by our research deal with sustainability in the same way as the ones that we have considered. The propositions that we formulate in the analytical part of this thesis, in other words, can be considered plausible on the basis of the theory considered and the information collected on the ground, but until they will not be tested by a quantitative study, they cannot be generalized to the whole industry.

The choice of limiting our research to a specific geographical area (Scandinavia) can be considered as both a limit and a strength. It is a limit because the propositions cannot be applied outside of this region. It is a strength because, as explained in the background, sustainability issues are context-specific. Therefore, considering a wider area would have exposed our finding to reasonable criticisms.

3. THEORETICAL FRAMEWORK

3.1. CSR

Several authors have examined the reasons why companies decide to adopt a responsible behaviour even if this would harm their profits. Bansal and Roth (2005) identified four drivers of corporate ecological responsiveness in the literature: legislation, stakeholder pressures, economic opportunities and ethical motives. On the basis of this preliminary model, criticized as inadequate and not fully specified, the authors developed their own model, which is deemed to summarize the factors that induce companies to become ecologically responsible. This new model reduces the number of drivers from four to three: Competitiveness, a concept in many ways similar to the one of shared value elaborated by Porter and Cramer (2011); legitimation, the desire of a company to comply with rules and regulations in order to avoid sanctions and gain credibility; ecological responsiveness, which can be exemplified by corporate citizenship. In addition to these drivers, Bansal and Roth (2005) identify three contextual dimensions of ecological responsiveness which foster or hinder the three drivers mentioned above: issue salience, field cohesion and individual concern. Another important study on the reasons that make more likely for companies to behave in socially responsible ways is the one written by John L. Campbell (2007). In his article the author presents two economic and six institutional conditions (three enablers and three constraints) that make easier for companies to implement CSR practices. Campbell illustrates these conditions under the form of propositions derived using a qualitative method. As an example, he argues that companies will be less willing to behave responsibly under either too little or too much competition, while they will be more willing to behave responsibly under normal competitive conditions.

A broad and general definition of SD was provided in 1987, when the World Commission on Environment and Development defined it as the development that “meets the needs of the present without compromising the ability of the future generations to meet their own needs” (WCED, 1987, p.8). Stated in other words, this means that the present generations should not compromise the future of the next generations for their own good. Two main elements are intimately incorporated in the concept of SD: justice and balance. Justice is both intra-generative with a priority for the needs of the poor and inter-generative with a priority for the needs of the future generations (Loew et al., 2004) which have not the possibility to stand for their rights and make their voice be heard. The concept of balance, instead, rests on the so called “triple bottom line” (TBL) developed by John Elkington in the ‘90s. According to the TBL, sustainability can be seen from three different but interrelated perspective: economic (economic prosperity, continuity and development), social (social justice and equality of opportunities) and environmental (climate protection and resource preservation). SD officially became a guiding principle for policy makers after the UN Earth Summit in Rio de Janeiro in 1992 (Loew et al., 2004). As said before, today’s issues of sustainability are issues of corporate social responsibility and the social and environmental aspects, which have first developed independently from each other (in the CSR and in the SD), have merged and harmonized under the term “sustainability”. The reason behind this harmonization can be identified in the consideration that societies would hardly be able to achieve sustainability unless businesses play their role in taking responsibility and behaving in a responsible way. The term sustainability thus comprehends and simplifies all the terms such as sustainable development, corporate sustainability, corporate social sustainability, corporate environmental sustainability, corporate citizenship, sustainable

management.

A distinction that needs to be made in this preliminary phase is the one between corporate citizenship (CC) and CSR. As Loew et al. (2004) claim, they are not synonyms. Corporate citizenship is defined as the art of giving back to the community and is limited to the company's global environment. Companies, thus, show corporate citizenship when they give back something to the community in which they operate and they usually do that in three ways:

- Corporate foundation: companies create foundations that invest in the community in which the company operate. Many firms devolve money to research. The Volkswagen foundation, for example, is a non-profit organization which has been launched and is financed by the Volkswagen Group and which finances research in all different domains.
- Corporate giving: donations activities and sponsorships for all different purposes.
- Corporate volunteering: companies directly send their employees to participate in beneficial activities or social projects like for instance building homes for homeless or poor people.

CSR, instead, goes beyond CC because is not circumscribed to the society or the community in which the company operates and encompasses all the three pillars of the TBL. In the following sub-sections, we describe the different characteristics of the three pillars of the TBL.

3.1.1. ECONOMIC

Through economic sustainability, companies can achieve economic prosperity, a durable development and continuity of their activities and operations. In order to be sustainable from an economic perspective, we believe that companies should move outside of the neo-classical models and assumptions such as the ones of profit and shareholders' value maximization. Several scholars argue in this direction (see for example Goshal, 2005 and Campbell, 2007). The maximization of profits in the short-term cannot happen at the expenses of long-term objectives, cannot happen in violation of the law (briberies, pollution, exploitation of workers and animals, unrestrained consumption of precious resources, fiscal evasion, false accounting and so on) or against financial guidelines such as the US GAAP or the IFRS. The consequences of irresponsible economic behaviours can cause huge damages to both the irresponsible companies and the communities in which they operate. Bankruptcy, mass layoffs, dramatic depreciation of assets, even suicides are typical extreme consequences. The Enron scandal of 2001, the Parmalat crack of 2003, the bankruptcy of Lehman Brothers in 2008 are just few emblematic examples of the consequences that an unsustainable economic behaviour can cause.

Graham Hubbard (2009) identified the economic pillar of the TBL with the financial perspective of the BSC. Whether the financial perspective of the BSC can coincide with the economic pillar of the TBL, however, depends on the key performance indicators (KPIs) used in this perspective. Creating a SBSC cannot be limited to adding a social and an environmental perspective to the four perspective of the classical BSC. The content of the financial perspective has to be modified in order to include only sustainable KPIs that, for example, give priority to long-term financial objectives in comparison to short-term objectives.

Hahn and Lülfs (2014) suggest that the economic aspects of sustainability are already covered in the mandatory financial reporting standards such as the US GAAP and the IFRS. A sustainable economic performance, in this case, is thus intended as the one that respects international laws and standards, which are assumed to be already fair and strict enough to allow a sustainable growth of the company.

The concept of creating shared value (CSV) could be intended as a form of economic sustainability achieved through creating social value. Porter and Kramer (2011) start from the assumption that capitalism has increasingly being viewed as a source of economic, social and environmental troubles. They criticize the short-termism of companies' financial objectives. They propose as a solution a new way of creating economic value, i.e. CSV. CSV, however, is put in opposition to CSR and claimed to have little connection to business. Despite that, most of the literature on CSR highlights the advantages of becoming sustainable from an economic point of view. The economic advantages mainly derive from a more efficient use of resources and a consequent reduction of costs. In accordance with the critique made by Crane, Palazzo, Spence, Matten (2014) we think that the arguments developed by Porter and Kramer (2011) are partly based on a wrong conception of CSR. In addition, we believe that the concept of CSV and CSR are more interrelated than Porter and Kramer argue, especially for the economic and the social perspective.

3.1.2. SOCIAL

The social pillar is related to the issues of social justice and equality of opportunities. Being committed to social sustainability means to pay attention to the stakeholders of the company and not only to the stockholders. Stakeholders, in the definition of Robert Edward Freeman, are "any group or individual who can affect or is affected by the achievement of the organization's objectives" (Freeman, 1984, p.46). Typical examples of stakeholders are employees, customers, banks, suppliers and even the natural environment. Stakeholders can be classified according to their salience in seven classes (Mitchell, Agle and Wood, 1997). These classes are identified on the basis of the stakeholders' possession of one, two or three attributes: power, legitimacy, and urgency. If a stakeholder possesses only one attribute is defined as latent, if it possesses two attributes is defined as expectant, if it possesses all the three attributes is defined as definitive. A stakeholder has power when it has the possibility to impose its will on the company, it has legitimacy when it has an official and recognized relationship with the company, it has urgency when it has an important claim that needs to be satisfied quickly (Mitchell et al., 1997). The combined provision of these attributes allows to categorize the stakeholders in:

1. Dormant: the stakeholder has power but no legitimacy nor urgency.
2. Discretionary: the stakeholder has legitimacy but not power nor urgency.
3. Demanding: the stakeholder has urgency but no power nor legitimacy.
4. Dominant: the stakeholder has both power and legitimacy but no urgency.
5. Dangerous: the stakeholder has both power and urgency but no legitimacy.
6. Dependent: the stakeholder has both urgency and legitimacy but no power.
7. Definitive: the stakeholder has power, legitimacy and urgency.

Being socially sustainable does not mean to satisfy all the needs of each stakeholder because the needs and the claims of certain stakeholders may be contrary to the principles of sustainability. These

principles may differ in different contexts, times, countries, cultures (Campbell, 2007). This uncertainty allows companies to interpret CSR in a, to a certain extent, discretionary way. In the empirical part of this thesis we will investigate how the companies object of our study interpret sustainability and intend their sustainable behaviour.

3.1.3. ENVIRONMENTAL

The environmental dimension has come to be so dominant, in comparison to the other two, that is often overlapped with the whole concept of sustainability, so that, when talking about sustainability, non-experts often think solely about environmental issues. The environmental pillar deals with environmental and climate protection and resource preservation. It is certainly the one receiving more attention by academics and by the international political institutions since the '80s, as several international agreements, such as the Kyoto protocol of 1997, demonstrate. Environmental sustainability is becoming increasingly important in a world where the relation between the humankind and the nature has taken the form of a conflict. The tensions between countries like China and India for the Himalayan water or between China and Japan for the oil in the Senkaku islands, are examples of the consequences that can result when there is a shortage of natural resources. They are a warning against wasting vital assets indispensable for our prosperity. Finding solutions on how to waste less precious natural resources, while continuing to make profits, is not only a duty towards future generations, but, from a company point of view, is also a healthy practice to increase efficiency and challenge competitors (Nimudolu, Prahalad and Rangaswami, 2009). Several scholars argue that becoming environmentally responsible is not only an obligated way but it is also an innovative way of increasing competitiveness (for example see Elkington, 1994).

3.2. PERFORMANCE MEASUREMENT SYSTEMS

Various scholars have tried to explain the importance of Management Control Systems (MCS) in relation to CSR. Durden (2008), for example, believes that MCS are not only vital to reach core strategic objectives, but also to identify objectives consistent with social responsibility and stakeholder goals. Similarly, Arjaliés and Mundy (2013) recognize the potential of MCS in enabling innovation, communication, reporting, and the identification of threats and opportunities when it comes to CSR. However, for the purpose of our thesis, we need to clarify how we conceive MCS, PMS and their relationship.

Since the early definition of MCS by Anthony (1965, cited in Hofstede, 1981) that “management control is the process by which managers ensure that resources are obtained and used effectively and efficiently in the accomplishment of the organization’s objectives” (Anthony, 1965, cited in Hofstede, 1981, p. 193), the concept of MCS has been continuously evolving by incorporating a variety of purposes. Some adopt a broad view by defining MCS as the tools that ensure the achievement of organizational goals, by providing management with meaningful information for decision-making and influencing employee behaviour (Zimmerman, 2014). Others have taken a narrower view and consider MCS as those mechanisms intended to either provide decision support (Simons, 1995) or align employee behaviour with strategy (Simons, 1995; Malmi and Brown, 2008). Furthermore, researchers have enriched the literature of MCS with conceptualizations that attempt to illustrate the variety of tools and mechanisms at hand of management.

Simons (1995) explains how the old-fashioned control, characterized by strict surveillance and monitoring of activities, is no longer reconcilable with modern businesses that respond with decentralization to dynamic and competitive environments. He argues that managers have a variety of tools at hand to ensure organizational effectiveness while empowering employees. He presents 4 “levers of control” (LOC), or rather systems that managers can leverage to obtain organizational objectives, namely boundary systems, beliefs systems, diagnostic control systems and interactive control systems. *Diagnostic control systems* are regarded as the traditional controls in place to measure, monitor and compare organizational performance against pre-set goals and targets. The purpose of such systems is to hold employees accountable for their objectives. The importance of the other LOC is highlighted by the fact that diagnostic control systems without proper guidance given to employees are likely to cause dysfunctional control and behaviours (Simons, 1995). *Belief systems* are the set of values and directions the managers try to instil and convey to as many people as possible within the organization. The major purpose of these systems is to guide employees to act in accordance with the organizational core values. In addition, beliefs systems have the potential to inspire employees in the quest for new value-creating opportunities. The importance of belief systems grows with the size of a company: the looser the relationships between employees at different hierarchical levels, the more the organizational mission and purposes need to be communicated and reinforced throughout the company. *Boundary systems* are the set of rules and operating procedures that managers establish to prevent the company from risks. They are stated in negative terms in order to discourage employee to undertake activities that can endanger the organization. Finally, *Interactive control systems* represent those information-based systems that managers use to work together with subordinates in order to learn from their activities and find new ways to deal with strategic issues. The key element of these systems is the interaction that occurs between senior managers and subordinates, which allows individuals to question the assumptions underlying the current strategy and facilitates the emergence of new strategies.

Two important aspects about Simons’ LOC are (1) that in reality companies employ all the LOC and need to find the right balance and (2) that the LOC can produce different organizational outcomes, according to the way they are designed and used.

More recently, Malmi and Brown (2008) have developed a different approach to explain MCS, and framed management control as a package containing different elements, namely cultural controls, planning, cybernetic controls, reward and compensation, and administrative controls. They define *planning* as the form of control employed to set the organizational goals and the level of performance to be achieved in order to reach those goals. Furthermore, they make the distinction between action planning, which refers to the short-term, and long-range planning, which is concerned with the long-term.

Cybernetic controls are regarded to as a process, whose steps are establishing standards of performance, measuring performance, comparing performance to predefined standards, detect unwanted deviations and correct those behaviours that have produced the deviations. They are similar to Simons’ (1995) diagnostic control system, with the only difference that Simons takes an information-based perspective of these controls, while Malmi and Brown (2008) conceive them as a means to direct employees’ behaviour. Examples of cybernetic controls are tools such as budgets, BSC, financial measures and non-financial measures. *Reward and compensation controls* are also

seen as a means of influencing employee behaviour, thanks to their motivational impact that controls the effort direction, effort intensity and effort duration. Despite rewards are usually linked to other control tools, the authors treat this kind of controls as a separate entity that has other functions, such as sorting or retention effects. *Administrative controls* are divided by the authors in three groups: the organization design and structure, which is applied to promote certain kinds of relationships rather than others; the governance structure, which defines roles, accountability and authority of organizational members; policies and procedures, which are close to Simons' (1995) boundary systems. *Cultural controls* consist of influencing employee behaviour by means of value-based controls, symbol based controls and clan controls. Also this kind of controls are very close to the Simons' (1995) definition of belief systems. The framework that they proposed is based on two underlying principles. The first is that MCS do not work in isolation, that is, no single MCS is suitable in any given circumstance. This aspect has been widely investigated by scholars through a contingency-based approach. The second principle relates to the ability of managers to establish a fit, or rather linkages, among different MCS. In fact, some control mechanisms could be in conflict with each other, thus hindering organizational effectiveness.

Similarly to MCS, the literature on PMS is rather rich. However, confusion is likely to arise when looking at definitions by various authors. Some authors conceive PMSs as performance management systems (Ferreira and Otley, 2009), while others conceive them as performance measurement systems (Neely, Gregory and Platts, 1995; Franco-Santos, Lucianetti and Bourne, 2012). Ferreira and Otley (2009) claim that they use a holistic approach that describes the variety of dimensions included in the management and control practices of companies. Among the elements, it is possible to find vision and mission, key success factors, considerations on the organizational structure, performance measurement and targets. However, according to Neely et al. (1995) a "performance measurement system (PMS) can be defined as the set of metrics used to quantify both the efficiency and effectiveness of actions." (Neely et al., 1995; p.81). This definition seems to be specifically focused on the set of metrics employed to gauge performance. Nevertheless, the authors recognize the importance of linking these PMS to organizational objectives, strategy, culture as well as reward systems. Similarly, Franco-Santos et al. (2012) introduce the concept of contemporary performance measurement systems (CPMS), to highlight the feature of including both financial and non-financial measures as well as a clear linkage with the reward system. Despite the apparent confusion between the two terms, the underlying concepts seem to be consistent with each other.

Moreover, the relationship between MCS and PMS is not straightforward. On the one hand, Ferreira and Otley (2009), Neely et al. (1995), and Franco-Santos et al. (2012) would identify a PMS with a budget or a BSC. On the other hand, following on Malmi and Brown (2008) definition, budgets and BSC are part of what they call cybernetic controls. However, it has been demonstrated (Ferreira and Otley, 2009) that those tools serve a variety of needs other than the performance evaluation, therefore going beyond the mere cybernetic function and expanding to the domain of planning and reward controls. The just mentioned phenomenon could be explained by Simons' (1995) conception of LOC, according to which a single control mechanism can be leveraged in at least 4 different ways, depending on the use managers make of it. This has also been admittedly mentioned by Malmi and Brown (2008), who specified that cybernetic mechanisms such as BSC and budgets can be categorized as MCS if they are intended at serving both the decision-support function and have an influence on employee behaviour. Nonetheless, Ferreira and Otley (2009) claim that their revised

framework goes beyond the narrower definitions of MCS that we have provided earlier and focuses on a holistic view that encompasses all the formal and informal control systems and processes adopted by management to broadly manage performance. For the purpose of our thesis, when referring to PMS we intend those mechanisms employed by the management to measure, monitor and compare organizational performance against predetermined objectives. Furthermore, we conceive a PMS as a process that starts by establishing organizational goals, breaks them down into key performance indicators, sets the level of performance to be achieved, and ends with the reward or punishment of those employees assessed by means of the selected indicators. More practically, we identify a PMS with the cybernetic and reward and compensation control elements of the Malmi and Brown's (2008) package. We also identify it with the Simons' (1995) diagnostic control systems. With regards to the purposes of a PMS, we consider it as a system used to direct employee behaviour as well as to provide managers with meaningful information for decision making.

Below, we make our considerations on the design of effective PMS for CSR performance, based on the research of various authors in the field.

3.3. PMS FOR CSR

3.3.1. OBJECTIVE SETTING

Having selected the elements that in our opinion constitute the foundation of our research, we now move on by applying them to the context of CSR performance. As mentioned earlier, the adoption of a PMS ensures that the company is consistently working towards the achievement of predefined goals. Organizational goals can be of any type and behaving responsibly with regards to the society and the environment is supposedly one such. Regardless of whether this is done to comply with regulations, to enhance a company's image or to be ethical, stakeholders play a pivotal role. In fact, compliance, window dressing and ethics represent nothing but means through which firms gain the right to continue existing at the eyes of stakeholders. Advocates of the stakeholder theory, such as Mitchell et al. (1997), broadly refer to stakeholders as "any group or individual who can affect or is affected by the achievement of the organization's objectives" (Mitchell et al., 1997, p.854). On the one hand, stakeholders can be affected by the organizational objectives and therefore try to protect themselves against this risk. On the other hand, managers acknowledge that these actors have an influence on the organizational goals that will be set and therefore adapt them to a certain extent to fulfil stakeholders' expectations. However, this position is also advocated by those in favour of the value based management approach, with the only difference that they consider shareholders as the only stakeholders of the company (Fitzgerald, 2007). In fact, shareholders have historically been those who concurred at the determination of organizational objectives. They have all the attributes of power, legitimacy and urgency (Mitchell et al., 1997) that enable them to influence managerial decision. Perhaps, the remaining stakeholders have only recently gained those attributes, as reflected in the attention that senior managers are giving to the communities and the environment. Durden (2008) also supports this view, by stating that companies claim that their main reasons to act responsibly are stakeholders, but at the same time there should be control systems reflecting such a concern. However, the number of expectations increases as stakeholders become more numerous, with the result that companies are potentially pulled towards conflicting directions and do not know where to channel their efforts.

Given the variety of areas of interest in the sustainability field, companies need to identify a strategy. Porter (1996, p.64) defines strategy as “choosing a different set of activities to deliver a unique mix of value”. Stated in different terms, strategy involves defining a position by making choices regarding what to and what not to do. By applying the concept of strategy to CSR, it is possible to realise how selecting a position becomes a difficult task. However, choices on which stakeholders’ needs and on which areas of sustainability to commit to are to be made. We are not arguing here what are the good or bad choices that firms can make. Rather, we believe that choices have to be made in order to facilitate the process of setting organizational objectives and translating them into concrete actions, as consistently as possible. The importance of a CSR strategy is confirmed in the works of various scholars, such as Perego and Hartmann (2009), who argue that companies develop environmental strategies to effectively manage sustainability issues. A slightly different position is advocated by Kivivirta (2010), who argues that companies in the financial service industry consider CSR as a part of the strategy, but do not treat environmental strategies as separate entities. Rather they incorporate CSR objectives into the wider corporate strategy. Despite the conceptual differences in the formulation of a CSR strategy, the underlying rationales seem identical. In fact, companies formulate environmental, or rather, CSR strategies to enable the identification of strategic objectives, which will in turn be translated into the right actions that fulfil their stakeholders’ expectations (Durden, 2008). Similarly, Ferreira and Otley (2009) recognize that senior managers define objectives to meet stakeholders’ expectations, an add that, along with vision and mission, objectives and purposes provide people within the company with the direction to follow. However, as often happens in reality, directions and objectives can be mixed, with the result that employees focus on some in spite of others. Long-term objectives and short-term objectives are an example. Usually, employees tend to pay more attention to short-term, rather than long-term objectives. Reason being that they appear more tangible, the actions to achieve them seem more concrete and the remuneration is closer in time. That being said, it is crucial that objectives be communicated throughout the company and, more importantly, that they are broken down into a number of consistent KPIs, that allow senior managers to monitor whether the organization is following the intended direction (Ferreira and Otley, 2009).

Concerning the three perspectives of CSR and considering the definition of economic sustainability that we selected, it could be argued that since shareholders’ claims have always been listened, objectives for economic responsibility are integrated into a PMS. In addition, economic objectives can be seen as more short-term oriented, reason why employees are more likely to act upon them. Conversely, the social and environmental perspectives of CSR still lack the attention they deserved into a PMS, probably because defining a social and environmental strategy is not easy, as stakeholders’ interests are high in number and hard to balance. Furthermore, social as well as environmental objectives seem blurrier and long-term oriented.

3.3.2. PERFORMANCE MEASUREMENT

In his study of a New Zealand food manufacturing company, Durden (2008) observed that, despite social responsibility represented a major concern among the owner and employees, it was not reflected into the design of its MCS. The lack of social responsibility measures prevented the company to ascertain whether it was behaving in accordance with the interests of stakeholders. The author eventually concluded that, unless social responsibility goals are defined, their integration into the MCS will be hindered. Other scholars (Ferreira and Otley, 2009; Neely et al., 1995; Fitzgerald,

2007) argue that the existence of a strategy or strategic goals alone does not ensure the appropriateness of the PMS. In fact, the suitability of a PMS depends on the extent to which a social or environmental strategy is translated into action. Fitzgerald (2007) talks about operationalization of strategy to describe the above-mentioned phenomenon. It refers to the ability to express strategic goals in operational terms and to determine the concrete course of actions to follow. Once a firm has identified the activities it intends to perform and how to perform them, the performance measurement process can begin.

Neely et al. (1995, p.80) define performance measurement as “the process of quantifying the efficiency and effectiveness of actions”. On the one hand, their definition implicitly confirms what we argued above, that is strategy needs to be translated into actions. On the other hand, it introduces the concept of efficiency and effectiveness. Even though the authors identify the recipients of those actions with the customers, the same concepts can be applied to the CSR field by considering the stakeholders as recipients of those actions. In fact, an action is regarded to as effective when it meets the stakeholders’ social and environmental requirements, while it is considered as efficient if the firm’s resources are economically well used when meeting stakeholders’ expectations (Neely et al., 1995). To evaluate both effectiveness and efficiency of their subordinates’ actions, managers make use of KPIs.

Ferreira and Otley (2009, p.271) define KPIs as “the financial or non-financial measures (metrics) used at different levels in organizations to evaluate success in achieving their objectives, strategies and plan, and thus satisfying the expectations of different stakeholders”. The effect of performance measurement on employee behaviour is documented by authors, such as Malmi and Brown (2008) and Simons (1995), who argue that managers use performance measures to direct and align employee behaviour with strategy. Measures are then used in a top-down fashion to transfer the pressure exerted by the firm’s stakeholders to lower-level employees at different departments and lead their behaviour towards the achievement of the overall organizational goals. The same rationale could apply when it comes to CSR performance. However, supposing that a company has defined its CSR strategy and translated it into action, how to measure social and environmental performance still remains contended in the literature. More precisely, if performance measurement in the environmental dimension is aided by frameworks such as the ISO 14001 Environmental Management Systems (EMS) (Epstein and Roy, 2001), the social dimension still lacks proper guidance on the implementation of a CSR strategy (Durden, 2008). Based on the combination of contingency-based and economics-based studies, Perego and Hartmann (2009, p.397) concluded that “the alignment to environmental strategy is mostly achieved through the increased quantification of environmental performance measures and via their increased sensitivity to managerial actions”. Yet, their study focuses on the environmental perspective, overlooking the design characteristics of performance measures in the social dimension. Nevertheless, the SBSC (Figge et al., 2002; Hubbard, 2009) is an attempt to address both the social and the environmental dimension. The various authors propose different approaches aimed at breaking-down CSR objectives into consistent performance measures. The SBSC take either the form of a BSC with the added perspective of sustainability, the integration of social and environmental indicators into the existing perspectives or the form of an ad-hoc BSC for managing and measuring sustainability performance (Hubbard, 2009; Figge, et al., 2002). The latter approach seems the one that better reflects the needs of a company in which CSR represents a strategic concern, as it is more loosely linked to the financial perspective and better suits a CSR

department (Figge et al., 2002). However, according to the authors, the presence of an ad-hoc SBSC entails the existence of an overall corporate BSC, to whom the former has to be linked to. This means that if a company does not use the BSC as a PMS at the core of the business, it cannot use an independent SBSC to manage sustainability performance at the CSR department.

3.3.3. TARGET SETTING

When referring to targets, we intend the level of performance that the company aims to achieve for any of the selected KPIs (Ferreira and Otley, 2009). By setting targets, senior managers define the standards against which the subordinates' CSR performance will be assessed. Ideally, reaching the target for a measure equals to achieving the objective the measure originates from. However, this may not always be the case, as measures are often subject to a certain degree of sensitivity, noise and distortion (Bouwens and Speklé, 2007). Furthermore, targets serve several purposes, such as employee motivation or planning (Ferreira and Otley, 2009) and conflict is likely to occur when they are simultaneously used for both aims. On the one hand, the motivational effect arises when targets are set to a difficult, but realistic, level (Fitzgerald, 2007). On the other hand, target setting for planning purposes entails establishing standards that may not always be realistic enough to motivate employees.

Fitzgerald (2007) describes a set of issues to consider when setting appropriate targets. The first consideration to make concerns the *ownership*, that is who sets the target. Targets could either be developed by letting lower-level employees participate in the process or be imposed by senior management to subordinates. The positive effect of participatory development on employee commitment is documented by authors, such as Groen, Wouters and Wilderom (2012, p.120), who found that “[it] increased employees’ attitude, perceived social pressure and perceived capability to take initiative”. Despite Groen et al. (2012) refer to development of the PMS as a whole, we believe that, when it comes to CSR, lower-level employees may not have all the information needed to take part in the entire performance measurement process. Thus, we limit their participation to the target setting process, as it has the potential to increase employee effort towards CSR performance. Nevertheless, participation in setting targets may have its drawbacks, identified by Fitzgerald (2007) in slack and gaming.

The second consideration is that of *achievability*, which relates directly to the motivational influence that targets have on employees. To facilitate motivation, standards need to be perceived as achievable by the employees. Conversely, if the demanded level of performance is unrealistic, employees would show no commitment. Ferreira and Otley (2009) argue that demands of continuous improvement and benchmarking facilitate the legitimacy for targets. Concerning CSR, benchmarking has received little attention in the literature (Hubbard, 2008), despite it can be a tool of help when identifying fields that need improvement (Epstein and Roy, 2001). Gogozan and Gheres (2012) explain both advantages and disadvantages of benchmarking in the CSR domain. They assert that it increases transparency of actions and the quantification of qualitative actions. Regarding the disadvantages, benchmarking use of monistic scores to evaluate actions is rather unrealistic. Furthermore, the impossibility to compare results across industries hinders the ability to present objective results.

The third challenge to consider is *equity*. It refers to the comparability of targets across departments within the same organization. Often happens that targets are easier to reach for one department than for another. Take as an example a KPI, say paper usage, whose target is the reduction of a certain amount expressed in absolute terms. If the same target was set indifferently across different departments, it is clear that for those departments that make use of a higher amount of paper it is easier to reduce its usage than for those that make use of a lower amount of paper. In this case, by expressing the target in relative terms, say 20% paper usage reduction, fairness across departments would be achieved.

Finally, Ferreira and Otley (2009) discuss the role of management in emphasizing the attainment of certain targets instead of others. As the authors argue, employees tend to focus on those measures that senior management deem more relevant, with the result that often the informal controls, i.e. leadership, outweigh the formal measurement systems.

3.3.4. REWARD SYSTEMS

Rewarding or punishing employees is the last step in the process of performance measurement that we have chosen to describe. In fact, once senior managers evaluate their subordinates' performance, a reward (punishment) for reaching (missing) the established targets should follow. Despite various scholars (Ferreira and Otley, 2009; Neely et al. 1995) consider the reward systems as part of a more comprehensive PMS, others (Malmi and Brown, 2008) conceive it also as a standalone management control tool. According to Ferreira and Otley (2009), incentives can be either financial (bonuses) or non-financial (approval and recognition by superiors, promotion). The logic underlying the introduction of reward systems is that incentives improve employee performance, by establishing goal congruence between the organization and its employees. However, the relationship between performance and rewards has been studied by researchers through the interaction with employee extrinsic and intrinsic motivation. People acting for intrinsic motivation, do so as the behaviour emanates from their sense of self. Conversely, people acting for extrinsic motivation are, to a certain extent, externally induced to perform a certain activity (Ryan and Deci, 2000). There is still no consensus on whether intrinsic motivation outweighs extrinsic motivation. However, extrinsic motivation is associated with repetitive, low-skills and quantitative tasks, while intrinsic motivation is closer to creative, challenging and qualitative tasks (Cerasoli, Nicklin and Ford, 2014). On the relationship between rewards and motivation, the literature presents complementing, albeit partially conflicting, results. On the one hand, Frey (1997) states that the introduction of financial incentives crowds out employee intrinsic motivation. On the other hand, Cerasoli et al. (2014) affirm that financial incentives and intrinsic motivation are not necessarily antagonistic, as non-contingent-on-performance financial incentives do not negatively affect intrinsic motivation. Furthermore, Baule and Soost (2016) argue that for small and medium sized enterprises (SMEs) it is more convenient to rely on intrinsic motivation, as they cannot offer their employees as strong financial incentives as large companies. Lastly, Bevilacqua and Singh (2016) show that financial incentives produce the same reaction of sex and drugs, thus inducing employees to dysfunctional and counterproductive behaviour. As showed above, the effect of incentives systems has been mainly studied in terms of employees delivering financial results. In fact, the application of rewards in the sustainability field is rather scarce, because of the lower importance given to CSR strategies and the problem of allocating responsibilities (Lueg and Radlach, 2016). Similarly, McGuire, Dow and Argheyd (2003) suggest

that reward and compensation can be powerful tools in fostering the achievement of firms' social objectives, but they tend to focus on the achievement of financial objectives. As a result, "they might serve as a deterrent to potentially damaging actions, rather than as an incentive to adopt more proactive stakeholder orientations" (McGuire et al. 2003, p.353). In other words, bonuses can promote a poor rather than an exemplary social performance, but this happens at the condition that CSR strategy is signalled as less important than the business core strategy.

Given the variety of opinions, we could agree on that reward systems contribute to the alignment of employee goals with those of the company, but they do so in two distinct manners. Both financial and non-financial incentives are powerful tools to enhance employee performance. However, the former activates extrinsic motivation, while the latter facilitate intrinsic motivation. As said before, people acting for intrinsic motivation, do so as the behaviour emanates from their sense of self, while people acting for extrinsic motivation are to a certain extent induced to perform an activity, because it is instrumental to reach a separable outcome (Ryan and Deci, 2000). As mentioned in section 3.1, there are several motives that incentivize companies to adopt a responsible behaviour. Bansal and Roth (2000) classify them under three categories: legitimation, competitiveness and ecological responsibility. The first two are different from the last one in that they are a result of the self-interested behaviour of managers who want to achieve a separable outcome by means of responsible behaviour. Instead, ecological responsibility emanates from a sense of philanthropy, which is not instrumental to anything else. We therefore associate intrinsic motivation with ecological responsibility, and extrinsic motivation with legitimation and competitiveness. Following on Frey (1997), we argue that introducing financial rewards may have the potential to crowd out the intrinsic motivation of executives who act for ecological responsibility. As a consequence, extrinsic incentives, such as legitimation and competitiveness, would supersede the self-emanate behaviour and companies would not be responsible unless there is a separable outcome. Conversely, non-financial rewards would foster intrinsic motivation and thus promote ecological responsibility as the norm.

4. EMPIRICAL RESULTS

4.1. INTRODUCTION TO EMPIRICAL RESULTS

In the following section, we present the empirical results based on data retrieved from both the sustainability reports and the interviews conducted at the three food companies. To allow for an easier and quick visualization, we have provided the reader with an overview (Table 4.1) on the companies, countries, interviewees' roles and length of the meeting.

Company	Country	Role	Interview length
Findus Sverige AB	Sweden	CSR Manager	60 minutes
Cloetta AB	Sweden	Director for Corporate Responsibility	60 minutes
Arla Foods	Denmark	Global Head of CSR	60 minutes

Table 4.1 interviews overview

We have decided to present the empirical results separately for each company, in order for the reader to systematically compare the different findings. In addition, this structure will help us in conducting a logical analysis in the next section. The remainder of the section is organized as follows: for each company, we first present general information mainly retrieved from annual reports. Following, we highlight the relevance of sustainability. Finally, we show results about the design of PMS for CSR. The elements of the PMS of our interest are divided into objectives, measures, targets and rewards.

4.2. FINDUS SVERIGE AB

4.2.1. GENERAL INFORMATION ABOUT FINDUS SVERIGE AB

Findus Sverige AB is a company active in the manufacturing of frozen food across Europe and internationally. It was founded in Bjuv (Sweden) in 1941 and it has currently almost 250 employees. Findus mainly sells frozen fish, vegetables and ready meals to retail stores customers. In addition, it also develops solutions in the Food Service market, whose main costumers are the public sector, restaurants and other catering environments. Since 2015, the Nomad Foods Europe group (the biggest frozen food company in Europe) owns Findus along with other brands, such as Birdseye. Findus' Swedish head office is now based in Malmö. However, Bjuv remains the central logistic center and freezer storage. The company headquarter has always been in Bjuv, except for the period 2001-2006, when it was moved to Malmö, but then it was moved back to Bjuv. The office in Malmö is a Market Unit, which includes the marketing, supply chain (which ensure that they have the product in the freezer storage and it goes out to customers), IT, finance, HR and CSR functions. The only factory Findus owns in Sweden is currently in Loftahammar, which has not been affected by Bjuv's factory closure. However, this is a bakery plant, which is a small part of Findus product portfolio. The greater part of the portfolio is produced at other Nomad factories across Europe or at co-packers (Swedish and international). Nomad Foods Europe has 10 factories all over Europe.

The CSR department at the higher level belongs to Nomad Foods Europe, which is at the central Head office. In this department, they set the CSR strategies that need to be executed at all the different

functions. Findus has a CSR manager, who belongs to the retail marketing department. However, the CSR manager plays a cross-functional role, as she works with the food service marketing department, as well as with other departments, such as quality and supply chain department. One such example is Findus CSR project of climate calculated recipes, which entails the participation of the departments of retail marketing, food service marketing and communication. The CSR manager reports to the Marketing director, who is part of the Board of Directors for Findus Sweden. The marketing director, in turn, reports to the CEO.

Regarding the importance of sustainability for the business, Findus has a tradition of growing Swedish vegetables in a very sustainable way. In fact, during 50 years it has developed its own method of farming and growing vegetables, called Findus Low Input Sustainable Agriculture (LISA). This method has been part of Findus since over 50 years even before the topic of sustainability became so popular. The commitment of Findus towards sustainability is also confirmed by the fact that the company underwent an organizational restructuring during 2016, when it was decided that the factory in Bjuv should have been shut down, and nearly 450 employees were fired. However, CSR remained unharmed, as the Board agreed from the beginning that CSR was too important. Findus believes it cannot forego CSR. The legislation is not binding for Findus. In fact, the company lives up to regulation, but to be only legally compliant it could even adopt a less sustainable behaviour. For example, they would not need to have MSC (Marine Stewardship Council) certification for fish. According to the CSR manager, the company could decrease its effort and performance and still remain legally compliant, but the legislation will anyway force Findus to report sustainability performance starting from 2018. However, the highest pressures originate from customers (retail stores like supermarkets as well as Foodservice customers) and consumers, and they are even increasing. Another source of pressure comes from the public sector (that Findus is serving), and their demand is increasing as well. According to the respondent, the public sector is where the pressure mainly originates, and then the same demand also permeates the private sector.

Concerning the pillars of sustainability, Findus does not make a clear distinction between the three dimensions of economic, social and environmental sustainability. Findus works with ethical issues disregarding whether they are social, economic or environmental. When asked to set the boundaries between the three sustainability dimensions, the interviewee said:

“Every-day job consists of dealing with different issues, such as migrant workers’ rights in Thailand (social) or MSC certified fisheries (environmental). The tasks may or may not be divided, but I do not pay attention to right now I work with an environmental issue and then I will work with a social issue”. (CSR Manager, Findus Sverige AB)

On the conception of economic sustainability, the CSR manager took the distances by saying that:

“When you work with sustainability, you are usually more passionate about the social and the environmental dimensions. However, you need a healthy company to be able to pursue the social and economic projects or improvements that the company wants.” (CSR Manager, Findus Sverige AB)

Based on her opinion, the economic dimension at Findus seems to be conceived as a means that enables the commitment to the social and environmental pillars of sustainability. Furthermore, it

seems to be a dimension that goes beyond the span of accountability of the CSR manager. Being economically sustainable also means not investing in all projects, as it is not economically viable. Findus would invest in those projects where it can have a maximized positive response or where there is a need to minimize its environmental and social impact. As an example, some investments (such as MSC) are highly prioritized, because fish is a large part of Findus portfolio. Other investments, such as RSPO certified and segregated palm oil might not be as important when looking at the company's portfolio, but using non-certified palm oil can have large negative environmental impacts, thus investments are made in this project as well. Another aspect, in their opinion, of economic sustainability is that workers should have fair wages.

4.2.2. PMS AT FINDUS SVERIGE AB

Objectives

Nomad Foods Europe has the same global CSR strategy in every market or geographical area in which it operates. In each market, however, the challenges will differ. The main sustainability goals are three, namely (1) to maximize food resources so that consumers have nutritious food forever, (2) to innovate to help consumers make healthier meal choices and (3) to work to ensure that Findus food is responsibly sourced and prepared (Our Sustainability Programme, 2017). In the Swedish market, the CSR manager can choose to focus on some aspects of these goals, as the challenges, and therefore the focus, differ across countries. For some of them, Findus uses KPIs (i.e. level of segregated palm oil) and employees have to perform against them. Each market has the same goals and needs to deliver on them. However, there could be country-specific objectives. For example, as the interviewee reported:

“The overall goal for the palm oil in all markets is to have 100% certified and segregated palm oil in those products where palm oil is used, but the Swedish market has already reached it so we would not step down and introduce a new product which has non-segregated palm oil in it.” (CSR Manager, Findus Sverige AB)

The task of the CSR manager is then to take the global strategy and make it relevant to the Swedish market, by focusing on certain areas of it. The global strategy focuses on the above-mentioned three main goals. However, within the third goal (having responsibly sourced food) they have 12 sub-goals, such as reaching the Swedish market goal of having 100% MSC wild caught fish. Findus Sverige focuses on the latter objective because fish is an important category in their products portfolio. Of course, they deem important animal welfare in general, but meat is not as important as fish for Findus, and this is also reflected in their communication strategy. In fact, they would rather focus on their fish products, by highlighting that their fish products are 100% certified, but the same does not happen for meat products, although they set qualitative standards anyway.

The principles for choosing the strategic objectives are both where they can make the most positive impact and where they have a need for reducing the negative impact. However, it is not a static strategy. In fact, goals are set, but when changes happen, they recognize the need to prioritize some areas rather than others. Overall, the strategic focus is influenced by external factors and the competitiveness that Findus can gain.

“Findus sources chicken from Asia and Thailand, and one and a half years ago SwedWatch (NGO) issued a report on migrant workers’ rights in the Thailand’s poultry industry, and they put a spotlight on that issue, which caused a response by Findus, as part of the supply chain. Another external factor that increased the priority is the trend of vegetarian eaters, and Findus Sweden has the Swedish broadest vegetarian portfolio in the Food Service department. We want to increase the amount of vegetarian proteins to 40% of our total protein portfolio by 2020.” (CSR Manager, Findus Sverige AB)

The translation of the objectives into actions depends on the type of goal. Some actions need to be taken at the factory level, while others at the marketing level. For example, if the goal is to reduce carbon emissions in the factories, Findus conducts energy audits in all its factories and thus try to reduce carbon emissions by implementing a project. Another example of objective is to make cinnamon buns without palm oil. This objective was achieved by resetting the factory so that the cinnamon buns could have been produced without using palm oil. When it happens at the factory level, the factory itself needs to implement the project. However, projects can take place at the marketing level. An example is the objective of increasing the vegetarian portfolio and promoting the use of vegetarian over non-vegetarian food. Findus found that the introduction of carbon calculated recipes is a way of promoting it, since vegetarian food has a lower carbon footprint compared to food with animal protein in it (educating consumers). This last example also shows that the objectives they set embody both the environmental, the social and the economic aspect of sustainability. However, it differs from project to project. Some projects have the three dimensions of sustainability well balanced, others are perhaps driven by mainly one of them, while others may only have one component of sustainability. It also happens that the results of the project can have an effect on the economic side alone.

Measures

At an overall level, Nomad Foods Europe makes use of KPIs to understand how well the subsidiary companies are performing in the sustainability area. According to the type of goal, both social and environmental measures can be expressed either in reduction or increase terms (Findus, 2012). Environmental KPIs scores, such as “Water consumption”, “Waste per ton produced” and “Total direct and indirect emission”, are collected at the factory level and subsequently aggregated to represent the corporate environmental performance. The same also happens for social KPIs, such as “Number of workplace accidents” and “Proportion of third-party certified food raw material” (Findus, 2012). However, while it is easier to track the firm performance for the environmental dimension by establishing KPIs, the social dimension still lacks the proper metrics. As a result, Findus relies on certification entities to prove that raw materials are responsibly sourced, such in the case of MSC or RSPO. As briefly mentioned above, the span of responsibility to deliver on the selected KPIs ranges from the staff members at the factories to the Heads of the various departments. For example, Findus has one goal, being placed 70th on the Sustainable Brand Index (an external brand index which has a yearly update), and responsibility of the CSR manager is to deliver on this goal. However, reaching that goal does not only depend on the CSR manager’s effort, as it entails the contribution of various functions within the company. In addition, the score on the measure is based on consumers’ perception and thus it is subject to change in the trend. Finally, some CSR measures have hard numbers, but sometimes measures originating from unquantifiable objectives (such as increasing

customer relationship) are softer. For example, the CSR manager had the goal of taking part in and influencing the new office in Malmö, and she has personally contributed to it by having only energy from renewable sources, separating all the waste, having organic food. However, those are outcomes, and she is not evaluated on the basis of how many initiatives brings to the HQ. What she does within the office is setting the basis for having a widespread sustainability culture at the new office.

Targets

Findus was acquired by Nomad Foods Europe one and a half year ago, so they are currently assessing the level of performance of all the factories, and then they set targets to improve the current level of performance (like reduce the emission by X% within a specific timeframe). CSR targets are established either at the central level by Nomad Foods Europe or locally by the marketing director and the CSR manager together, and they are held accountable for the relating results at the marketing level. For results at the factory level, the relevant department head or function will be held accountable for each target. The strategy is set by Nomad Foods Europe, but the CSR manager can, to a certain extent, tailor it by setting the objectives that better fit the Swedish market. Once the CSR manager chooses the objectives to focus on, she develops plans on her own to accomplish the objectives and discuss them with her superior and then sign off, so that the superior has insights to it. Some targets are broken down to lower levels, so that employees at different departments work towards them. Targets vary across different departments, according to the specific characteristics they have. Once the targets are set, the CSR manager takes part in the follow up to ascertain how far the company has come to be and what products originated problems.

Rewards

While employees working in some departments at Findus are rewarded by means of financial bonuses, quality departments do not make use of bonus-based rewards. Being sustainability seen as an element that concurs to the improvements in quality of the products offered to consumers, the CSR manager position is not bonus-based either. Within the CSR department, non-financial rewards, such as recognition and positive feedback, are mostly used. At the same time, little financial rewards in terms of increase in salary are given out to employees. Whether employees will receive an increase in salary or not is decided during the yearly review, in which each employee discuss his or her own performance with superiors. Each employee will be ranked according to whether he or she delivered below, equal to, or above the company's expectations. If the employee delivers below the company's expectations, no increase in salary will be handed out. Conversely, if employees deliver consistently above company's expectation, they will get an increase in salary. This is not the only factor determining the potential increase in salary, as for example union negotiations play also a role. However, for each position there is a range of salary, from the lowest to the highest salary that one can get for that position. If an employee has a very low salary and consistently outperforms, she or he is more likely to earn an increase in salary. However, once the highest possible salary for that position is reached, the only way to increase the salary is to move to another position. At the CSR department, one employee was promoted to a higher position, but not for showing an outstanding CSR performance.

Nevertheless, at the Nomad Foods Europe group level rewards are assigned to the "sustainability hero" each quarter. Furthermore, a CSR ambassador for each market is chosen, and who is the

ambassador might receive greater responsibilities. For this reason, there is a chance that being ambassador can be used as an argument for increase in salary (as any increase in responsibility is an argument for higher salary).

4.3. CLOETTA AB

4.3.1. GENERAL INFORMATION ABOUT CLOETTA AB

Cloetta AB is a Swedish confectionary company founded in 1862 and operating in the Nordic region, the Netherlands and Italy. Its products are sold in more than 50 countries worldwide. Cloetta owns some of the strongest brands of the confectionary market, such as Läkerol, Jenkki, Kexchoklad, Malaco, Sportlife, Saila, Red Band and Sperlari. The company has twelve production units in six countries and 2.530 employees in fourteen countries (Cloetta Annual Report, 2016).

Cloetta AB runs no CSR department. However, the Director for Corporate Responsibility is in charge of driving the projects and programs implemented for addressing the different issues in the sustainability field. Despite the Director for Corporate Responsibility is the only manager working full-time with sustainability, other departments are involved in delivering sustainable results. Being a cross-functional issue, sustainability encompasses also other functions, such as the marketing department (which works with the production of low-sugar products), the procurement team (which conducts audits to suppliers and contributes to the development programs for cocoa and palm oil). The Director for Corporate Responsibility reports to the Senior Vice-President of Communication and IR (investor relations), who is part of the executive management team. Cloetta provides both an integrated report and a separate sustainability report. The integrated report is audited by KPMG and the sustainability part is separately audited and receives a separate evaluation. The separate CSR report is intended to provide direct and quick information to those interested in acknowledging Cloetta's sustainability practices. According to the respondent, KPMG audits are important, as they assure a higher credibility of the report at the eyes of stakeholders.

Cloetta AB bases its definition of CSR on the three pillars of sustainability (People, Planet, Profit). Within Cloetta, sustainability is deemed a critical aspect of the day-to-day operations. They are committed to build long-term sustainable values and want to grow as a company, but while doing so neither people nor the environment should be negatively impacted by their growth. At the same time, Cloetta wants to avoid that stakeholders have an impact on its operations and products. Thus, what pushes Cloetta to be sustainable, are both internal (employees) and external (customers and consumers) stakeholders' pressures, ethical concerns and economic opportunities. In addition, behaving responsibly is considered as an effective way of managing risks for the company itself. In fact, Cloetta invests in sustainable cocoa farming, as it is worried about volumes of raw materials not being available in the future. As reported by the interviewee, volumes of cocoa coming from West Africa are dropping, since cocoa farmers in that geographical area have not the proper knowledge on how to grow cocoa with a good yield. Cloetta thus tries to educate them in good farming practices, in order to increase the volume of their yield and ensure the long-term viability of the company. The economic dimension of sustainability is seen as a twofold entity. On the one hand, Cloetta conceives it as its own economic and financial performance. In this regard, the main objective is to

grow in terms of both Net Sales and EBIT. On the other hand, the economic dimension is seen from a stakeholder point of view. According to the respondent:

“If Cloetta wants to get a long-term viability of high quality cocoa in enough volume, it is of utter importance that cocoa farmers will prosper.” (Director for Corporate Responsibility, Cloetta AB)

Cloetta is thus concerned with the prosperity in the long-run of cocoa farmers and their own economic return. Nevertheless, all the investments done by Cloetta at the factories to deal with social and environmental issues always go hand-in-hand with the economic dimension. This happens because by decreasing waste, for example, the company will experience an economical benefit.

4.3.2. PMS AT CLOETTA AB

Objectives

Cloetta has a defined CSR strategy. The process for defining it entails conducting a materiality analysis, which consists of finding out from Cloetta’s stakeholders the most important issues to deal with, in terms of CSR. The analysis takes place once a year and it is developed around two parameters, namely the stakeholder perspective (i.e. what importance a specific issue has for Cloetta’s stakeholders) and the impact perspective (i.e. the direct impact a specific issue can have on Cloetta from a financial perspective, goodwill, etc.).

First, Cloetta has a discussion with stakeholders (see appendix 2), in which it tries to listen to their requirements and opinions about the company. Once all the questions have been listed, they are built into the materiality analysis (see appendix 3), and from it the company will commit to the aspects that have a very high importance to the stakeholders and a very high impact on Cloetta (see appendix 4). The discussion with stakeholders takes place in different ways, depending on the type of stakeholder considered. Consumers’ requests are listened through surveys; with customers, they arrange regular meetings. Based on that analysis, Cloetta identifies the most critical issues and develops plans and programs to accomplish for the year. It is an act of prioritization that Cloetta does, in order to narrow the focus, as it is impossible to work with all aspects of sustainability (Cloetta Sustainability Report, 2015). They identify the most important questions and work on those as effectively as possible, by developing programs, measurement systems and action plans. The aspects with top priority for 2016 were (1) well-being of both consumers and employees, (2) decreasing the environmental impact of their 12 factories and (3) sustainable sourcing (making sure that Cloetta’s suppliers follow its code of conduct, and developing sustainability programs for specific raw materials categories sourced from developing countries, such as cocoa, palm oil and sugar, cashew and hazelnuts). Cloetta distinguishes between primary and secondary stakeholders. Primary stakeholders are the ones with whom Cloetta communicates more frequently, but when the company has to define sustainability objectives it tries to listen to both primary and secondary stakeholders.

Measures

Cloetta uses KPIs to assess the appropriateness of its actions in relation to pre-set objectives. A number of KPIs are put in place when it comes to the environmental dimension, as they are easier to define. Examples of metrics at the corporate level are “energy consumption”, “waste” and “carbon dioxide emissions”. Those metrics are expressed in terms of reduction goal, while metrics such as “% of recycled waste” are expressed in terms of increase. To ensure the contribution of all departments to sustainability objectives, metrics are broken-down and employees at different hierarchical levels have to deliver on. Each factory (12 to date) within Cloetta’s network reports every month the score on the KPIs they perform against. Subsequently, KPIs are aggregated on a corporate level at the QE (quality and environmental) department.

Regarding the social dimension, it is harder to track or rather find good metrics. However, they offset the lack of KPIs with information provided by partnering programs Cloetta is part of. For example, UTZ certification for cocoa provides standards to comply with and conducts surveys in origin countries and the same goes for RSPO certification, which is a sustainability standard for palm oil. When they deal with social issues a long way from Cloetta, they have to rely on partnering organizations to give them that data. However, Cloetta also deals with the social dimension of sustainability with in-house issues, especially those related to employees’ sick leave and gender equality. With regards to these aspects, Cloetta employs KPIs such as “days between occupational accidents” and “gender distribution” (Cloetta Sustainability Report, 2015).

Targets

Within Cloetta, the level of performance to be achieved for each of the KPIs is established by the Director of Corporate Responsibility in collaboration with the executive management team, which sets the long-term targets. The individuals held accountable for reaching the targets span from senior managers to lower-level staff working at factories.

What is published externally on the sustainability report is the corporate aggregated target, but each factory has its own that employees must meet. All the targets from the 12 factories are then aggregated at the corporate level. However, participatory development of targets is absent at the factory level. In fact, staff will be held accountable for the demanded level of performance with no possibility of contribution to the definition of it. Nevertheless, targets differ across departments and factories, as the amount of energy used would differ according to the different products to be produced. In fact, producing nuts-based products does not require as much energy as needed to produce chocolate bars.

Benchmarking is not a thoroughly employed tool to set targets. However, it is considered important in the long-term to compare Cloetta’s performance to its peers’ performance. When asked, the interviewee reasoned:

“It has not been used because it is not easy to find benchmarks within the food industry, as there is still a lack of consensus on the definition of CSR and different companies use their own way to address sustainability concerns and therefore develop their own KPIs.” (Director for Corporate Responsibility, Cloetta AB).

Rewards

Rewards are given out to employees delivering the intended results. The individual bonus is calculated by following two criteria: the first is the overall Cloetta performance on total Net Sales and EBIT; the second factor relates to the individual performance of employees on the KPIs. The type of compensation used is mainly financial. Promotion and non-financial incentives in general are not extensively used, as they are not contingent on sustainability performance. A reward in the form of increase in salary is not frequently given out to employees, except for those working at QE department, as sustainable performance is the core of this department and they can leverage their good environmental results during the yearly discussion with their superiors to get an increase in salary. The reward system is individuals-based, and team-based rewards for CSR are missing.

The respondent is personally reluctant to introduce rewards systems, as he thinks that continuous improvements should be a spontaneous part of an employee day-to-day job, including sustainability aspects. He thinks that people should be proud of working for a company and take the responsibility to deliver successful results. It should be part of each employee's values. In fact, this is what they are trying to introduce at Cloetta: to build sustainability into the corporate core values to provide employees with the right direction to follow. Nevertheless, a PMS for sustainability is seen as a useful tool to increase performance by both directing employee behaviour and providing managers with timely information to support their decisions.

4.4. ARLA FOODS

4.4.1. GENERAL INFORMATION ABOUT ARLA FOODS

Arla Foods is a dairy cooperative based in Viby (Denmark). The firm is owned by 12.500 farmers in seven countries (Denmark, Sweden, UK, Germany, Belgium, Luxembourg and the Netherlands) who produce the milk that Arla uses to create its products (Arla Foods, 2016). In these seven countries Arla has its factories (called dairy sites) while its operations involve up to 50 countries worldwide. The cooperative has 31 brands and its product range includes butter and spreads, milk and powder, milk-based beverages, cheeses, yogurt. The vision stated in the 2016 annual report is “creating the future of dairy to bring health and inspiration to the world, naturally” and the mission is “to secure the highest value for our farmers' milk while creating opportunities for their growth” (Arla Foods, 2016, p. 7). In order to implement its new strategy, called Good Growth 2020, Arla operated a reorganization of its structure and 500 positions have been made redundant in Spring 2016 (Arla Foods, 2016, p. 9). The Good Growth strategy is based on four main principles: healthy growth, natural growth, responsible growth, cooperative growth (Arla Foods, 2016).

We have interviewed the vice president of corporate responsibility of Arla Foods who works at the cooperative since 1998 and who leads the corporate responsibility area globally. The CSR department at Arla employs five people, three based at the headquarter in Aarhus (Denmark), one in Sweden and one in Dubai. The interviewee reports for his daily activities to the executive team member in charge of HR & Corporate Affairs and to all the other members of the executive management team for his annual business plan, directions and strategy. The corporate affairs function is responsible for strategy

execution, communication, CSR and human resources. The board of directors (composed of farmers) gives the mandate to the managing director (CEO) to set the executive management team, composed of seven managers (see appendix 5). The CSR department, its business plan, goals and progress are monitored by the executive management team, which has to approve the annual plan, respond to ethical dilemmas that are pushed forward and set the future directions for the CSR work.

Sustainability, for Arla, means to conduct its activities in a responsible manner, which does not mean to donate money for charity, but rather to do what they do in a sustainable way: compliance with all the international standards for human rights, develop farming practices and production practices so that ecological boundaries are not exceeded and so on. The reason why Arla strives to behave responsibly, rests on different aspects: its core values, reputation, pressures from the media, the exporting countries and the consumers, business opportunities. Among all these aspects the most dominant can be however identified in a strong external pressure from consumers and the Danish government.

When it comes to reporting on sustainability, Arla generally follows the GRI guidelines in order to get an inspiration on which KPIs to adopt. The annual report and the CSR report are not integrated and they are not audited by consultancy firms. The cooperative deals with environmental, social and financial aspects. It has an environmental strategy, it has a human rights policy, it strives to provide the highest possible milk price for the farmers so that the price that the company pays for the milk to the farmers is maximized and their livelihood and economic resilience is improved. If the farmers are economically sound, it is easier for them to adopt sustainable practices. Affordability, i.e. to provide a product range that can be purchased by low-income individuals, is another way in which Arla approaches economic sustainability and allows good nutrition standards for everybody.

4.4.2. PMS AT ARLA FOODS

Objectives

The strategic objectives of Arla have evolved over time. At the beginning the main focus was on behaving well in the market because of the strong pressures from consumers and government. Arla has been forced to comply with competition laws. After this initial phase, it came a period in which the main focus shifted on environmental issues, which have become very popular at that time and Arla developed an environmental strategy. After that the cooperative moved to health-related issues and developed a health strategy. At the moment Arla is moving towards issues related to human rights implementation in both the developing markets (such as Nigeria) and developed markets. This evolutionary process, however, is not yet a comprehensive CSR strategy which Arla still has to develop. The future sustainability strategy will focus on all aspects related to nutrition, environment and social aspects.

In 2016 Arla made a plan together with a number of different representatives of various functions in the company (legal, supply chain, environmental department, mergers and acquisitions and so on) in order to define the company's objectives towards 2020. The first goal is that the company's responsibility has to be embedded in the business, the second goal is to make Arla Foods the most trusted provider of healthy and sustainable dairy products, the third is to make dairy products

recognized as part of a healthy and sustainable diet, finally Arla wants to be recognized as contributing to the global sustainability agenda developed by UN (2016).

Although paying attention to all the three dimensions of sustainability (people, planet and profit), Arla does not operate a clear distinction when it comes to define its objectives. The dimensions are deemed as highly interlinked. Concerning the environmental issues, it is often up to the supply chain executives to make sure that the sustainability objectives are correctly and promptly implemented. When it comes to human rights issues, instead, is rather the CSR department in charge of making human rights assessments in Nigeria or Bangladesh or any other exporting country in which Arla operates. The compliance with the competition law is supervised by the legal department, which has to train the leaders on how to comply with the law. In general, all the functions of the company are involved in achieving the sustainability ambitions of the company.

Measures

In order to measure its performance, Arla uses a number of KPIs such as revenues, costs, costs compared to revenues, EBIT margin, leverage and so on. The company does not use a budget but rather rolling forecasts. The sustainability KPIs are mostly related to the environmental performance and they comprehend CO₂ emissions, water and electricity consumption. The water consumption is affected by the quantity of milk purchased by the company from the farmers. As a cooperative, Arla is obliged to purchase all the milk that the farmers produce. What Arla does is to reduce as much as possible the ratio of water consumed in comparison to the production outcome.

Targets

Arla sets overall company targets for the environmental strategy in order to reduce, for example, carbon emissions by 25% by 2020, water and electricity consumption by 3% annually, waste by 50%, convert the 50% of sources from fossil to non-fossil, and so on. These goals have been decided by the executive management team, agreed in the strategy and are supposed to be implemented every year in the business plan. Regarding the other parts of the sustainability agenda, however, the company did not go very far in setting concrete goals and targets to achieve. There are nutritional criteria developed for Arla products (how much proteins and calcium and how little fat and sugar should be in a product) that can be measured (how many products comply with these criteria) but there are no concrete goals saying that a certain percentage of compliance is required. Arla does not have targets for each department for the overall goals and, as the interviewee states:

“that’s what we should have, but we are not that advanced yet, so we hope to be lucky and cross our fingers and hopefully it’s gonna materialize. But we do follow up every year and we do work with implementing activities that will reduce our carbon footprint so we do convert from fossil to non-fossil and we do work with farmers in order to reduce the emissions and we do measure how well we are doing and at a certain point in time, as we come closer to the 2020 agenda, we can see where we should improve and what has become more and more relevant in the various functional business plans.” (Global Head of CSR, Arla Foods).

A way in which Arla tries to advance in its goals is through benchmarking. At the moment, the company is in the process of developing a new environmental strategy towards 2040 and for doing

that they have looked at what the other companies and the countries in which they operate are doing. Sweden, for example, wants to become carbon net positive by 2050. A scientific evaluation of what is actually possible to reach, given the technology available, is performed. In this way, a benchmark and a scientific approach are combined.

Rewards

Despite Arla measures its environmental performance and the executive management team has a discussion with the various functions to see if there is a progress towards sustainability objectives, the interviewee admits that:

“we are a little bit weak on accountability in terms of sustainability measures. I don’t recall anybody being fired or punished or had his salary reduced because he didn’t reach an environmental target.” (Global Head of CSR, Arla Foods).

The supply chain department has a very big role to play in achieving the environmental targets. The international department has a large role to play in making sure that Arla complies with human rights. The procurement department plays an important role in regards to sourcing responsibly and making sure that Arla does not have any reputational damage. Despite these important roles, employees are not really held accountable. No bonuses or prizes are awarded in case the objectives are achieved.

Despite the fact that no one is really held accountable and therefore punished or remunerated, sustainability issues are discussed by the leaders (CEO and managers) and by the employees. Resources are invested and sustainability became part of the way of operating of Arla. In other words, the objectives are achieved notwithstanding the absence of rewards. Employees are empowered, integrated in the culture, recognized (both at an individual and department level). When an employee does something out of the ordinary, he is rewarded in wording and articles on the internal magazine.

4.5. CONCLUSION OF EMPIRICAL RESULTS

Table 4.2 summarizes the findings obtained from our research and derived both from the interviews and the archival data collected. As can be noticed, the three companies widely apply their PMS to sustainability in all three dimensions. Each of them sets objectives, implement sorts of measurements for the objectives and sets targets to achieve. Cloetta AB seems to be the only one directly awarding financial compensations for the achievement of CSR targets. While Arla Foods explicitly admits not to award these kind of rewards, Findus attributes them always in concurrence with other elements, such as negotiations with unions.

Even if the companies are aware of the three dimensions of sustainability (which they often call people, planet and profit), they do not strive to separate them when it comes to set objectives for the whole company. The same thing happens, as a consequence, also for the measures, the targets, and the rewards. In other words, even if the three dimensions are strongly present and visible, they are considered as too much intertwined to be easily separated and assessed.

PMS CSR	Objectives	Measures	Targets	Rewards/punishments
Environmental	Findus Sverige AB Cloetta AB Arla Foods	Findus Sverige AB Cloetta AB Arla Foods	Findus Sverige AB Cloetta AB Arla Foods	Cloetta AB
Social	Findus Sverige AB Cloetta AB Arla Foods	Findus Sverige AB Cloetta AB Arla Foods	Findus Sverige AB Cloetta AB Arla Foods	Cloetta AB
Economic	Findus Sverige AB Cloetta AB Arla Foods	Findus Sverige AB Cloetta AB Arla Foods	Findus Sverige AB Cloetta AB Arla Foods	Cloetta AB

Table 4.2 final findings

5. ANALYSIS

In this chapter, we compare both the three companies interviewed for our study and the findings of our research with the theory examined in the third chapter. We divide the analysis in four sections: objective setting, performance measurement, target setting and reward system. For each of these four sections we provide a set of propositions that summarize the factors that influence the decisions of organizations to implement a PMS to realize the objectives of sustainability.

5.1. OBJECTIVE SETTING

In her study of Finnish companies operating in the financial service industry, Kivivirta (2010) stressed that CSR is gaining so much relevance that it is common to incorporate sustainability issues into the corporate strategy. Perego and Hartmann (2009) and Epstein and Roy (2001) go even further, by stating that senior management formulates separate environmental or, more generally, CSR strategies in order to address these issues. In line with the findings of the above-mentioned authors, all the three interviewed companies responded that either a CSR or an environmental strategy has been defined. The process followed to define it, however, differed across companies. The most advanced and developed practice, in our opinion, has been presented by Cloetta AB. On a yearly basis, the company conducts a materiality analysis by hearing from its stakeholders what are the most critical issues. Subsequently, they are arrayed according to the impact that they might have on both the company and its stakeholders. Those issues with very high perceived impact will then be prioritized and acted upon. This approach resembles what prescribed by Porter (1996) for the definition of a strategy, that is selecting a position to deliver value and preserve competitiveness. In fact, Cloetta makes choices about what to and what not to focus on, based on an analysis conducted to balance various stakeholders' interests. In addition, the analysis takes into account the impact that certain issues have on the company, thus highlighting a concern for those factors that have the potential to impair the ability of Cloetta to remain competitive. Similarly, Arla Foods establishes priorities by means of a materiality analysis. However, it is limited to assess the impact that issues have on internal and external stakeholders. For what concerns Findus, we know that its CSR strategy is set at the group level by Nomad Foods Europe. Unfortunately, we are not aware of the process employed by the group to select the focus areas. Nevertheless, we assume that Nomad follows relevant criteria to define the most important issues alike.

As exemplified by Ferreira and Otley (2009), companies choose to follow a direction, and thus develop a strategy, to reach organizational objectives. If financial objectives have for a long time been the main, and often the only, concern for firms, our findings confirm that this is no longer thoroughly applicable. Shareholders seem to be treated as the rest of a company's stakeholders. Accordingly, both shareholders' and stakeholders' expectations are listened to alike. Following on Mitchell et al. (1997), it could be argued that the attributes of power, legitimacy and urgency belong to a number of stakeholders other than stockholders. This is reflected in the CSR domain, which is by definition a field encompassing a variety of stakeholder groups. When asked why CSR practices are performed within the company, the totality of interviewees reported that the reasons span from public image, through competitiveness, to ethics. However, no one among the companies reported a prioritization of shareholders' wealth over the rest of the stakeholders' needs. The following

propositions illustrate the generalizable findings illustrated in this section about the objective setting in Scandinavian food companies.

Proposition 1.1: Scandinavian food companies adopt a CSR strategy focusing on certain sustainability objective and foregoing others.

Proposition 1.2: Scandinavian food companies listen to shareholders' and stakeholders' needs alike.

5.2. PERFORMANCE MEASUREMENT

According to Neely et al. (1995), performance measurement consists of assessing the appropriateness of actions, in terms of both efficiency and effectiveness. The actions to be taken are supposed to contribute to the achievement of the overall organizational objectives. However, this happens at the condition that strategy is broken-down into a series of consistent activities (Fitzgerald, 2007) and that employees at various departments are assigned duties to deliver on. In this regard, all the three examined companies claim to develop programs and action plans in order to implement the intended CSR strategy. As reported by the CSR manager at Findus, reaching a certain objective entailed the company to conduct an analysis on how the current procedures were performed. Subsequently, a restructure of a factory followed in order to accommodate the new operations needed. The operationalization of strategy is, according to several scholars (Fitzgerald, 2007; Ferreira and Otley 2009), regarded to as an effective way to lead the company towards the desired outcomes. However, as often happens in dynamic environments, quickly responding to change is preferred to planning. This approach is supported by advocates of the beyond budgeting movement, who claim that, in certain contexts, plans become obsolete right after formulation. Similarly, Arla Foods reported to adopt quarterly-updated rolling forecasting techniques. The latter is, in our opinion, suitable for CSR, as it is a domain influenced by consumers as well as other stakeholders' perceptions, and therefore subject to unpredictable change in trend.

For what concerns the KPIs, our findings are strongly consistent with the claim of authors, such as Hubbard (2009), Epstein and Roy (2001), and Lueg and Radlach (2016), who found that environmental performance is easier to gauge compared to the social. All the three observed companies report on a number of environmental KPIs at the corporate level. Despite its difficulty, they also report on social performance figures, but they distinguish between issues over which control can be directly exerted and issues over which control cannot be directly exerted. When it comes to in-house issues such as those relating to the firm's employee well-being, KPIs are introduced and performance directly monitored. Differently, for issues happening in remote geographical area, the companies mostly rely on data provided by partnering programs to ensure that the company is performing as intended. Data are mainly retrieved from surveys conducted in origin countries.

Regarding the level of accountability, the two Swedish companies find it rather easy to break-down environmental KPIs to lower levels and allocate responsibilities to different departments. Thus, each department takes part in the attainment of the overall CSR objectives by giving its contribution with regards to the issues it is mostly concerned with. A similar break-down occurs at Arla Foods, according to which each function is responsible to deal with specific issues as part of its day-to-day tasks. However, breaking-down KPIs and holding employees accountable for their own performance

becomes more difficult for the social dimension. In fact, the linkage between social objectives and performance measures results blurrier and not always solely dependent on managerial effort. In other words, the selected KPIs in the social sphere do not give the information needed by management to assess whether the company's actions are consistent with the overall strategy.

The economic dimension of sustainability is regarded to as both the company's and the host communities' prosperity. To monitor how economically well the firm is performing, both Arla Foods, Findus and Cloetta AB make use of common financial KPIs, such as EBIT, revenues and costs. Instead, to monitor the communities' prosperity, the three companies use different approaches. As a dairy cooperative, Arla Foods aims at paying the highest possible amount of money per liter of milk sourced from its farmers. Cloetta AB relies on UTZ certification for its raw materials, which is an entity providing education to farmers for advanced farming techniques that enable to maximize their own yields and, consequently, profits. Findus, on the other hand, monitors its responsible sourcing of raw materials activities, which, however, mainly reflects environmental and social concerns, and thus is only indirectly an economic sustainability KPI. The chapter on discussion and conclusion will address more in detail the relationship between the three pillars of sustainability.

None of the companies analysed make use of a SBSC as the main sustainability PMS. One possible explanation for this finding is that those companies do not make use of BSC at core of the business either. In fact, as prescribed by Figge et al. (2002), a SBSC has to be linked to the corporate BSC, since the link with the financial perspective needs to be evident in order to assess how the responsible behaviour affects the overall financial results. However, we cannot conclude that Scandinavian food companies do not employ the SBSC at all. It could have been possible to do so in the case in which we found one or more companies using the BSC at the core of the business, but not a SBSC for CSR performance. For this reason, on the basis of our limited findings, we cannot conclude with absolute certainty that Scandinavian food companies do not make use of SBSC. The following proposition illustrate the generalizable findings illustrated in this section about the measures of sustainability in Scandinavian food companies.

Proposition 2.1: The environmental performance in Scandinavian food companies is easier to measure than social and economic performance.

5.3. TARGET SETTING

All the three companies presented in the empirical section of this thesis established, when possible, specific levels of performance to achieve in the sustainability KPIs that they have chosen. The targets are decided at the top level by the CSR directors in accordance with their superiors. They are kept difficult but realistic to achieve and the low-level employees are not involved in their setting. These two aspects should have, according to the literature, an opposite effect on the degree of motivation of employees for the achievement of the targets. The achievability of the targets is supposed to have a positive effect, as described by Fitzgerald (2007), while the top-down process of setting them may have a negative impact, as illustrated by Groen et al. (2012). Due to the impossibility of conducting further interviews to the low-level employees, however, we cannot gauge if these two effects exert a real impact and, if yes, which one is dominant.

In the two Swedish companies either the managers (in Findus) or the managers and the employees together (in Cloetta), are held responsible for the achievement of the targets. In the Danish company, at the contrary, no one is held responsible for their achievement. Another difference between the Swedish and the Danish companies is that the first two do not use benchmarking while the third one use it. The reason why Findus and Cloetta do not apply benchmarking rests on the difficulty of comparing heterogeneous sustainability practices in all the three dimensions (people, planet, profit). The difficulty of applying benchmarking to sustainability practices is also recognized by Hubbard (2009). Arla, however, claims to compare its performance with the objectives of the Danish government and other companies operating in the same industry. In all the three companies, the targets differ across departments, which means that each department has certain KPIs assigned that have to be achieved. The reason for that, rests on equity issues since the level of performance has to be adapted to the possibilities of the different departments to achieve it. Furthermore, different departments possess different knowledge and thus should be assigned different KPIs. The following propositions illustrate the generalizable findings illustrated in this section about the sustainable target setting in Scandinavian food companies.

Proposition 3.1: sustainability targets in Scandinavian food companies are set at the top-level with no participation of low-level employees.

Proposition 3.2: sustainability targets in Scandinavian food companies are kept difficult but possible to achieve.

Proposition 3.3: sustainability targets in Scandinavian food companies differ across departments.

5.4. REWARD SYSTEM

Both Findus and Cloetta use financial incentives to reward the good results in sustainability objectives obtained by the managers and the employees. Findus' financial incentives consist of both monetary bonuses and salaries' increases, while Cloetta awards financial compensations to both single individuals and teams. Arla's PMS, at the contrary, does not remunerate responsible behaviours, nor with bonuses, nor with salaries increase nor with any other form of financial incentive. Arla and Findus, however, award some sorts of non-financial rewards under the form of wording and citation in the company's magazine (in the case of Arla) and recognition and positive feedback (in the case of Findus). What is common to all the three companies is the absence of punishments for irresponsible behaviours. Due to the limited access to the companies, it was not possible to gauge with precision the extent to which the financial incentives contribute to the achievement of goal congruence, but the fact that, once implemented, they are maintained, is a good hint that points in this direction. Likewise, the appearance of a crowd-out effect of intrinsic motivation, as described by Frey (1997), has been difficult to detect and it appeared that the managers interviewed did not really considered the possibility that such an effect could take place. The following proposition illustrate the generalizable findings illustrated in this section about the sustainable rewards and punishments related to the achievement of sustainability targets in Scandinavian food companies.

Proposition 4.1: Scandinavian food companies do not punish their employees for not having achieved the established sustainability targets.

6. DISCUSSION AND CONCLUSION

The following section synthesizes the dissertation presented in the above pages and illustrates our final considerations on the findings of our research. The practical as well as the theoretical implications of the analysed results are addressed. Subsequently, limitations regarding the applicability of our findings will be discussed. Finally, we will give a number of suggestions on possible future research directions.

6.1. FINAL CONSIDERATIONS

We have conducted this research with the intention of disclosing how Scandinavian companies in the food sector make use of a PMS to foster sustainability practices. Our purpose has been inspired both by classical MCS literature for strategy implementation and by the works of few authors (Durden, 2008; Arjaliès and Mundy, 2013; Lueg and Radlach, 2016), who drew attention to the benefits of employing MCS to reach CSR objectives. In our attempt to investigate such a relation, a number of results have been generated.

First, all the examined companies make use of a PMS to manage their sustainability performance. They define objectives and attempt to reach them by implementing a strategy. They define KPIs both to monitor and influence employee performance. When possible, they generally set targets for each of the KPIs, thus demanding a certain level of performance for each department. Likewise, the interviewed firms assign their employees diverse types of rewards more or less contingent on CSR performance. However, the linkage among the different elements of their PMS for CSR is not always straightforward. In fact, pre-set objectives are not always followed by relevant KPIs measuring the level of progression towards the organizational goals achievement. Similarly, the reward systems are rarely linked to the attainment of specific CSR targets. Possible explanations for the latter could be either because attributing responsibility is often an arduous task or because CSR is conceived as a normal component of the business day-to-day activities (Arjaliès and Mundy, 2013). However, being the components of a PMS loosely intertwined, one might wonder to what extent the PMS as a whole can be considered as an effective tool to manage CSR performance. Despite it has been regarded to as essential by both the interviewees and the literature (Durden, 2008), Arjaliès and Mundy (2013) reported that one reason for diagnostic processes not to be extensively developed could be the lower importance given to CSR compared to the core business strategy. However, such an explanation would be at odds with the Scandinavian context, which is thought of as the leader when it comes to CSR (Strand et al., 2015). In fact, this has been the case for none of the companies in our study. While avoiding generalization, we could then argue that a PMS can be an effective diagnostic tool at the condition that CSR and core strategy are assigned the same priority.

Second, we found that although a PMS is perceived by the majority of respondents as a powerful management decision-support system, it might not be so when it comes to influencing and directing employee behaviour. In fact, it has been reported that the PMS is not the only tool that the companies leverage to reach CSR objectives. In addition to PMS, the respondents stressed the importance of instilling throughout the company a CSR culture and a set of values that individuals can always refer to. Several scholars have argued in this direction. For example, as explained by Simons (1995), diagnostic control systems alone may lead employee to counterproductive behaviour. To overcome this limitation, beliefs systems play a role in directing and serve a guidance to employees when

looking for new opportunities for delivering value. Accordingly, the majority of the respondents argued that they are trying to integrate CSR in their core values, in order to lead individuals both within and outside the company to behave in accordance with ethical standards. The effect of beliefs systems on CSR strategy implementation has also been studied by Arjaliès and Mundy (2013), who found that companies in their studies mobilize their beliefs systems to have a shared conception of CSR and “to unite employees around a set of organizational values” (Arjaliès and Mundy, 2013, p. 295). Based on both the literature and our own results, we can conclude that a PMS needs to be complemented with other management control tools that provide individual with the right direction to follow.

Finally, another result disproving previous theoretical findings relates to the conception of sustainability. Many scholars, such as Elkington (1994), have contributed to the literature by conceptualizing sustainability in three dimensions, namely social, environmental and economic. The concept of TBL has gained so much attention that it has become automatic to make a distinction between social, environmental and economic sustainability. However, as our findings show, no one of the investigated companies makes a clear separation among these three dimensions of CSR. In reality companies set objectives that have the potential to embody both social, environmental and economic issues at the same time. Of course, they also establish objectives that can be identified with one of the three dimensions, but in general Scandinavian companies are committed to handle ethical issues, regardless of the dimension an issue can be traced back to.

6.2. PRACTICAL IMPLICATIONS

The theory, the empirical results and the analysis presented in this thesis can be of great help for both companies’ managers and policy makers. Since Scandinavia is one of the geographical areas of the world where sustainability practices have reached the most advanced level, there is a lot to learn from the way in which CSR is implemented there. For what we have seen, however, sustainability is still too much perceived as a complement to the standard operations carried out by companies and not as a complete new way of intending management, business, development, procurement, supply chain, purchasing, marketing and so on. The fact that CSR managers have to report to the marketing managers is already a hint that sustainability is still too much treated as a way of gaining consensus, credibility, legitimation, a good image and a good reputation. Sustainability is still not enough anchored to companies’ ethical values.

By reading this thesis, managers of companies that intend to implement or improve their CSR methods can derive some inspiration both on the reasons why it is beneficial to become sustainable and how to do that. Policy makers can also get a better understanding on how companies operate and thus reflect on what could be the most effective way of imposing laws, codes of conducts and regulations to incentivize companies to be more responsible.

6.3. THEORETICAL IMPLICATIONS

A vast body of literature can be found on both CSR and MCS. To the limit of our knowledge, no academic work has been conducted on the feasibility of implementing a PMS to realize sustainability

objectives. This master thesis has the ambition of shedding light on a topic that has not been widely researched so far and that would, in our opinion, deserve a greater deal of attention.

What we have found is that companies strive to apply the same PMS that they use to manage their financial performances to CSR issues. The implementation, however, is often incomplete or not enough ambitious. There is a lack of conceptualization of the economic dimension of sustainability and not enough good measures of the social one. We have provided a set of propositions that aim to contribute to enrich the existing theory and exemplify what could be expected from a company operating in Scandinavia in the food sector when dealing with CSR.

6.4. LIMITATIONS

Our study contains a number of limitations. The most relevant of them consists in the low number of companies interviewed and the fact that, due to access problems and time limits, we could conduct only one interview in each of them. It would have been important to interrogate also the CFOs or the controllers of the companies and not only the CSR managers. Useful inputs could have come even from the employees in order to understand the impact of the PMS on their intrinsic motivation toward sustainability issues. In addition, we could not include in our study a Norwegian company that would have allowed us to have conducted our research in all the three Scandinavian countries and not only in Sweden and Denmark.

Besides the limitations that we encountered against our will, we intentionally imposed limits in terms of industry sector studied and geographical region considered. The reasons of these limitations rest, as explained in the methodological part of this work, on the need to make our results as much applicable as possible. Once again, we want to specify that the propositions that we have derived from our analysis are intended to be applied only to the companies operating in Scandinavia and only in the food sector. Whether they could be applied also to other countries and industries could be the object of another research project.

6.5. FUTURE DIRECTIONS

The research project presented above leaves room for further research in different directions.

First, since the propositions we have presented in the analysis have been obtained through a qualitative research based mainly on an inductive method, they could still be tested as hypotheses in a quantitative research using a deductive method. While maintaining the same industry and the same geographical area, the sample should be increased and made representative of the reality under scrutiny to verify if our propositions stand the proof of a quantitative test.

Second, it was not possible for us, in the given context, to investigate the consequences that sustainability PMS have on employee motivation. We could not conduct interviews to employees to investigate whether they felt sensible to sustainability issues and whether the mechanisms put in place to motivate them to pursue sustainability objectives were effective or were crowding out their intrinsic motivation.

Third, the research we have conducted can be conducted again in other industry sectors and/or other geographical areas. A comparison among these researches would help to clarify differences helpful for both practitioners and policy makers.

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APPENDIXES:

Appendix 1: Interview questions

INTRODUCTORY QUESTIONS:

1. What is your role in the company? How is your department called and structured?
2. What do you mean with CSR? Why do you think it is important? Why did you decide to implement sustainability practices?
3. Do you distinguish (and if yes, how) between the different dimensions of sustainability (economic, social, environmental)? Do you follow the GRI guidelines?

QUESTIONS ON CSR AND PERFORMANCE:

4. How do you measure performance not related to sustainability at Findus?

OBJECTIVES:

5. Do you have a CSR strategy? On which aspects of CSR do you focus the most? Why?
6. Which are your objectives in the three dimensions (economic, social, environmental)?
7. How do you implement these objectives? Which concrete actions do you take to realize them?

MEASURES:

8. What are the key performance measures (KPMs) deriving from the economic, social, environmental sustainability objectives?

TARGETS:

9. What is the level of performance that the company aims to achieve for any of the selected KPMs? Who establishes them? Does it differ across departments? Who is held accountable for the achievement of the targets?

REWARDS AND PUNISHMENTS:

10. Do you reward/punish the people held accountable for achieving the intended level of performance? If yes, how? If not, why?

Appendix 2: Cloetta's stakeholders map (Cloetta sustainability report, 2015, p. 41)



Appendix 3: Cloetta's materiality analysis (Cloetta sustainability report, 2015, p. 41)



Appendix 4: Cloetta's stakeholders' key sustainability issues (Cloetta sustainability report, 2015, p. 42)

Stakeholder	Key issues – sustainability	Communication and cooperation
Customers/ Consumers	<ul style="list-style-type: none"> • Product safety and quality. • Clear declaration of ingredients. • Eco-friendly packages. • Cloetta takes responsibility for the environment and working conditions as far as possible. • Ethical issues in general. • Efficient transports to the retail trade. 	<ul style="list-style-type: none"> • With consumers through various surveys and via websites and the social media. • With customers through personal customer and sales meetings and via customer surveys, but also collaborative initiatives for eco-friendly transports.
Employees	<ul style="list-style-type: none"> • Good and stimulating working conditions. • A safe working environment. • Health and fitness activities. • Ethical issues in general. • Good financial development for the company. 	<ul style="list-style-type: none"> • Daily meetings to discuss occupational health and safety in the factories. • Annual performance reviews with all employees. • Systematic skills development activities. • Up-to-date information provided via managers, the intranet and union representatives. • Employee survey Great Place to Work every other year.
Shareholders and investors	<ul style="list-style-type: none"> • Sustainable long-term financial value growth. • Ethical issues in general. 	<ul style="list-style-type: none"> • Annual report, website, analyst and investor meetings, interim reports and annual general meeting.
Suppliers and other business partners	<ul style="list-style-type: none"> • Ethics and business codes in procurements. • Product safety. • Sustainable long-term development. • Support of human rights among raw material producers. 	<ul style="list-style-type: none"> • Collaborative projects for sustainability. • Supplier evaluations, sponsorship evaluations and development products.
The public/society	<ul style="list-style-type: none"> • Cloetta takes responsibility for the environment and working conditions as far as possible. • Laws, regulations and standards. • Cloetta makes a positive contribution to development of society, including the local environment. 	<ul style="list-style-type: none"> • The local communities/municipalities around Cloetta's factories with regard to the local environment. • Public authorities in areas related to occupational health and safety, environmental and product responsibility, schools and universities. • Certification bodies for ISO and BRC. • Key opinion leaders.

Appendix 5: Arla's structure of the executive management team (Arla CSR report, 2016, p. 7)

New organisation to deliver Strategy 2020

