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ECONOMICS AND  
MANAGEMENT

**How the drivers behind reporting affect the  
relationship between management control  
systems and sustainability reporting**  
An empirical study

By

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# Abstract

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<b>Key words</b>	Management control systems, sustainability reporting, sustainable development, package of controls, triple bottom line
<b>Purpose</b>	The aim of this study is to provide empirical evidence on how the drivers behind SR affect the relationship between MCS and SR.
<b>Theoretical background</b>	The theoretical framework addresses literature on sustainability reporting and management control systems. We adopted the framework by Malmi and Brown (2008) to define the management control systems. Furthermore, three theoretical perspectives are presented to categorize the drivers behind SR. Based on the literature findings, four propositions were developed.
<b>Methodology</b>	Information was collected through semi-structured interviews with eight organizations. In addition, we gathered data from the organizations' sustainability- or integrated reports to complement the fieldwork findings.
<b>Findings</b>	The empirical findings suggest that the drivers behind SR do have an effect on the relationship between SR and MCS. Yet, the extent to which these drivers influence the interplay was not consistent with all of the propositions.
<b>Contributions</b>	This study contributes to existing literature by providing empirical insights on how the drivers behind reporting affect the relationship between MCS and SR. Moreover, prior research focused on a few elements of internal control systems. The package of controls framework by Malmi and Brown (2008) allowed us to provide a more complete overview of the organizations' MCS.

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# 1. Background and motivation

Over the past decades, external pressures have forced organizations to report on their triple-bottom line (TBL) performance (Hourneaux Junior, Galleli, Gallardo-Vázquez & Sánchez-Hernández, 2017). The rationale behind reporting on non-financial performance can differ extensively among organizations (Frostenson & Helin, 2017; Hourneaux Junior et al., 2017; Lueg & Radlach, 2016; Moneva, Archel & Correa, 2006). The process of reporting TBL issues is referred to as sustainability reporting (SR) and means that firms provide information about their environmental, social and economic performance and hence their contribution to sustainable development (SD) (Lueg & Radlach, 2016; Traxler, Schrack & Greiling, 2020). SD refers to the practice of meeting “... *the needs of the present without compromising the ability of future generations to meet their own needs*” (WCED, 1987, p. 8). The motivations for firms to publish TBL information can be divided into three categories, including achieving conventional organizational objectives (Speziale & Klovienè, 2014; Stanwick & Stanwick, 2015), meeting social and societal pressures (Traxler et al., 2020) and meeting moral obligations (Joseph, 2008).

Nevertheless, previous research found that SR often has little to do with the organization’s contribution to SD. Instead, the reports rather represent how they want their business to be perceived by the public (Bebbington & Larrinaga, 2014; Gray, 2010; Maas, Schaltegger & Crutzen, 2016). Literature suggests that, for sufficient sustainability integration, reporting and internal control need to be interlinked (Traxler et al., 2020). SD will just remain a good intention unless firms make genuine efforts to improve it (Lueg & Radlach, 2016; Maas et al., 2016). When no efforts are made to improve SD, there is a chance that SR can lead to greenwashing, which occurs when firms solely use the report as a PR-activity or as a means to outwardly meet stakeholder’s expectations (Maas et al., 2016).

The external relevance of SR involves the disclosure of information to outsiders, gathered through the firms’ sustainability accounting system. Sustainability accounting consists of a variety of instruments that firms use to measure corporate sustainability performance, including SR. Along these lines, SR also has internal relevance as it can support internal information needs, foster decision-making towards sustainable actions and hence improve the firm’s contribution to SD (Rimmel, 2020; Traxler et al., 2020). Maas et al. (2016) consistently argue that SD improvement can only be realized if knowledge about sustainability impact is available, which can be fostered

through SR. What's more, in addition to their TBL performance, firms need to report on their strategy and contribution to SD. As a result, SR can enhance the development of organizational sustainability objectives and be an important driver for sustainable business activities (Traxler et al., 2020).

However, the internal and external relevance of SR will vanish if firms do not make genuine efforts towards improving SD (Lueg & Radlach, 2016). Without the appropriate implementation of management control systems (MCS), SD integration cannot be realized and consequently, there will be no contribution to a more sustainable economy (Dumay, Guthrie & Farneti, 2010; Maas et al., 2016; Traxler et al., 2020). MCS can be defined as the mechanisms designed for directing employees' behavior towards achieving organizational goals. In this context, every mechanism that a firm can control is part of the overall MCS package (Strauss & Zecher, 2013; Malmi & Brown, 2008). The implementation of MCS can thus help firms to align and achieve the objectives and strategies set in their sustainability report. In this vein, it is assumed that MCS play a crucial role in directing organizations towards sustainability (Traxler et al., 2020). Moreover, there will be no contribution to SD if SR is not used as a managerial instrument to drive sustainability (Frostenson & Helin, 2017) and hence does not push the firm towards more sustainability-oriented MCS. Consequently, there needs to be an interlinkage between MCS and SR to ensure that the full potential of firms' contribution to SD is utilized (Traxler et al., 2020).

Nonetheless, prior literature suggests that the strength of the relationship between SR and MCS is contingent on the organization's drivers behind reporting. In other words, it is assumed that the motivation to report on TBL performance influences the extent to which MCS are implemented for sustainability integration. The drivers also have an impact on whether or not SR is employed as a managerial tool to improve SD (Traxler et al., 2020). Hansen and Schaltegger (2016) used three theoretical perspectives to explain and categorize the organizational drivers behind SR, including the instrumental, social and political, and normative view. These perspectives were adopted by Traxler et al. (2020), who applied it for explaining the difference in MCS and SR relationships at organizations. To illustrate, from the instrumental perspective, it is assumed that SR will positively influence MCS and that, vice versa, MCS affects SR. This means that there should be a relatively strong interplay between both concepts (Dima, 2008; Ditillo & Lisi, 2016; Rimmel, 2020; Michelin, 2011). On the contrary, from the social and political perspective, it is suggested that there is a rather weak relationship between MCS and SR (Traxler

et al., 2020). This is due to the fact that firms from this view will only use SR as a tool to meet social and societal expectations, and not to improve SD. Lastly, from the normative perspective, prior research expects a strong relationship between SR and MCS because firms consider it their moral duty to enhance SD integration (Hansen & Schaltegger, 2016; Joseph, 2008; Traxler et al., 2020).

Against this background, the aim of the study was identified. The purpose is to provide empirical evidence on how the drivers behind SR, categorized into theoretical perspectives, affect the interplay between MCS and SR. The relationship between the two concepts is evaluated by examining the effect of SR on MCS, and vice versa. Providing empirical data on how the rationale behind reporting can affect this relationship will answer the calling from other researchers for more empirical insights (Traxler et al., 2020). Although there has been a general consensus among academics on the importance of the relationship between MCS and SR for SD integration, researchers have not investigated this interlinkage yet. Instead, they either focused on a few aspects of the overall MCS (Traxler et al., 2020) or on the influence of MCS on SD (Lueg & Radlach, 2016). By adopting the package of control framework by Malmi and Brown (2008), this study tried to emphasize all the internal control mechanisms within organizations. In order to analyze the drivers behind SR and their influence on the relationship between MCS and SR, the following research question was developed:

*How do the drivers behind SR affect the relationship between MCS and SR?*

To gather empirical data, answer the research question and analyze the results, eight organizations were evaluated. Findings were collected through semi-structured interviews with representatives from those firms. Through the interviews, data was gathered about the implementation of MCS and its relation to SR and vice versa. Additionally, the drivers behind SR were identified based on the interview findings. Moreover, the organizations' sustainability reports were analyzed to identify complementary information about the implemented MCS.

This study contributes to existing literature by empirically examining (i) the relationship between MCS and SR and (ii) the influence of the drivers behind SR on this interplay. The research can help future researchers to understand the manner in which the rationale behind reporting affects the relationship from a practical point of view. Additionally, it answers the calling from

Traxler et al. (2020) for more empirical insights on these topics. Lastly, by considering the organizations' MCS as a package, it was possible to build a more comprehensive overview of the internal controls and their relationship with SR. The package of control framework by Malmi and Brown (2008) provides such a complete overview (Haustein, Luther & Schuster, 2014) and was adopted in this study to cluster the empirical findings.

The report is organized into six sections. In the following section, the *Theoretical framework* of the study will be discussed. The third section, the *Methodology*, provides information about the research design, data collection methods and data analysis. In the *Analysis based on the package of controls*, findings resulting from the research will be presented. After the findings are addressed, they will be further discussed on the basis of the theoretical framework in the *Discussion* section. Lastly, the final section will conclude the overall findings of the research and will address research limitations, contributions, and suggestions for future research.

## 2. Theoretical framework

### 2.1 Sustainability reporting

Several terms have been developed to cover the meaning of sustainability (Sama, Stefanidis & Horak, 2020), including ‘CSR’ (Carroll, 1991), ‘sustainable organization’ (Lueg & Radlach, 2016), ‘sustainable development’ (Rimmel, 2020), ‘TBL’ (triple-bottom line) (Milne & Gray, 2013) and ‘ESG’ (environment, social responsibility and governance) (Hoang, 2018). There is, however, no definite consensus on the meaning of the concept (de Carvalho, de Fátima Salgueiro & Rita, 2015; Hahn & Kühnen, 2013; Hourneaux Junior et al., 2017; Lueg & Radlach, 2016; Moneva et al., 2006; Zrnić, Starčević & Crnković, 2020). Also, the difference in organizational approaches towards SD creates different meanings for the concept (Lueg & Radlach, 2016). This applies for SR as well, as illustrated by Frostenson and Helin (2017), who state that actors who share the same logic behind the concept might still have opposing ideas about the nature and function of SR.

Yet, one of the most adopted definitions of sustainability is the definition of the World Commission on Environment and Development (WCED) (Hahn & Kühnen, 2013; Hansen & Schaltegger, 2016; Hourneaux Junior et al., 2017; Lueg & Radlach, 2016), which argues that SD *“meets the needs of the present without compromising the ability of future generations to meet their own needs”* (WCED, 1987, p.8). In general, this definition of sustainability requires firms to look at the concept as three separate dimensions: economic, environmental and social (Bansal, 2005; Goel, 2010; Lueg & Radlach, 2016; Rimmel, 2020), which is defined as the TBL approach by Elkington (1998). SD will therefore be defined as any concept that discusses these three terms (Lueg & Radlach, 2016). Against this background, sustainability reporting is the process of firms writing about *“... economic, social and environmental impacts in order to create a higher transparency about their TBL performance and hence their contributions to a sustainable development...”* (Traxler et al., 2020, p.2).

#### 2.1.2 Sustainability reporting guidelines

Currently, the most prominent instructions for SR are the guidelines developed by the Global Reporting Initiative (GRI) (Milne & Gray, 2013; Moneva et al., 2006), which have been adopted in over 40 countries (KPMG, 2020). Despite the existence of GRI, legal conditions on

how to develop sustainability reports barely exist. Consequently, there is room for companies to decide themselves what they want to incorporate into their report, which often leads to confusion (Frosenton & Helin, 2017). Moreover, prior research shows a critical view on the GRI guidelines as they state that the standards remain to have a greater emphasis on financial performance and less on the environmental and social ones (Dumay et al., 2010, Milne & Gray, 2013; Moneva et al., 2006). Yet, the guidelines follow the TBL approach and hence encourage firms to measure performance by dividing it into the economic, environmental and social pillars (Goel, 2010; Hourneaux Junior et al., 2017; Jennifer Ho & Taylor, 2007; Milne & Gray, 2013; Moneva et al., 2006). Hoang (2018) shares a critical view of the TBL approach and finds that it does not necessarily facilitate the integration of the three aspects.

In 2011, a different set of guidelines was published by the International Integrated Reporting Council (IIRC) to help firms with the integration of non-financial information in conventional annual reports (Flower, 2015). Their goal was to introduce a new form of corporate sustainability reporting built upon the idea of “integrated thinking”. The main essence of integrated thinking is that it can develop a culture towards sustainability, which stimulates the integration of sustainability issues in firms’ business activities (Abeysinghe, 2020). However, Flower (2015) argues that the IIRC failed to incorporate sustainability into the reporting standards as the majority of the IIRC members were representatives of the accounting profession and only a small number championed sustainability objectives. The commentary paper by Thomson (2015) fully supports Flower’s (2015) arguments. Flower (2015) also found that there only exists one reference to sustainability in the IIRC’s framework, which is to an independent report developed in accordance with the GRI guidelines. Additionally, Milne and Gray (2013) argue that the IIRC standards are investor-focused and do not emphasize sustainability at all. It is assumed that the IIRC has, despite their efforts, not developed a different set of sustainability instructions, but instead “*assigned this task to other organizations, notably the GRI*” (2015, p.8).

In this context, it can be argued that both the IR standards and GRI guidelines follow the same principles in line with the TBL approach (Flower, 2015; Hourneaux Junior et al., 2017; Milne & Gray, 2013; Moneva et al., 2006; Thomson, 2015). In the vein of TBL, economic performance refers to the conventional financial information published in annual reports. Additionally, it also includes organizations’ investments in human capital, research and development and wages, among others. The environmental accounting (Rimmel, 2020) and performance aspect of TBL

considers for example total emissions and consumed energy and resources whereas social accounting involves the relationship between an organization and its interest groups. Social performance covers issues such as health, safety and human rights (Goel, 2010).

## 2.2 Management control systems

Theories on management control imply that employees and managers have different aims they strive for (Merchant & Van Der Stede, 2012). This is due to the difference between employees' personalities, motivations, lack of direction, behavior, and personal limitations (Lueg & Radlach, 2016). To align overall objectives, organizations can implement MCS (Malmi & Brown, 2008). Guenther, Endrikat and Guenther (2016) explicitly define MCS as the mechanisms put in place to direct employee behavior. More specifically, managers can design such controlling mechanisms to eventually achieve organization objectives. In this vein, all the mechanisms that managers can control are part of the overall MCS (Strauss & Zecher, 2013).

Over the years, several MCS frameworks have been developed (Ferreira & Otley, 2009; Malmi & Brown, 2008; Merchant & Van Der Stede, 2012; Ouchi, 1979), among them the levers of control (LoC) by Simons (1995). The LoC emphasizes the vision of senior management and the manner in which they use formal control systems for strategy implementations. The levers are however rather focused on the formal controls used by management (Strauss & Zecher, 2013) whereas Malmi and Brown's (2008) framework expands this view by incorporating performance measurement systems, informal controls and cultural controls (Guenther et al., 2016). Additionally, Collier (2005) argues that Simons' framework pays too little attention to belief controls, and therefore organizations should develop additional controls to compete in today's business environment.

Traxler et al. (2020) adopted the framework of Malmi and Brown and state that it enhances one to look at a firm's management control system in a broad context. This is consistent with Haustein et al. (2014), who argue that the package of controls framework by Malmi and Brown (2008) takes a broad view on management accounting tools, systems and actions and provides a general view on those concepts as it concerns both institutional and processual elements. The different controls of the package of controls framework can be designed and applied by diverse individuals and do not necessarily have to be aligned (Malmi & Brown, 2008). Hence, linkages and interdependencies between various controls on behavior can be exploited which consequently

provides a better understanding of the effect of the controls on employee behavior (Lueg & Radlach, 2016; Guenther et al., 2016). Malmi and Brown (2008) argue that management control cannot operate in isolation, hence the framework closes the gap between management control literature and practice due to specifically speaking of a “package” instead of a “system”.

## 2.3 The relationship between sustainability reporting and management control systems

Some critics argue that SD can just be an illusion when organizations do not put effort towards achieving sustainability objectives. As aforementioned, the implementation of MCS can improve firms’ contribution to SD. Additionally, the execution of MCS will help to align the objectives and strategies set in sustainability reports. Vice versa, the SR process can foster SD due to its internal relevance, related to improving internal information needs and decision-making processes. However, the purpose of SR becomes irrelevant when firms do not implement MCS and hence do not make a genuine effort to improve SD (Lueg & Radlach, 2016; Traxler et al., 2020). If firms were to implement MCS actively, research suggests that it would lead to a greater contribution to SD within the firm and economy (Maas et al., 2016).

### 2.3.1 A package of controls

Against the aforementioned background, the definition of MCS is based on the package of controls framework from Malmi and Brown (2008). The framework consists of five different controls, including cultural, planning, cybernetic, reward and compensation, and administrative controls. An overview of the framework can be found in Figure 1. The first type of control, cultural controls, is at the top of the framework because they are usually the broadest group of controls. At the bottom, one can find the administrative control types due to the fact that they are the foundation of the entire control system. Lastly, the controls in the middle are arranged in chronological order (Strauss & Zecher, 2013). The systematic literature review by Traxler et al. (2020) is based on the package of control framework and links previous theoretical arguments on SR to this framework. Lueg and Radlach (2016) have also adopted the package of controls framework to identify which MCS are used for enhancing SD.

<b>Cultural Controls</b>						
Clans		Values			Symbols	
<b>Planning</b>		<b>Cybernetic Controls</b>				<b>Reward and Compensation</b>
Long range planning	Action planning	Budgets	Financial Measurement Systems	Non Financial Measurement Systems	Hybrid Measurement Systems	
<b>Administrative Controls</b>						
Governance Structure		Organisation Structure			Policies and Procedures	

Figure 1. Management control systems package (Malmi & Brown, 2008, p.291).

### 2.3.1.1 Cultural controls

The definition of cultural controls stems from Flamholtz and is “*the set of values, beliefs and social norms which tend to be shared by its members and, in turn, tend to influence their thoughts and actions*” (1983, p.158). As illustrated in Figure 1, three control types comprise the package of cultural controls. Simons (1995) created the concept of value controls, which he refers to as belief systems. Belief systems are “*the explicit set of organisational definitions that senior managers communicate formally and reinforce systematically to provide basic values, purpose, and direction for the organisation*” (1995, p.34). The value-based systems work on three levels. The first one occurs when organizations hire those individuals that have the same values and beliefs as the organization. The second one is based on the event where socialization plays a great role to match individuals’ values to those of the organization. The final one holds that individuals do not personally match with organizational values but do behave according to them (Malmi & Brown, 2008).

The other element of cultural control that Malmi and Brown (2008) have found is clan control, which stems from Ouchi’s (1979) research. Ouchi (1979) was the first to label the existence of different subcultures within organizations as clans (Malmi & Brown, 2008). Ouchi (1979) primarily refers to professional service firms in which clan control plays a major role. Løwendahl, Revang and Fosstenløyken (2001) also argue that the qualitative and complex tasks that a professional service organization demands leads to the development of clans. However, as Malmi and Brown (2008) suggest, clan control can exist in each type of organization, business

unit or department. Malmi and Brown (2008) define clan control as the event when “*individuals are exposed to a socialization process that instils in them a set of skills and values*” (2008, p.295). This type of control hence survives through social interactions such as rituals and ceremonies between members (Ouchi, 1979). Lastly, symbol-based control stems from the idea that firms develop visible expressions, such as the design of the building or workplace, to redirect employee behavior and to create a desired culture. For example, organizations can affect employee behavior by creating an open environment in which communication is being stimulated. Additionally, requiring employees to wear specific uniforms, such as a suit when working at a large bank, is a manner to create a professional-looking culture (Malmi & Brown, 2008).

Traxler et al. (2020) state that cultural control can influence employees' actions towards SR and that, conversely, SR can affect corporate culture. Their research primarily suggests that value- and symbol-based systems can positively affect the quality of SR by incorporating sustainability objectives in the firm's mission and vision. It is therefore assumed that organizational culture is a crucial driver for SR. They also found that vice versa, SR can lead to the enhancement of sustainable values within the organization and can improve sustainability awareness among employees. Furthermore, SR can help firms to communicate a shared perception and vision towards sustainability by creating a common language among employees (de Villiers, Rouse & Kerr, 2016). As a consequence, SR can enhance employees' loyalty to, and pride for, the firm's vision (Adams & Frost, 2008). Additionally, it is presumed that the reporting process plays a crucial role in the communication process between top management and employees and that it can improve organizational learning. Previous research thus argues that there is a positive interlinkage between cultural controls and SR (Traxler et al., 2020). However, Hourneaux Junior et al. (2017), criticize this statement and argue that cultural principles are not greatly influenced by SR and vice versa. They published a study on two oil and gas companies in Brazil and Spain and found that cultural values are barely or not considered in their sustainability approach.

### 2.3.1.2 Planning controls

Planning controls are used for developing and monitoring organizational goals and for coordinating standards in order to achieve them. It functions as an ex-ante control type (Malmi & Brown, 2008) to direct employee behavior towards desired goals on an organizational level (Strauss & Zecher, 2013). As shown in Figure 1, there are two types of planning controls, including

action planning and long-term planning. Malmi and Brown (2008) state that it is important to find out whether planning is used as a tool to superficially decide on future goals or whether it is used for directing employees' behavior towards achieving them.

Traxler et al., (2020) state that previous literature shows a rather general view on the relationship between planning controls and SR, but argues that there should be a positive relationship between the two concepts. Incorporating sustainability issues into strategic planning processes should enhance the quality of sustainability reports and, conversely, SR should help to determine sustainability objectives as well as formulating and monitoring them. Furthermore, SR can be used for measuring and monitoring goals that have been developed during the planning process. In addition, SR can be used as a managerial tool to set new objectives for the future (Palmer & Flanagan, 2016). The reporting process is also a manner to communicate corporate strategies to stakeholders, which improves the alignment between a firm's sustainability strategy and external interests (Traxler et al., 2020). Bouten and Hoozée (2013) found that legal requirements for SR lead to the development of new objectives within the planning process. Yet, Frostenson and Helin (2017) argue that successful integration of sustainability into corporate strategy does not necessarily indicate that the firm uses SR as a managerial tool to improve SD. They suggested that *“Even though the company has a CSR strategy, it is not clear whether the SR has become a decoupled document within the strategic CSR orientation of the company”* (2017, p.184), which would indicate a weak relationship between planning controls and SR.

### 2.3.1.3 Cybernetic controls

Cybernetic controls consist of financial, non-financial, budgets and hybrid measurement systems and are primarily used for enhancing decision-making processes. Budgeting is based on the process of planning desired behavior and evaluating performance against those preset plans. Financial measurement systems are rather common in business and focus on evaluating performance against financial measures. These systems are different from budgeting processes because they are less complex and can be used for even the smallest target-setting processes. Non-financial measures are similar to financial ones but try to mitigate the limitations that financial measurement systems bring along. The last type of system, hybrids, include both financial and non-financial measures (Malmi & Brown, 2008), such as the BSC (Kaplan & Norton, 1992). Some critics argue that organizations have not equally included sustainability performance measures into

their cybernetic control systems (Arjaliès & Mundy, 2013). However when sustainability has been fully embedded in these systems, there should be a positive correlation between SR and cybernetic controls (Traxler et al., 2020). In general, it is presumed that the integration of sustainability indicators in a firm's performance measurement systems increases the overall reporting quality.

Conversely, SR plays a key role in organizational changes regarding performance measurement systems and the firm's use of indicators. Morioka and de Carvalho (2016) suggest that indicators collected during the implementation of SR practices can be utilized to analyze and manage sustainability performance. According to Adams, Larrinaga-González and McNicholas (2007), SR leads to greater attention on previously unreported, more sustainable, KPIs. Likewise, Contrafatto and Burns (2013) state that SR can enhance the development of KPIs. If a firm has not incorporated sustainability-related indicators, the MCS are not oriented toward monitoring TBL dimensions (Durden, 2008). Additionally, when SR is not tightly tied to KPIs, the report is rather used as a communication tool that only reports selected KPIs (Traxler et al., 2020). Moreover, the data gathering method can be improved by creating a sustainability report. External reporting is strongly intertwined to direct attention on financial performance. One of the key objectives for publishing CSR information, according to Wildowicz-Giegiel (2014), is to improve sustainable performance. As a result, the integration of SR into cybernetic controls could improve financial or non-financial performance (Traxler et al., 2020).

#### 2.3.1.4 Reward and compensation controls

Reward and compensation systems are used for motivating and improving employee performance by aligning their goals with those of the organization. It is assumed that rewards and compensations lead to enhanced employee performance and motivation (Malmi & Brown, 2008). Although reward systems can either be intrinsic or extrinsic, research on management accounting has primarily emphasized extrinsic rewards (Traxler et al., 2020). The objective of rewards and compensation systems with regards to SD is based on directing employees' behavior through incentives (Malmi & Brown, 2008). Shabana and Ravlin (2016) also state that organizations can manage employee behavior by integrating sustainability objectives in the firm's remuneration system. Organizations can for example integrate TBL indicators in their incentive program and thus reward employees based on economic, social and ecological performance. In this setting, reward systems can help to promote long-term behavior and increase the quality of SR. According

to Bouten and Hoozée (2013), the incentive system is an important environmental management accounting instrument that can be tied to SR.

However, Frey and Jegen (2001) address that there is a risk that, when employees are extrinsically rewarded, through e.g. monetary incentives, they become less intrinsically motivated. They refer to the ‘crowding-out effect’, which holds that when monetary rewards increase, employee motivation decreases. This is consistent with Ellingsen and Johannesson (2007), who states that, in order to increase employee motivation, firms need to be open to providing intrinsic rewards and motivate employees with a combination of monetary incentives and respect. This is also one of the pitfalls of monetary incentives, according to Bevilacqua and Singh (2009), where an important aspect in the acceptability of the rewards and compensations system is the employees' view on the system. In this context, it could be argued that there can be a positive relationship between SR and reward and compensation controls, provided that there is not a predominant focus on extrinsic incentives.

#### 2.3.1.5 Administrative controls

As already mentioned, administrative controls form the base of the entire control system (Strauss & Zecher, 2013). These controls are used for regulating employee behavior through organizing members and groups, evaluating their behavior, pointing out accountable members, and defining how behaviors and tasks should be performed (Malmi & Brown, 2008). The organizational structure element of this control type refers to the fact that the design of an organization's structure can motivate communication and relationships between members. This control type involves the formal aspects of authority and accountability (Traxler et al., 2020).

Top management's participation and stakeholder engagement in the reporting process has been proven to be critical to the quality of a sustainability report (Traxler et al., 2020). Malmi and Brown (2008) address that policies and procedures are used for defining desired behavior within the firm. SR can have an impact on the development of policies and procedures. Examples for directing employee behavior include organizational regulations, operating procedures and behavioral restrictions. Traxler et al. (2020) suggest that previous research shows a positive relationship between administrative controls and SR. For instance, a CSR committee and a diversity of board members are assumed to enhance a firm's TBL performance and reporting quality. This is consistent with Frostenson and Helin (2017), who found that involvement from top

management leads to more understanding and a clear direction towards the SR process. Yet, although stakeholder involvement seems to be important for the quality of SR, the SR process does not seem to improve this involvement, conversely.

## 2.4 Perspectives on the relationship

The previous section addressed how the several types of MCS are expected to be interlinked with SR. Against these assumptions, the following proposition has been developed based on the discussed literature:

*Proposition 1: There exists a relationship between MCS and SR.*

Since Malmi and Brown's (2008) framework is used as a foundation, it is assumed that the organizations' internal controls work as a package and are interlinked with SR. However, Traxler et al. (2020) found that the rationale behind SR is an important determinant for the relationship between MCS and SR. Thus, it is not reasonable to conclude that there is, for instance, always a strong relationship between a specific type of control and SR. Instead, it depends on the firm's rationale to perform SR. The main drivers behind SR can be divided into the three theoretical views, including the instrumental, social and political, and normative perspective (Hansen & Schaltegger, 2016). Traxler et al. (2020) adopted the theoretical perspectives of Hansen and Schaltegger (2016) to evaluate previous literature and found that they affect the strength of the relationship between SR and MCS. Ditillo and Lisi (2016) additionally argue that the manner in which a firm perceives SD affects managerial interpretations and actions. They found that, whether a firm proactively or reactively works with sustainability, influences the integration of MCS towards improving SD.

First of all, the instrumental perspective suggests that firms have implemented certain MCS that are greatly aligned with strategies and objectives discussed in their non-financial reports. The instrumental perspective is highly aligned with the strategic stakeholder theory (Traxler et al., 2020) and the principal-agent theory (Rimmel, 2020). Firstly, stakeholder theory argues that meeting stakeholder needs is required for long-term success since it can for example lead to enhanced product development and improved reputation (Dima, 2008). Additionally, Rimmel (2020) discusses that an organization's accounting system should be designed in a manner that

prioritizes the demands of all stakeholders. Secondly, within the principal-agent theory, information asymmetry plays a great role (Rimmel, 2020; Traxler et al., 2020). Agency theory suggests that firms act in their self-interest and benefit from asymmetric information (Joseph, 2008). It is however assumed that undisclosed information can harm the relationship between the organization and its stakeholders (Rimmel, 2020). To mitigate these agency problems, organizations can report their ecological performances and use it as a signaling device to disclose positive information about their SD (Michelon, 2011; Traxler et al., 2020), which stems from signaling theory (Hahn & Kühnen, 2013). Maas et al. (2016) also state that firms benefit from informing outsiders about SD but refer to the transparency perspective.

The conventional, instrumental view assumes that organizations will use SR as a management tool to develop a competitive advantage and to meet organizational financial objectives by enhancing SD. In other words, sustainability becomes an important component of their business model. Consequently, firms will have to utilize the full potential of SR to manage and improve SD, rather than just using it as a superficial communication tool. Traxler et al. (2020) discuss that, within the instrumental perspective, one type of control can also affect other types of management controls. This is due to the fact that an increased sustainability awareness might change the firm's strategic planning decisions. The study by Hansen and Schaltegger (2016) only emphasizes one cybernetic component of MCS, the Sustainability Balanced Scorecard (SBSC), but argues that this type of MCS plays an essential role in fostering SR. This is consistent with Ditillo and Lisi (2016), who discuss that those firms that consider sustainability as an essential component of their business model, will proactively work towards sustainable developments if they can benefit from it economically. However, Frostenson and Helin (2017) found that it remains unclear whether SR is a product of SD from the instrumental perspective. There is a possibility that SR will become yet another financial report, and hence "*fall victim to financial rationality*" (2017, p.183). SR might simply remain a pure accounting tool instead of a trigger for SD, which could reflect a weak position of SR in the firm's CSR strategy. In this vein, SR will structure the strategy, but will not function as a controlled instrument through which SD is run. Based on this background, the following proposition has been developed regarding the interlinkage between MCS and SR from an instrumental view:

*Proposition 2: There is a relatively strong relationship between MCS and SR at firms operating in line with the instrumental perspective.*

When an organization's motive and business activities are consistent with the instrumental perspective, it is expected that the MCS and SR are interlinked as it becomes part of their business model. However, since Frostenson and Helin (2017) argue that SR might be used as a conventional accounting tool instead of a way to improve SD, the relationship is defined as relatively strong.

The main principle behind the social and political perspective is that firms need to gain and retain legitimacy, which requires social acceptance (Traxler et al., 2020). The social and political perspective emphasizes the role organizations have to react to social expectations and their need to maintain legitimacy (Traxler et al., 2020), which stems from legitimacy theory (Michelon, 2011). Legitimacy theory assumes that firms can only exist when society has accepted their business activities (Hahn & Kühnen, 2013). Michelon (2011) uses legitimacy theory to explain how organizational reputation has the greatest influence on a firm's willingness to disclose sustainability information. Additionally, Bansal (2005) focuses on explaining the influence of societal values on SR but refers to institutional theory. This theory is based on the belief that failure to act upon institutional norms and values can be harmful to an organization's survival.

Research finds that organizations with a strong sustainable reputation are more likely to use reports as a tool to communicate legitimacy. This could indicate that firms who perform better at SD report their information to a greater extent whereas bad performers only report information that meets social requirements just enough. Stakeholder engagement also seems to play a crucial role in the firm's willingness to disclose CSR data (Michelon, 2011). O'Dwyer (2003) consistently argues that external pressures can often lead to reactive, and hence passive, sustainability orientation. Managerial acceptance of sustainability only exists because of the pressures that external parties exert and sustainability issues are often not integrated into the firm's business model but are rather viewed as independent elements. Firms might superficially use SR as a means to retain legitimacy instead of an internal tool to improve SD (Frostenson & Helin, 2017). Against this background, it is assumed that firms only integrate sustainability in a manner that is sufficient enough for meeting social expectations. Therefore, Traxler et al. (2020) suggest that, from a social and political perspective, there is a weak interlinkage between SR and MCS. SR is not used as a

tool to enhance SD but rather as a manner to react to social expectations and to retain legitimacy. Hence, the next proposition concerns the following:

*Proposition 3: There is a weak relationship between MCS and SR at firms operating in line with the social and political perspective.*

The normative approach is based on the belief that firms have a moral duty to perform ethically (Hansen & Schaltegger, 2016). In this context, organizations acknowledge their obligation to perform and act ethically in an attempt to meet moral expectations. Among those expectations is the disclosure of sustainability information (Traxler et al., 2020). This definition can be linked to normative stakeholder theory, which focuses on the philosophical aspects of stakeholder relationships (Joseph, 2008). Organizations try to operate in a manner that benefits all stakeholder groups, regardless of whether it improves their financial performance. The normative view suggests that firms do not need to gain financial benefits if moral expectations are being met (Hansen & Schaltegger, 2016; Sama et al., 2020). Traxler et al. (2020) assume that this perspective shows the most proactive approach towards sustainability integration. Firms acknowledge their duty to meet moral expectations (Ditillo & Lisi, 2016). Hence, it is expected that firms, according to the normative view, show a strong relationship between MCS and SR. They do not just use SR as a tool to communicate information to outsiders but to improve SD. In turn, it is expected that MCS are actively implemented to improve SD (Traxler et al., 2020). This results in the fourth and final proposition:

*Proposition 4: There is a strong relationship between MCS and SR at firms operating in line with the normative perspective.*

## 3. Methodology

### 3.1 Research design

To investigate the effect of the theoretical perspectives on the relationship between MCS and SR, we conducted semi-structured interviews with eight organizations. It was significant to investigate these perspectives since they define the drivers for SR. Consequently, the perspectives are expected to have a great influence on the strength of the relationship between MCS and SR. Previous research already stressed this subject but indicated that more empirical research is required. As there is a strong focus on SR in our research, it was essential to only select and contact organizations that have produced a sustainability report before. There was not a specific focus on a certain industry or company type. Rather, different companies in a variety of industries were selected to gain different insights in SR and MCS within these firms, which improves the validity of our results (Ditillo & Lisi, 2016). Furthermore, when selecting the interviewees, it was crucial for the participant to be involved in sustainability practices since they should be able to provide information about the reporting process.

Since the interviews were conducted with employees from different organizations and departments, the interviewees' job positions differ to a certain extent. An overview of the interviewees and their corresponding firms can be found in Table 1. As illustrated in the table, two out of eight companies operate in the same type of industry, namely lighting. Four firms provide services and five firms produce products. What's more, the representative of Company G mentioned that the firm focuses on business-to-business sales whereas the other companies focus on business-to-consumer practices. Company D and E have published an integrated report and the remaining number of companies have developed separate sustainability reports. It also became apparent that firms named their sustainability reports differently. For instance, Company A refers to it as their "Social Responsibility Report", Company B defines it as their "Impact Report", and Company G's report is called "Sustainability Report".

Table 1. An overview of interviewees and companies.

Interviewee	Title	Company	Industry	Interview date
1	Senior Associate, Assurance & Sustainability services	A	Professional services	16-04-2021 09:00 a.m.
2	Software Engineer, Exploratory Tester	B	Business Analytics, Software company	22-04-2021 10:00 a.m.
3	Junior Financial Controller	C	Recommerce	24-04-2021 02:00 p.m.
4	Global Head of Advisory, Reporting & Engagement	D	Financial services	28-04-2021 2:45 p.m.
5	Head of Sustainable Design and Sustainable Products	E	Lighting	29-04-2021 9:30 a.m.
6	CSR & Quality Assistant	F	Retail	29-04-2021 9:30 a.m.
7	Director of Sustainability	G	Semiconductor, Lighting	06-05-2021 4:00 p.m.
8	CSR Manager Europe North	H	Networking hardware, Networking software	07-05-2021 2:00 p.m.

### 3.2 Data collection

In order to strengthen our analysis and discussion, we reviewed several documents to gather data that would complement our interview findings. Additional information was mainly

collected through the sustainability reports and disclosures, such as transparency and human rights reports, of the selected organizations. The semi-structured interviews helped us to explore the research topic through the collection of similar types of information from each participant, which resulted in diverse perceptions on the drivers behind SR and SD and the relationship between SR and MCS (Kallio, Pietilä, Johnson & Kangsaniemi, 2016).

The interview questions were determined in advance and formulated in an interview guide. To identify the motives and link SR and MCS, previous research on those subjects was used as a guideline when preparing the interview questions. Hence, the questions in the guide concern main research topics and are based on academic literature, such as Traxler et al. (2020) and Durden (2008). In addition, the guide was categorized in the controls mentioned in Malmi and Brown's (2008) framework. The majority of questions were open-ended but some were closed questions. However, after a closed question was asked, the interviewees would ask follow-up questions in order to gather more information from the respondent. First, a question was asked regarding the motivation of producing a sustainability report to determine what the drivers are behind the SR processes within each company. The remaining questions were aimed to investigate the relationship between the types of controls and SR and were hence focused on how MCS affect SR, and vice versa. At the end of the interview, an open-ended question was asked to verify if we had covered all applicable subjects in relation to the research. Due to the fact that five out of eight respondents were Dutch, an additional Dutch interview guide was developed. The English interview guide can be found in Appendix 1 and the Dutch guide in Appendix 2.

The field testing technique was utilized during this study, which means that the preliminary guide was tested during the first interview. Based on the results of the pilot interview, questions were reconsidered and additional follow-up questions were designed for more in-depth answers. For instance, we removed a question regarding the rewards and compensation aspects. After the pilot interview, it became clear that the particular question provided similar answers to another question and hence it was deleted from the interview guide. Additionally, a better estimation could be made about the time needed to complete an interview.

Furthermore, an additional guide was used by the researchers for supplementary follow-up questions. Not only pre-designed follow-up questions were used, but also spontaneous questions based on the interviewee's answers were asked. Since the interviews were semi-structured, the interview guide provided some guidance for the interviews but was not followed

strictly. This allowed for dialogue during the interview and the opportunity to move questions around (Kallio et al., 2016). The aim was to generate in-depth answers which reflect the interviewee's genuine interpretations of the organization's practices.

In preparation for the interviews, the sustainability reports were analyzed and notes about important topics were made. When necessary, questions were changed or follow-up queries were designed for that specific interview. Company D and E, for instance, developed an integrated report instead of a separate report, which means that we had refer to their integrated report instead. In order to make the contact process formalized, an email or message was sent including an introduction of the research subject and purpose. Additionally, example questions of the interview were shared to ensure that the selected individual had the required knowledge to answer the interview questions. After mutual consent, an interview was appointed and the finalized interview guide was shared with the interviewees. Out of 32 companies contacted, eight were interviewed. The participating interviewees had indicated their voluntary participation and interest numerous times before conducting the interview.

Three interviews were held in English whereas five interviews were conducted in Dutch. All interviews were audio-recorded upon agreement with the interviewee. The length of the interviews varied between 30 and 60 minutes, depending on the participant's availability. Due to Covid-19, the interviews took place through video calls through Zoom or Microsoft Teams. As a consequence, it was impossible to benefit from the most important advantage that face-to-face interviews bring, namely the possibility to pick up nonverbal cues from the interviewees (Sekaran & Bougie, 2016). After the interview was completed, we asked the representative whether they wished to remain anonymous.

### 3.3 Data analysis

The first step of the analysis was to transcribe the interviews word-by-word after they were conducted. The transcribing process occurred on the same day of the interview to ensure that the interviewers would still feel acquainted with the topics discussed. Furthermore, five interviews were conducted in Dutch and had to be translated into English. One author focused on translating the transcripts and the other author was responsible for finding any translation mistakes. Manually transcribing the interviews was the first step in becoming familiar with the collected data.

The analysis aims to establish what the drivers are behind the SR processes and how they affect the relationship between the controls and SR within each organization. The collected data had to be sorted and categorized in order to aid the data analysis process (Rennstam & Wästerfors, 2018). We used the software program MAXQDA Analytics Pro 2020 for our coding process. The program allowed us to label the text and to comprise all the collected data in one overview. Both the interviews and sustainability or integrated reports of the corresponding company were included in the coding process, which allowed us to find similarities and inconsistencies between the interview results and published documents. No distinction has been realized in the codes used for the sustainability report and interviews to align information of both sources. To become more familiar with the collected data, we first scanned through the text of both the interviews and reports (Bryman & Bell, 2015). Next, we assigned codes to pieces of texts that comprised a specific theme or issue corresponding with our research. Coding also helped us to remove any irrelevant information that was collected (Sekaran & Bougie, 2016). We each developed the codes independently and later compared our results with each other to ensure the results were not biased by the authors' own perceptions.

After the coding process was completed, the coding units were arranged and classified. The outcomes of the interviews were primarily used for comparing statements in the firm's reports with interview responses to ensure reliability in the data and to achieve a stronger analysis. The codes were categorized into the five aspects of the package and control framework (Malmi & Brown, 2008) framework. Consequently, the relationship between MCS and SR could be identified. On top of that, based on the research by Traxler et al. (2020), additional categories were introduced, including "definition of sustainability" and "main drivers" to determine the business' motivation behind SR and SD. In the end, both authors read the documents again to ensure that all the codes were correctly identified. The coding process also helped to identify which pieces of data were the most relevant for answering the main research question. As a consequence, the answers to two questions, 8a and 8b, were left out of the analysis part. Those questions focused on the development and monitoring of strategic plans, as well as on the manner in which those plans are communicated to lower-level employees. It was found that the latter question was already answered based on the responses received for question 6.

The following step was to display the data from the interviews and reports in an organized manner, which we have realized by illustrating it in a table. A visual representation can be found

in Table 2. Illustrating the data in a table enhanced our ability to identify causal relationships between units (Sekaran & Bougie, 2016). Based on the codes, characteristics were evaluated within each firm and compared with prior research suggestions. As a result, the participating organizations were classified in accordance with the theoretical perspectives, which is illustrated in Table 3. With the support of the table, an analysis could be made on how these drivers have affected the interlink between MCS and SR.

The analyzed data is presented in the *Analysis based on the package of controls* and is clustered on the basis of the Malmi and Brown framework (2008). Quotes from the interviews have been used in this section to support the relevant findings. An overview of the findings can be found in Table 2. What's more, the propositions from the *Theoretical framework* are used as a foundation for discussing the empirical results. The first proposition, which concerns the relationship between MCS and SR, can support the establishment of a link between MCS and SR and whether the link works in both directions. In other words, it concerns whether the elements of the package of controls within companies are interlinked with SR. With regards to the second proposition, a relatively strong relationship between MCS and SR is anticipated from the instrumental perspective. 'Relatively strong' indicates here that there is a relationship between at least three main types of control and SR.

The interlinkage between SR and the sub-controls is often used as the basis for the establishment of the relationship between SR and certain main controls. For instance, cultural controls can be divided into three sub-categories. The linkage between those categories and SR determines the overall relationship between cultural controls and SR. Although Malmi and Brown (2008) indicated that there are two sub-categories within planning controls, they could not be independently identified in the findings. The third proposition relates to the social and political perspective, which predicts that the interlinkage between MCS and SR is weak. If the relationship is weak, it indicates that there is an interplay between two or less main control types and SR. Lastly, from a normative standpoint, the relationship between MCS and SR is expected to be strong. Hence, from the normative perspective, it means that all the main controls of the package should have a relationship with SR. In the *Discussion* section, the findings are discussed in relation to the previously discussed literature. Accordingly, the effect of the perspectives on the relationship between each type of control and SR is illustrated in Table 4.

## 4. Analysis based on the package of controls

### 4.1 Drivers behind SR

When asked about legal requirements, all of the interviewees mentioned that developing a sustainability report is not required by law. Company A assumes that non-financial reporting will become a requirement in the future, mainly because of the pressure that the European Union (EU) exerts by introducing the EU taxonomy and Green Deal. They said: *“The EU is moving all the money to everything that is classified as ‘green’ and ‘sustainable’. So since the money is moving, everything else is moving”* - Company A. Transparency towards stakeholders also seems to be an important driver to publish a sustainability report, as illustrated by Company G: *“We noticed that it is a very useful tool to discuss with your customers, to be able to show ... the sustainability report”*. Company F agreed and stated that: *“So the transparency, I noticed, is really helpful but also really important”*, which is also what Company A and C mentioned. In addition, Company H stated that it is an important tool for communicating sustainability achievements to outsiders. Another crucial driver are the social and societal pressures:

*Of course, you need to do more and more because of social and societal pressures ... All firms, including us, find it difficult sometimes to follow and understand the new guidelines that the European Union imposes. So the societal pressure can get to you, is what I am trying to say. - Company E*

Company G views SR as a business requirement to meet customer demands and improve financial performance. Company D also mentions the pressure from stakeholders but refers to investors instead of customers. With respect to customer demands, Company G stated that:

*And well, because our customers all have, we deliver goods to large companies globally, and they all have their own requirements. So our philosophy is basically, if we do not adhere, we are out of business, we will lose a lot of business. - Company G*

In addition, Company B also pointed out that stakeholders are the most important reason for publishing a sustainability report and primarily refers to customers and partners. On the

contrary, Company C published a sustainability report to celebrate their achievements. Company C emphasizes society in general and argues to exist with a duty to *“Make secondhand fashion the norm again!”* in their report. Their aim is to change consumers’ behavior towards buying sustainable, secondhand clothing and they try to communicate this to stakeholders through their SR.

## 4.2 Cultural controls

The company representatives were also questioned about the extent to which SR plays an important role in creating a shared understanding and vision towards sustainability among employees. First of all, Company F stated that it is an important tool for internal communication and comments *“... we share it with all employees so you hope that everyone reads it and that’s also what we are trying to support”*. The organization further mentioned that it is also an important tool for creating a common language among employees. Company E agrees that the sustainability report has been useful as a communication tool for employees. Moreover, the report plays an active role in communication towards lower-level, store employees. It was further mentioned that it is a significant tool for facilitating the same spoken language throughout the entire organization. Company C added: *“... after we produced a sustainability report it made employees more aware of how much impact we have and that, what we are doing, is good for the environment and society”*. However, Company E undermines this view since they argue that lower-level employees in factories will probably not be aware of the published report. The firm only provides presentations to those working in the office whenever a report has been developed. Company D and H find that the reporting process has definitely improved employees’ understanding and vision towards sustainability. Firms also share some similar perceptions on the functions of SR, namely that it enhances reflection purposes. As Company G comments *“it is also a manner to reflect on it internally”*. However, when asked about the function of SR, they added: *“I think [employee] awareness comes first and reflection second” - Company G*. Company A addressed that the reporting process works as an engine by stating that *“In order to do a sustainability report, you need to work with sustainability, otherwise you report on nothing”*.

Whether firms’ cultural aspects have influenced SR was also investigated. When questioned about the firm’s recruitment process, most firms indicated that there is not a lot of importance placed on candidates’ attitudes and values towards sustainability. For example,

Company G stated that the firm does not consider candidates' vision towards sustainability during the hiring process. Company E comments:

*Well, that depends on the job. I'll be honest with you. So that means that if you apply for a marketing position, they will not ask you questions regarding sustainability. - Company E*

This is in line with Company F, who argued that *"at logistics or other departments, I don't think they will pay attention to it during the recruitment process"*. Additionally, Company H stated that it depends on the job position and argues that it does not play a role yet in, for instance, the Sales department. Company C mentioned that *"there is a lot of importance placed on sustainability during the recruitment process"*, but when questioned about how the firm is achieving this, the interviewee said that candidates do not have to complete any quizzes or tests. The recruitment process starts with HR, who evaluates whether the candidate matches the organizational culture. Organizational culture also plays an important role during the selection process of Company B, whose report shows that the firm designs specific interview guides that contain several questions about the firm's core values. The firm's five core values do not contain environmental aspects but are rather focused on the social components of the TBL, such as company culture. This is confirmed by the interviewee, who stated that *"we believe that it is equally important for us ... [our] core values."* - Company B.

Furthermore, the organizations were examined on the manner in which they ensure that all employees share the same sustainability values. Several tools were discussed, including newsletters, webinars, meetings and surveys. Internal training programs also play a crucial role, as illustrated in Company D's report, which comments *"We have extensive training and development programs for employees - these include the ... Academy, responsible for all sustainability training"*. In addition, Company G's report states: *"To actively support the execution of employees' development plans, we offer hundreds of relevant courses through our learning management platform"*. The interviewee from Company A mentioned that they regularly provide sustainability lectures. During the Covid-19 pandemic, it became more crucial for organizations to digitally inform employees about sustainability issues. Company G comments: *"... especially now because of COVID because otherwise we would have just had regular meetings on the sites"*

where these kinds of topics are also discussed”. Company E, F and G also mentioned that the reports are an important communication tool for sustainability issues.

### 4.3 Planning controls

The research shows that all the investigated firms use planning as a manner to direct employee behavior towards organizational objectives. These objectives are also sustainability-focused. Company F commented:

*We have insights in cotton but that's because of the social report which is a good tool to check all your objectives from last year and which objectives you need to remain or adjust ... So it is an important way to consider what are the objectives for next year, you need to determine those. - Company F*

The above quote indicates that the SR process has improved the firm's focus on sustainability issues in strategic planning. Company A, B and D also mentioned that KPIs are developed based on the report. Additionally, the report seems to have a reflection function as it enhances the organization to develop or adjust new strategic objectives. In that vein, SR functions as a tool to measure and monitor the firm's goal achievement: *“The report is so complete and informative to see where you are now and what you have worked on last year.” - Company F*. This is agreed upon by Company C, whose interviewee mentioned that *“during our sustainability report we came across some numbers that could have been improved and incorporated that in our plans for the coming years”*. Within the organization, stakeholders play a key role during the development and monitoring of the plans. Company D stated that SR has changed the firm's strategic plans but mentions that *“... generally, reporting has an educating role, regarding anything”*. Furthermore, Company B mentioned that reporting has been helpful but that their culture drives the changes in strategic plans. Also, Company E found that the change from a separate report to an integrated report has led to strategic changes. Company H stated that sustainability is also included in their annual report, and because financial numbers drive the strategy, the sustainability part has an effect on the strategy.

SR also seems to be useful for communicating corporate strategies to stakeholders: *“... if you integrate it in the strategy and commit to it, the best manner is to publicly communicate it*

*through your sustainability report.” - Company E.* In addition, legal requirements for SR also lead to the development of new objectives, as addressed by Company A:

*You also need to look at these different legal things that come from the EU and integrate those. It really becomes like an engine and a kind of structured way to follow up. - Company A*

Company G discussed that SR has not played a significant role in a change in strategic plans, as the interviewee mentioned that:

*In my opinion, it is more a manner to reflect. So our discussions with our stakeholders, both internally and externally, that’s where goals are realized. And it is of course discussed in our sustainability report. But it is not the main tool used for developing objectives - Company G*

As previously mentioned, both Company D and E have developed integrated reports instead of separate sustainability reports. The firms indicated that the development of integrated reports result in “*integrated thinking*”, in which sustainability is integrated into the firm’s strategy. As Company D states: “... *what we have done ... is that we have integrated sustainability in the bank’s strategy, which means that you have to incorporate sustainability in your integrated report*”. This is also reflected in its integrated report, which addresses that the organization’s strategy is built on three pillars, including customer experience, sustainability and future-proof bank. Company E adds: “*So we have integrated sustainability in our strategy*”. Company D and E perceive SR and IR as two separate activities, resulting in different levels of sustainability integration:

*But important to notice is that it [sustainability reporting] is something totally different from a sustainability report because a sustainability report is a separate report, which is acceptable because we have done that for years. However, we have worked towards integrating sustainability in an integrated report. - Company D*

Although the remaining firms have published a separate sustainability report, sustainability still seems to be an integrated part of their strategies. The Social Responsibility 2019 report of Company F states that they are operating based on their long-term strategy, which is built upon their sustainability approach. Company G won an award by integrating sustainability into its

supply chain strategy and Company A has followed a “*more than 10-year old global environmental strategy*”. The impact report of Company B also shows that sustainability is an integrated aspect since they have recently added diversity and inclusion to their corporate strategy. Lastly, Company C stated that their objective is to “*make high quality secondhand fashion the norm*”, which addresses the degree to which sustainability is part of their business activities.

The extent to which sustainability is truly integrated into the firms’ strategies might be identified by questioning whether SD has affected SR or vice versa. SD and SR were frequently perceived as two correlated concepts. As Company E argued: “*... reporting and developments are improving each other*”. Company D shared this view by stating that reporting and developments “*intensify each other*”. Company G shared a different opinion and discussed that sustainable developments affect their sustainability reporting process. Reporting is used as a reflection tool but does not necessarily have an effect on the developments. Likewise, Company C also found that their developments have improved sustainability reporting and not vice versa since they started reporting due to the fact that they “*were doing so well*”. The remaining companies shared the opinion that both concepts are correlated and hence affect each other.

#### 4.4 Cybernetic controls

From the interviewed companies, three out of eight indicated there is no specific link between sustainability reporting and budgeting. Company G explicitly mentioned that:

*The sustainability report is, again, something that identifies what you have achieved and what your goals are, what you want to work on in the future. But I don’t think there is a direct link to the budget process. - Company G*

Moreover, Company B argues that the sustainability report results in more control to verify what can be delivered or needs extra attention. Budgets here are rather related to the performed sustainable business activities rather than the report itself, which also is the case for Company D and G. Company D argues:

*To achieve sustainability objectives, as a firm, to ensure we provide sustainable loans, mortgages and make houses more sustainable, invest in sustainable projects, is our business, that*

*is what we have to do. We also have specific objectives which are incorporated in the regular business activities. - Company D*

Next to financial investments, the firms are devoting time, which is an indirect allocation of investment according to Company F's interviewee. Company B, C and D also indicated that they have to devote time for performing the activities related to the sustainability report. Furthermore, Company E and H's interviewee confirmed there is a link between sustainability reporting and budgeting. Additionally, Company D has indicated that for creating a proper report, money is required. In none of the sustainability reports information about budgets is disclosed. It seems that the reports consist mainly of descriptions concerning sustainability business activities.

When the companies were asked about the integration of sustainability KPIs in the firm's performance measurement system, two firms pointed out that sustainability KPIs do not play a significant role within the company. Company B commented:

*We are using them, but I mean, as a company we do like to keep track of what is going on. But I don't think it plays a significant role in the first performance. - Company B*

In addition, Company C said:

*I mean like what I have said we want to grow our platform as much as possible for example, so I think already saying we want to have that many users or whatever has an impact on sustainability. Because we are a sustainable company. - Company C*

Yet, Company C's sustainability report shows that KPIs concerning water usage and CO2 emissions are included. The other six firms validate the integration of sustainability KPIs in their performance measurement system. Likewise, the used sustainable KPIs are mentioned in their sustainability reports. The discussed KPIs can be divided into process and product indicators. The most frequently used process KPIs relate to social KPIs which for example concern employee satisfaction and diversity. As for the product indicators, popular topics are energy efficiency, sustainable investments and reducing the carbon footprint. At Company E, the sustainability report

was used as a tool to introduce their renewable energy KPIs. Company F uses KPIs for motivating employees:

*But sustainable materials are important so that's how we can measure it. You also notice that some sort of competition starts among purchases because we have set a certain percentage that they have to achieve. It works amazingly, when we connect it to a figure. Making it insightful, percentages, targets, it definitely works. - Company F*

Company F further argued that their SR process has increased the firm's focus on sustainability KPIs. Overall, sustainability indicators are mentioned in every sustainability report.

From the sustainability reports, it does not become apparent if social and environmental performance has equal priority compared to financial performance. Only during the interviews, Company G and H revealed that financial performance has more priority than social and environmental performance. However, the interviewee of Company G did express that both types of performance are interlinked. In their case, if a big customer demands certain sustainability requirements and if the firm does not comply with those demanded requirements, they might lose the customer. Consequently, this will have an impact on financial performance and hence the firm will improve its social and environmental performance by meeting the demanded requirements. Company H argued that their company is not focused on sustainability and hence financial performance is more prioritized.

On the contrary, Company C's business core is sustainability and when they increase sales, fast-fashion consumption is affected as well. When the firm performs financially well, social and environmental performance is positively affected too. All other companies agreed upon the fact that there must be a balance between both types of performances. Furthermore, a representative of Company D addressed that it depends on who you ask within the firm but also argued *"...sustainability objectives are considered to have the same priority as financial objectives. So they are simply bank-wide KPIs and they are equally important for both sustainability and financial."*

## 4.5 Reward and compensation controls

The fieldwork shows that sustainability KPIs are incorporated in the rewards and compensation systems of Company A, B, D, E, F and H. This is also confirmed in Company D and E's sustainability report. However, the integration of sustainability KPIs in rewards and compensations is not applicable to all employees within the organizations. Members of the executive board in Company D are not eligible for any incentives due to government regulations. Instead, only 'other identified staff' have a claim on incentives, as stated in their sustainability report. Moreover, Company E mentioned that the compensation system is only existent at top management level and Company F and H consistently state that incentives are contingent on the job position. For example, the purchasing department receives incentives when certain targets regarding sustainable materials are achieved. Company E's interviewee adds: *"I think it indirectly affects the employees because our performance is based on the firm's performance."* Meanwhile, the interviewee is not a major advocate of the rewards and compensation system in general. They found that it can even have an adverse effect and feel demotivating due to disadvantages compared to other employees. Regarding Company G, sustainability KPIs can be incorporated in the performance evaluation of employees but is non-binding for any incentives.

## 4.6 Administrative controls

With respect to the people involved during the sustainability reporting process, stakeholders seem to be involved in the SR process within all participating companies. Sustainability teams are established and top management is responsible for checking the data. In particular, in Company D, F and G, all levels of the organization are involved as information is collected horizontally and vertically from all departments within the firm. For example, within Company F, HR writes their own part on absenteeism and in Company G, the legal team is responsible for the goal part within the sustainability report. Some sustainability reports also show that organizations, such as Company D, F and G, have established a sustainability committee. The remaining number of firms have also introduced several committees, but do not specifically mention a committee related to CSR.

Moreover, other stakeholders such as non-profits are also involved during the sustainability reporting process in Company F. Additionally, Company F and G have employed a marketing

agency for graphic design, but also for an external review. Furthermore, Company E and G mentioned they have a third-party auditor to confirm the information stated in the sustainability report. In Company A, D, E, F, G and H's sustainability report, an overview is provided of the responsible people for the sustainability part in the company. From all overviews, noticeable is that top management seems to be involved in the sustainability reporting process. Regarding the structure of the management, only in Company B and F, there is special attention for diversity in the SR through setting up diversity guidelines.

As for the influence of sustainability reporting on the firm's policies and procedures, Company B and H remarked that some changes have been made in the organization's code of conduct due to more environmental awareness. Likewise, Company D argues: *“Especially if you want to use assurance, you have to have proof that whatever you report is correct. That's where the code of conduct or other policies get involved.”* Capturing certain matters in the code of conduct appeared to be useful and necessary for reporting to improve processes and policies within the company. Company A has sustainability policies as well, the interviewee explains:

*For example if you look at the legal requirements in Sweden today on sustainability reporting, the legal requirements say that you should have a policy on the environmental aspects, social aspects, employees, human rights and corruption. So this law by definition enhances many policies. - Company A*

Regarding ethical matters, employees need to successfully complete training sessions to become aware of Company E's ethical considerations. The legal and ISO standards within firm E supports procedures for the controlling of sustainability quality systems and documentation. Also, there is a code of conduct for health and safety and sustainability behavior, also referenced as the due diligence and environmental affairs within the organization. For Company C, F and G, the sustainability report did not necessarily influence the policies and procedures, mainly because there were already sustainability policies and procedures in place. In general, policies and procedures are discussed in detail in all sustainability reports except for Company B. In addition to Company B's own policies and procedures, external policies such as ISO and ISQC were listed.

Table 2. An overview of the findings.

Company	A	B	C	D	E	F	G	H
<b>Type of report</b>	Separate sustainability report	Separate sustainability report	Separate sustainability reports	Integrated report	Integrated report	Separate sustainability report	Separate sustainability report	Separate sustainability report
<b>Drivers behind SR</b>	Social and institutional pressures, stakeholder management	Stakeholder management (customers and partners)	Moral duty, Stakeholder management	Stakeholder management (investors)	Social and institutional pressures, stakeholder management	Stakeholder management (customers)	Stakeholder management (customers)	Stakeholder management
<b>Cultural controls</b>								
<i>Role of SR</i>	Important for understanding and vision, and for reflection	-	Important for understanding	Important for understanding and vision	Important for understanding, but does not reach lower-level employees	Important for understanding and vision, and for creating a common language	Important for understanding and vision, and for reflection	Important for understanding and vision
<i>Recruitment process</i>	-	CSR values are important and tested	CSR values are important, but not tested	-	Depends on the job	Depends on the job	CSR values not considered	Depends on the job
<i>Mutual vision</i>	- Sustainability lectures - Surveys - Learning programs - Training platform	- Newsletters - Surveys - Training sessions	- Meetings - Training sessions - Workshops from external parties	- Survey - Training and development programs - Learning platform - Meetings	- Sustainability program - Learning platform - Survey - Meetings - Webinars - Report	- Survey - Training sessions - CSR report - Meetings	- Seminars - Report - Newsletters - Survey - Learning platform	- Newsletters - Calls - Meetings
<b>Planning controls</b>								
<i>Greater focus on sustainability?</i>	Yes	To some extent	Yes	Yes	Yes	Yes	No	Yes
<i>Do SD affect SR or vice versa?</i>	Improve each other	Improve each other	SD affects SR	Improve each other	Improve each other	Improve each other	SD affects SR	Improve each other

<b>Cybernetic controls</b>								
<i>Budgets</i>	-	- No specific link - Business activities - Devote time	- No specific link - Business activities - Devote time	- No specific link - Business activities - Devote time	- Poor link	- No specific link - Business activities - Devote time	- No specific link - Business activities	- Link between SR and budgeting - Business activities
<i>KPIs</i>	Everything connects	Product indicators	No specific sustainability KPIs	Many KPIs	- Product indicators - - Process indicators - Communication tool	- Product indicators - - Process indicators - Motivation	- Product indicators - Process indicators	Many KPIs
<i>Financial and non-financial performance</i>	Balance	Balance	- Financial has priority - But interlinked	Balance	Balance	Balance	- Financial has priority - But interlinked	Financial has priority
<b>Rewards and compensation controls</b>	Depends on the job	Depends on the job	Not necessarily related to SR	- Depends on the job	- Depends on the job - Bad system	Depends on the job	Depends on the job	Depends on the job
<b>Administrative controls</b>								
<i>Structure SR</i>	- Sustainability team - Top management	- Sustainability team - Top Management - Diversity	- Top management - Marketing team - Data team	- Sustainability team - Top management - Everybody involved - Sustainability committee	- Sustainability team - Top management - External auditor	- Sustainability team - Top management - Stakeholders - Everybody involved - Diversity - Sustainability committee	- Sustainability team - Top management - Everybody involved - External auditor - Sustainability committee	- Sustainability team - Top management
<i>Policies and procedures</i>	- Have changed - Legal requirements	Have not changed	Have not changed	Have changed	- Have changed - Legal requirements	Have not changed	Have not changed	Have changed

## 5. Discussion

The findings from the fieldwork suggest that the firms have different motivations for reporting their TBL performance, which is consistent with previous research (Frostenson & Helin, 2017; Hourneaux Junior et al., 2017; Lueg & Radlach, 2016; Moneva et al., 2006). The theoretical perspectives introduced by Hansen and Schaltegger (2016) can be used to categorize the drivers behind SR practices and are presented in Table 3. First of all, five firms mentioned that their reports are primarily used as a tool for communicating sustainability information to stakeholders, namely customers, partners and investors. This is in line with the instrumental perspective, which is based upon the belief that organizations focus on conventional objectives, including maximizing profit (Traxler et al., 2020). By informing customers and investors about sustainability information, SD is viewed as a manner to meet stakeholder expectations and to improve the organization's competitive advantages (Hahn & Kühnen, 2013). The firms have also addressed the transparency function of a sustainability report, which can be linked to signaling theory (Hahn & Kühnen, 2013; Maas et al., 2016) and hence the instrumental perspective. The view suggests that sustainability becomes an important part of firms' business models, which is confirmed by Company H, who stated that sustainability is included in their annual report and that because financials drive the strategy, sustainability performance cannot fall behind. This indicates that sustainability performance exists primarily to boost financial performance, which is in line with previous research (Ditillo & Lisi, 2016; Traxler et al., 2020)

On the contrary, two organizations addressed that social and institutional pressures are the key drivers for SR, which is in alignment with the social and political perspective. Although the firms also mentioned that the reports are important for meeting stakeholder expectations, which would be in line with the instrumental perspective (Traxler et al., 2020), they emphasized social and societal pressures the greatest. Sustainability reports are used here as a manner to meet social and institutional demands as a means to retain legitimacy (Michelon, 2011). New regulations and requirements from institutional organizations, such as the EU, increase the pressure for the organizations to perform sustainably. Therefore, the drivers behind SR at those firms are found to be mostly in line with the social and political perspective. This is consistent with Bansal (2005), who mentioned that, according to the social and political perspective, firms operate in order to meet social and institutional requirements.

What’s more, there is one firm that seems to operate from the normative perspective. This view is built upon the belief that organizations focus on SD to benefit all types of stakeholders, regardless of whether financial expectations are being met. In this vein, SR is used as a tool to meet the expectations of all direct and indirect stakeholders. The entire business of Company C seems to be created based on the objective to improve consumers’ buying habits and to decrease the fast fashion industry. Their mission is to “*Make secondhand fashion the norm again!*”. The firm decided to publish a sustainability report after they had worked on their contribution to SD for six years. They primarily used it as a tool to show outsiders how much impact they had already made on the fashion industry. Nevertheless, in the end, their mission is incorporated into the organization’s business model to make a profit. Financial performance and sustainability performance are interlinked within the firm and hence it still matters if financial expectations are met. Moreover, because sustainability is incorporated into their business model, stakeholders might value this as important and have certain expectations regarding the sustainability of Company C. Hence, one could argue that Company C’s motive might also be in line with the instrumental perspective. However, when financial objectives are met, this automatically means the firm is performing well on sustainability aspects as well. Additionally, since the core values of the business are focused on sustainability and their ultimate goal is to contribute to an environmentally- and socially-friendlier world, the motivation of Company C is characterized as normative. An overview of the companies and their corresponding theoretical perspectives can be found in Table 3.

Table 3. Companies and theoretical perspectives.

<i>Company</i>	<i>A</i>	<i>B</i>	<i>C</i>	<i>D</i>	<i>E</i>	<i>F</i>	<i>G</i>	<i>H</i>
<b><i>In line with</i></b>	<i>Social/ political perspective</i>	<i>Instru- mental perspective</i>	<i>Norm- ative perspective</i>	<i>Instru- mental perspective</i>	<i>Social/ political perspective</i>	<i>Instru- mental perspective</i>	<i>Instru- mental perspective</i>	<i>Instru- mental perspective</i>

First of all, regarding cultural controls, the process of SR seems to have played a key role in creating a shared understanding and vision towards sustainability at the firms operating from a normative and instrumental perspective. However, this effect becomes less evident at one of the

firms operating in line with the social and political one. The findings show that lower-level employees are not informed through SR at one organization. This would indicate that SR has not affected the understanding and vision of subordinates, which is consistent with Hourneaux Junior et al. (2017), who investigated firms from the social and political perspective and found that the understanding of cultural values is not improved through SR. Another interesting finding is the fact that the organization operating in line with the normative perspective, does not specifically hire individuals based on their vision towards sustainability, which is perceived to be the first level of value-based control according to the Malmi and Brown framework (2008). Company B, considered from the instrumental perspective, did develop interview guides concerning queries to test candidates' attitudes towards sustainability values.

Furthermore, the remaining two levels of value-based controls, which revolve around the fact whether employees adhere to organizational values personally, could not be independently identified based on the research results. Yet, without emphasizing the personal belief aspect, the fieldwork shows that these levels of value-based controls are important for directing employee behavior towards meeting their sustainability values. Communication tools such as newsletters, webinars, meetings, internal platforms and training programs appear to play the most crucial role in aligning CSR values, regardless of theoretical perspective. The existence of the remaining types of controls, clan control and symbol-based controls, could not be recognized based on the findings. The firms indicated that they are trying to stimulate communication between employees, but any specific clan-or symbol-based controls have not been addressed. Instead, those communication processes are categorized as value-based controls (Malmi & Brown, 2008).

With regards to planning controls, important to emphasize is the fact that SR has not positively affected planning controls at one of the firms from the instrumental perspective. The firm indicated that SR has not led to a change in strategic planning decisions and hence no positive link could be identified. Furthermore, one of the firms in line with the instrumental perspective also indicated that, although reporting helps to some extent, culture is the main driver for developing strategic plans. However, as previously discussed, the research shows that cultural controls have positively influenced the organization's SR. So, it can be argued that although not directly, SR also affects planning controls since the firm's culture has had a direct impact on its SR. This is consistent with Traxler et al. (2020), who found that, in line with the instrumental perspective, cultural controls can also affect planning controls. An increased awareness of

sustainability through cultural aspects can influence an organization's strategic plans. The other firms, regardless of SR drivers, indicated that their strategic planning process has changed due to SR.

Conversely, whether planning controls influence SR, was also investigated. Traxler et al. (2020) found that the integration of sustainability in corporate strategies is crucial for enhancing SR. The fieldwork shows that all of the investigated firms claim to have integrated sustainability into their strategic planning process. Yet, noticeable is the fact that both Company D (instrumental) and E (social and political), argued that integrated reporting enhances the integration of report, which is consistent with Abeysinghe (2020). This is, however, not corresponding with Flower (2015), Thomson (2015) and Milne and Gray (2013), who found that the framework by the IIRC, which Company D and E adopt as a standard, does not emphasize sustainability. In fact, companies who report according to the IIRC's standards, do so in accordance with the GRI's sustainability guidelines (Flower, 2015). This would weaken their perception of the level of sustainability integration in the firm due to their IR since all the firms report in accordance with the same guidelines. It hence seems not plausible to state that solely introducing IR has led to greater integration of sustainability (Flower, 2015; Thomson, 2015; Milne & Gray, 2013).

In fact, the fieldwork shows that whether a firm develops a separate or integrated report does not have an extensive influence on the integration of sustainability. The majority of firms have still integrated sustainability in their strategies. This integration is perceived to be crucial for the reporting and management processes (Traxler et al., 2020). There is, however, an exception since one firm, from the instrumental perspective, indicated that SR does not influence their contribution to SD. Since the firm has also not used SR as a tool for strategic planning, it could be assumed that SR is not used as a managerial tool but rather as a means to meet external requirements (Frostenson & Helin, 2017). Moreover, the firm from the normative view also found that SD has improved SR and not vice versa. Nevertheless, since the organization mentioned that SR has changed the development of KPIs and objectives, it is assumed that they do use it as a means to improve their contribution to SD (Lueg & Radlach, 2016). The companies in light of the social and political perspective mentioned that SD and SR improve each other, which means that SR is important for running SD and SD affects the SR process. In this sense, SR is used as a managerial tool to improve sustainability integration at both firms within the social and political context (Traxler et al., 2020).

With regards to cybernetic controls, almost all of the interviewees mentioned that there is no direct link between SR and the budgeting process. There is only one company from the instrumental perspective that emphasized the link between SR and budgeting. Nevertheless, the firms from the instrumental and normative perspectives mentioned that they have integrated sustainability in strategic planning decisions, which means that sustainability is incorporated in business activities and hence the firms develop budgets for it. This is again consistent with Traxler et al. (2020), who stated that one type of MCS can affect another type. The organizations who align with the social and political view, on the other hand, did not mention how business activities affect their budgets regarding sustainability during the interviews at all.

The integration of sustainability within cybernetic systems can improve both financial and non-financial performance (Traxler et al., 2020). However, Arjaliès and Mundy (2013) found that sustainability performance measures are often neglected in an organization's cybernetic systems. From the fieldwork, it became evident that two firms from the instrumental perspective indicate that financial performance has more priority, which indicates that sustainability measures are not equally included in their performance measurement system. Consequently, there is no positive interlinkage between their measurement systems and SR (Traxler et al., 2020). The remaining companies pointed out that there is more of a balance regarding the prioritization between the two variables.

Furthermore, the fieldwork indicates that the SR process had led to an increased focus on KPIs that were not regarded before. This is consistent with Adams et al. (2007) and Durden (2008), who argue that this can be an effect of SR. All the organizations indicated that SR has changed the use of KPIs, except for one organization from the instrumental view. Institutional requirements were specifically mentioned here as an essential role in the adjustment of indicators and objectives, which aligns with Bouten and Hoozée (2013) who mention this as a characteristic for social and political perspective. Additionally, the firm from the normative view has made no changes in the information collection processes or use of indicators. The lack of sustainability KPIs has been justified by the interviewee as all their business activities are related to sustainability. It could therefore be argued that sustainable dimensions are still incorporated in their cybernetic controls since the already existing KPIs indirectly relate to sustainability. In general, SR seems to be a crucial tool for reflection purposes to measure goal achievement, which is corresponding with Palmer and Flanagan's (2016) findings.

Another important finding is the fact that the introduction of sustainability KPIs has enhanced employee motivation, which, in turn, improves sustainability performance (Cerasoli, Nicklin & Ford, 2014). Moreover, as identified in the findings, the sustainability report can also function as a communication tool to report stressed KPIs (Traxler et al., 2020). Due to SR, the purpose of the indicators is changed and results in improved information collection processes (Bouten & Hoozée, 2013). Overall, there is a strong relationship between SR and the cybernetic controls from an instrumental and social and political perspective. Contrarily, from the normative perspective, there is a weak effect interplay between SR and the cybernetic controls.

Furthermore, the organizations operating in the instrumental, and social and political perspective mentioned that they incorporate sustainability KPIs into their rewards system. Yet, it became apparent that the type of rewards one can receive often depends on the job position or other regulations. None of the firms has established central systems to determine incentive programs. Instead, departments have the freedom to choose whether they wish to incorporate sustainability KPIs. Additionally, although Company C operates in line with the normative view, its reward and compensation system does not consider sustainability metrics. Therefore, it can be argued that rewards and compensation systems are not predominant controls used for directing employee behavior towards achieving sustainability objectives (Lueg & Radlach, 2016). Hence, it can be concluded that from all perspectives, there is a negative or weak relationship between SR and employees' reward and compensation schemes. Although previous literature suggests that reward and compensation systems can positively influence SR (Shaban & Ravlin, 2016, Traxler et al., 2020), the fieldwork indicates that the systems are often not actively used for directing human behavior, regardless of organizational rationales behind SR.

The final type of control, administrative controls, was also emphasized during the research. The fieldwork shows that in all organizations top management is involved in the process. Moreover, some companies within the instrumental perspective have appointed a sustainability committee, which seems to be consistent with the expectations. Previous research indicates that involvement from top management and the existence of sustainability committees has a positive influence on the quality of SR (Frostenson & Helin, 2017). In addition, gender diversity also impacts SR quality positively, which has been given extra consideration in Company B and F. The firm in line with the normative view has not established a sustainability committee. However, top management does seem to be involved. Also, stakeholders are engaged with the SR process at all

of the organizations. As a consequence, stakeholder-communication, -dialogue and -relationship is improved.

At the companies within the social and political perspective, stakeholder input has led to changes in the firm’s policies and procedures. This seems to be consistent with the social and political perspective, where institutions influence the organizations extensively. The findings show that at some firms, principles and policies have changed due to SR. The other firms already had sustainability-wise principles and policies in place and did not change them due to the integration of SR. Based on these results, it can be established that from the social and political perspective and the instrumental perspective, the administrative controls have affected SR and vice versa. Regarding the normative perspective, the administrative controls only have an effect on SR as existing policies and procedures were not changed as a result of SR.

Table 4. The interplay between MCS packages and SR

	<i>Instrumental perspective</i>	<i>Social and political perspective</i>	<i>Normative perspective</i>
<b>Cultural</b>	+++ <sub>1</sub>	+++ <sub>1</sub>	+++ <sub>1</sub>
<i>1st level value-based</i>	- <sub>1</sub>	-	-
<i>2nd or 3rd level value-based</i>	+++	+++	+++
<i>Clan- or symbol-based</i>	<i>Not identified</i>	<i>Not identified</i>	<i>Not identified</i>
<b>Planning</b>	+++ <sub>1</sub>	+++	+++
<b>Cybernetic</b>	+++ <sub>1</sub>	+++ <sub>1</sub>	- <sub>1</sub>
<i>Budgeting</i>	-	-	-
<i>Indicators</i>	+++	+++	-
<i>Financial and non-financial performance measures</i>	+++ <sub>2</sub>	+++	+++
<b>Reward and compensation</b>	-	-	-
<b>Administrative</b>	+++	+++	++ <sub>1</sub>
<i>Governance structure</i>	+++	+++	++ <sub>1</sub>
<i>Policies and procedures</i>	+++	+++	-

+++ = SR affects MCS and vice versa, ++ = SR affects MCS, + = MCS affect SR, - = No or a weak relationship, # = number of contradictory results

In general, Table 4 indicates that there is in fact a relationship between the packages of controls and SR from all the perspectives, which confirms Proposition 1. However, the findings show that the MCS packages between the perspectives differ to some extent. There is only one firm from the instrumental perspectives that incorporated the first level of value-based controls into their MCS package regarding sustainability. Additionally, there is a weak interlinkage between budgeting controls and SR from an instrumental and normative point of view. 'Weak' in this context refers to the fact that the firms mentioned that sustainability is an important part of their business activities, which indicates that they develop budgets for SD. However, SR has not directly influenced the budgeting process nor has the budgeting process affected SR. From the social and political view, the research could not identify an interlinkage with budgeting controls at all, which means that it is not part of their MCS package regarding sustainability. Moreover, the table also suggests that reward and compensation systems are not part of any of the MCS packages at the firms. Consequently, the study could not reveal any interlinkages between those types of control and SR.

What's more, based on the findings with regards to the instrumental perspective, the fieldwork shows mixed results. Overall, a relatively strong relationship between the types of controls and SR was revealed at most firms, which is consistent with the second proposition. There are some contradictory results to the proposition, such as the fact that the findings from one company show that there is no interlinkage between planning controls and SR. Furthermore, whether there exists a strong interplay between SR and cultural controls depends on the subtype of cultural controls. For instance, symbol-and clan-based controls were not identified whereas value-based controls were implemented extensively by the organizations. With regards to cybernetic controls, the study did reveal a strong interplay between the development of KPIs and SR but a weaker one between budgeting controls and SR. Additionally, non-financial measures do not have the same priority at two of the organizations, which means that an interlinkage between performance measurements and SR could not be revealed. Overall, these findings indicate that there exists a relatively strong relationship between MCS and SR from an instrumental perspective, which confirms Proposition 2. At least three types of control based on the Malmi and Brown (2008) framework are interlinked with SR from this theoretical view.

Furthermore, Proposition 3 expected a weak relationship between SR and MCS with regards to the social and political perspective as the reporting process is driven by social and

institutional pressures. However, Table 4 indicates that there exists a relatively strong relationship between MCS and SR as at least three controls of the Malmi and Brown (2008) package have an interlinkage with SR. In fact, the findings from the social and political perspective show less contradictory results than the ones from the instrumental perspective, which means that the interlinkage between SR and MCS appears to be stronger from the social and political view. Since it was expected that there would be a weak relationship between the two variables from the social and political perspective, the findings are not consistent with the assumptions. There is only one type of control of the package of control framework that does not have a relationship with SR, namely rewards and compensation. Consequently, the findings are not consistent with Proposition 3.

What is more, the findings reveal that there exists a weak relationship between MCS and SR from a normative perspective. However, this is not consistent with Proposition 4, which proposed that there would be a strong relationship. Instead, from the five main controls, only two seem to have a strong interplay with SR. With regards to administrative controls, it became evident that the controls only have an effect on SR but not vice versa, as SR has for example not influenced existing policies and procedures or led to the establishment of a sustainability committee. Consequently, it is argued that there is only a one-way link between SR and administrative MCS. Overall, the relationship between MCS and SR appears the weakest from a normative point of view. Therefore, Proposition 4 cannot be confirmed.

## 6. Conclusion

The aim of this study was to provide insights on how the drivers behind reporting affect the interplay between SR and MCS from a practical point of view. Based on previous literature, four propositions were developed which formed the foundation of the research. Firstly, we found that the MCS packages regarding sustainability differ to a certain extent at the organizations. Nonetheless, we identified that there exists a relationship between certain types of controls and SR. In general, our study indicates that SR affects the cultural and planning controls and that those controls also influence SR within all perspectives. A strong interlinkage between cybernetic and administrative controls could only be identified at the firms operating from an instrumental and social and political perspective. Remarkable is the fact that reward and compensation systems are not part of any of the MCS packages. Against these results, our first proposition was confirmed as the findings reveal that there exists a relationship between the majority of MCS and SR.

Furthermore, the findings indicate that there is a relatively strong relationship between SR and MCS from the instrumental perspective, which is consistent with our second proposition. However, from the social and political view, we found that the strength of the interplay between the two variables is even stronger. Although Proposition 3 expected that the relationship would be weak from the social and political perspective, the findings reveal the opposite. Additionally, it was expected that firms would integrate MCS and use SR as a tool to drive sustainability from a normative perspective, but our research shows that the relationship between the two variables is the weakest from this view. Consequently, the findings do not align with Proposition 4 either. In sum, the study reveals that the drivers behind reporting do have an effect on the relationship between SR and MCS. However, the extent to which these drivers influence the interplay was not consistent with the third and fourth proposition. In fact, it became evident that the relationship between SR and MCS is the strongest from the social and political view and the weakest from the normative perspective.

Our study contributes to literature in several ways. Firstly, we analyzed the relationship between SR and MCS by (i) investigating how SR affects the implementation of MCS and by (ii) investigating how the implemented MCS influence SR. As a consequence, our findings contribute to a greater understanding of how MCS and SR are interlinked. Secondly, we emphasized the theoretical perspectives addressed by Traxler et al. (2020) and provided a conclusion on whether the findings are consistent with previous literature assumptions. In doing so, we were able to

provide empirical insights on how the interplay between MCS and SR are affected by organizations' drivers for adopting SR. While prior research primarily focused on a few aspects of the MCS package (Traxler et al., 2020) or the effect of MCS on SD (Lueg & Radlach, 2016), we tried to emphasize all the management controls based on the package of control framework (Malmi & Brown, 2008). This allowed for a complete view of the relationship between all the types of controls and SR from an empirical perspective.

Despite our contributions, our study also concerns several limitations. First of all, firms could sometimes be categorized in both the instrumental and social and political or normative perspective. To illustrate, three organizations addressed that stakeholder management is an important driver for SR, which is in line with the instrumental perspective. Nevertheless, it was decided that two of those firms operate in line with the social and political perspective instead. Additionally, the remaining firm was eventually classified to be in line with the normative because its overall objective is to contribute to an environmentally and socially friendlier society. Another classification issue is the fact that we categorized the firms' MCS based on the framework by Malmi and Brown (2008). The controls, however, sometimes overlap which makes the classification process more difficult (Lueg & Radlach, 2016). For instance, we found that the use of KPIs could both be classified as cybernetic or planning controls and that the effect of SR on the organizational structure could either be categorized as cultural or administrative. We also want to emphasize that the research only provides insights about one company from a normative perspective, which means that there is a lack of comparability between other firms. Additionally, only two organizations operate in line with the social and political perspective, which might harm the generalizability of the results. Lastly, although we conducted research at firms operating in different types of industries, organizational or industrial characteristics were not considered throughout the study.

There are several suggestions for future research we would like to highlight. First of all, although prior literature emphasized that a close relationship between MCS and SR improves a firm's contribution to SD, our findings were not able to investigate the actual effects on SD. Therefore, one suggestion for future research is to empirically examine the importance of the interplay between MCS and SR for SD improvement. Our study could not identify whether, for instance, the firms that implemented less MCS for SR also contribute less to SD. Furthermore, the limitation regarding comparability could be overcome by conducting more empirical research at

firms that operate in line with the different perspectives. Finally, future research could focus on whether organizational or industrial characteristics affect the drivers behind reporting processes and hence the relationship between MCS and SR.

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# Appendices

## Appendix 1: Interview guide (English)

### **Background**

- (1) Could you briefly describe your role at ()?
- (2) What does sustainability mean at ()?
- (3) What are the main drivers for the sustainability reporting process?

### **Cultural aspects**

- (4) Has sustainability reporting played a key role in creating a shared understanding and vision towards CSR among employees?
- (5) How much importance is placed on individuals' values and attitudes towards CSR objectives during the recruitment and selection process?
- (6) How does () ensure that the entire organization shares the same CSR values?

### **Planning aspects**

- (7) Has sustainability reporting led to a greater focus on CSR issues in strategic planning?
- (8) a. How are strategic plans developed and monitored?  
b. How are the plans communicated to lower-level employees?

### **Cybernetic aspects**

- (9) Is there a link between sustainability reporting and the development of budgets?
- (10) Are sustainability performance indicators integrated in the firm's performance measurement system?
- (11) Does sustainability performance have an equal priority to financial performance?

### **Reward and compensation aspects**

- (12) Has the integration of sustainability reporting influenced the firm's reward and compensation system?

### **Administrative aspects**

(13) Who is involved in the sustainability reporting processes and how are they involved?

(14) Has sustainability reporting changed the firm's policies and procedures?

### **General**

(15) Has sustainability reporting improved the organization's sustainable developments or vice versa?

(16) Is there anything else you would like to add to this interview? Are there any systems that we have not discussed which might be important for our study?

## Appendix 2: Interview guide (Dutch)

### **Introductie**

- (1) Zou u kort uw rol bij ( ) kunnen beschrijven?
- (2) Wat betekent sustainability binnen uw bedrijf?
- (3) Wat zijn de belangrijkste redenen waarom het bedrijf een sustainability report uitbrengt?

### **Cultural aspects**

- (4) Heeft sustainability reporting invloed gehad op de visie die werknemers hebben naar sustainability doelstellingen?
- (5) In hoeverre speelt de visie op sustainability doelen van sollicitanten mee in de selectie van werknemers?
- (6) Hoe zorgt het bedrijf ervoor dat alle werknemers dezelfde waarde hechten aan sustainability doelen?

### **Planning aspects**

- (7) Heeft sustainability reporting invloed gehad op een verandering in strategische doelstellingen?
- (8) a. Hoe zijn deze doelstellingen ontwikkeld en hoe worden ze gecontroleerd?
- b. Hoe worden ze gecommuniceerd naar werknemers van andere afdelingen (die niet betrokken zijn bij het proces)?

### **Cybernetic aspects**

- (9) Is er een link tussen sustainability reporting en het budgeting proces bij ( ) ?
- (10) Maakt het bedrijf gebruik van sustainability indicatoren (KPIs)?
- (11) Heeft sustainability performance dezelfde prioriteit als financial performance?

### **Reward and compensation aspects**

- (12) Heeft sustainability reporting invloed gehad op de compensaties/bonussen die werknemers ontvangen?

### **Administrative aspects**

(13) Wie zijn binnen ( ) betrokken bij het sustainability reporting proces en wat zijn hun exacte taken?

(14) Heeft sustainability reporting invloed gehad op het beleid en de procedures binnen het bedrijf? (bijv. Code of conduct/gedragscode)

### **General**

(15) Heeft sustainability reporting invloed op duurzame ontwikkelingen binnen het bedrijf of hebben duurzame ontwikkelingen invloed op sustainability reporting?

(16) Is er iets wat u nog zou willen toevoegen aan dit interview? Zijn er bepaalde onderwerpen die wij vergeten zijn te benoemen maar wel van belang zijn voor de organisatie?