



# SCHOOL OF ECONOMICS AND MANAGEMENT

Master's Programme in Accounting and Finance (M.Sc.)

## INTEGRATION AND IMPLEMENTATION OF SUSTAINABILITY INTO PRACTICE

*A multiple-case study of the use of formal and informal controls in  
Swedish companies to support strategic change*

BUSN79 Degree Project in Accounting and Finance

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## SUMMARY

<b>Title</b>	Integration and implementation of sustainability into practice – <i>A multiple-case study of the use of formal and informal controls in Swedish companies to support strategic change</i>
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<b>Key Words</b>	Sustainability and Corporate Social Responsibility (CSR); Strategic change; Management Control Systems (MCS); Formal and informal controls; Simons' Levers of Control (LOC)
<b>Purpose</b>	This thesis examines MCS in Swedish companies. The purpose of the thesis is to assess formal and informal controls to understand how companies use them to effectively integrate a sustainability strategy in their organisation and implement CSR activities into practice. In this context the study addresses the research question: <i>How do different leading Swedish companies, in terms of sustainability, use formal and informal controls to integrate and implement sustainability as a strategy into practice?</i>
<b>Methodology</b>	A qualitative research approach is applied. We follow a multiple-case study approach to compare how companies use MCS in different stages of the integration and implementation processes. We collect empirical data by conducting semi-structured interviews with sustainability leadership positions of Swedish companies.
<b>Theoretical Perspectives</b>	The theoretical framework of this thesis focuses on formal and informal controls for strategic change. Simons' (1995) conceptual framework of formal LOC (belief systems, interactive controls systems, diagnostic control systems, boundary systems), informal controls as well as coercive and enabling controls introduced by Adler and Borys (1996) are applied to answer the research question.
<b>Empirical Foundation</b>	The collected empirical data is structured as follows: (i) Integration of the CSR strategy, (ii) Implementing CSR through belief systems, (iii) Implementing CSR through interactive control systems, (iv) Implementing CSR through diagnostic control systems, (v) Implementing CSR through boundary systems, (vi) Comparison of cases.
<b>Conclusions</b>	Our findings emphasise the importance of MCS when integrating a CSR strategy into an organisation and implementing CSR activities into practice. First, our results indicate that a CSR strategy is integrated into the overall business strategy and not seen as a separate strategy. The strategic change to sustainability is considered as an incremental change to strategy, rather than radical. Second, the case study suggests that MCS are extensively used by all case companies to implement sustainable strategies, including formal and informal controls in combination as well as enabling and coercive controls. All LOC are applied, with a strong focus on belief systems and informal controls as a starting point to create a strong CSR culture and to get all employees on board. Overall, MCS and their design are crucial for the successful integration and implementation of a new strategy.

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Lund, 27th May 2023

Sincerely,



Josefin Söderlund



Christoph Welter

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## **LIST OF ABBREVIATIONS**

C1, [...]	Case Company 1, [...]
COC	Code of Conduct
CSDD	Corporate Sustainability Due Diligence
CSR	Corporate Social Responsibility
CSRD	Corporate Social Reporting Directive
EBIT	Earnings Before Interest and Tax
ESG	Environmental, Social and Governance
GRI	Global Reporting Initiative
KPI	Key Performance Indicator
LOC	Levers of Control
MC	Management Control(s)
MCS	Management Control System(s)
NFRD	Non-Financial Reporting Directive
SASB	Sustainability Accounting Standards Board
SDG	Sustainable Development Goals
TBL	Triple Bottom Line
TCFD	Task Force on Climate-related Financial Disclosures

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# 1. INTRODUCTION

## 1.1. Background

In recent years, key problems such as growing inequality, natural resource depletion, and climate change have become increasingly prevalent and therefore the issue of sustainability is high on the political agenda (Human Development Report, 2022; Latapí Agudelo, Jóhannsdóttir & Davídsdóttir, 2019). Thus, the perceived importance and recognition of Corporate Social Responsibility (CSR) as an opportunity to achieve a competitive advantage has grown at a rising pace (Porter & Kramer, 2011). In particular, the recent development of the concept of shared value, defined by Porter and Kramer (2011, p.4) as “*creating economic value in a way that also creates value for society by addressing its needs and challenges*” has empowered the idea that a flourishing business can contribute to sustainability. Globally, companies nowadays increasingly recognize the importance of integrating social and environmental issues into their overall strategy (Epstein, 2018; Porter & Kramer, 2011). Thus, firms are under higher pressure from stakeholders in relation to their CSR management. In this study, the term CSR is used when referring to sustainability. Since the first introduction of the term CSR by Howard Bowen (1953) in the book *"The Social Responsibilities of the Businessman"*, the concept of CSR has evolved and been defined differently by researchers and regulators (Aguinis & Glavas, 2012). Various concepts of CSR have been incorporated into the discussion of CSR, e.g., corporate citizenship (Pinkston & Carroll, 1994), corporate social responsiveness (Carroll, 1979; Frederick, 1998; Stanwick & Stanwick, 1998), and corporate social performance (Carroll, 1979; Wood, 1991). In addition, definitions of CSR have changed over time (Carroll, 1999; Montiel, 2008). According to the Commission of the European Communities, CSR is a *"concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis"* (CEC, 2001, p. 6). This definition has two relevant aspects. First, CSR is voluntary and thus not only an economic and legal obligation, but also a moral and discretionary obligation. CSR emphasises that companies must assume social and environmental responsibilities that go beyond legal compliance and personal responsibility (Blowfield & Frynas, 2005). In addition, investors, initiatives and other stakeholders are increasingly demanding companies to operate sustainably (Carroll, 1979; 1999; Deschryver & de Mariz, 2020; Rodrigue, Magnan & Boulianne, 2013). Organisations must consider the process by which managers align their goals with the needs and expectations of various

stakeholders (Carroll, 1991). Moreover, companies have a significant impact on economic, environmental, and social well-being, making corporate sustainability essential for long-term sustainable development (Schaltegger, Bennett & Burritt, 2006). Thus, regulators also urge companies to integrate CSR, as a concept that integrates sustainability aspects such as economic, social and environmental aspects into business strategy and activities to serve society (Carroll, 1979; Carroll & Shabana, 2010). For example, the European Union Corporate Social Reporting Directive (CSRD), which is the successor to the Non-Financial Reporting Directive (NFRD), requires companies to disclose sustainability details showing how companies implement CSR in their operations. According to Porter and van der Linde (1995), a company's sustainability efforts are beneficial to both the economy and the environment, which is why it is frequently referred to as a "win-win" situation. The concept of CSR is based on the term Triple Bottom Line (TBL) which considers three distinctive but related perspectives: Economic (financial profit and development), Social (people and equality) and Environmental (protection of natural resources). CSR encompasses all three of these pillars of TBL (Elkington, 1994).

Consequently, CSR is inextricably linked to business strategy and should be strategically managed in relation to corporate objectives at the strategic business level (Busaya, Kalayane & Gary, 2009). As companies recognize the need to integrate CSR activities into their business strategy, they need to develop a strategic framework that makes CSR an integral part of their business model (Gond, Grubnic, Herzig & Moon, 2012; Shital, 2014). Organisations then develop a comprehensive set of policies, practices, and programs and integrate them into business activities and strategic decision-making processes throughout the organisation (Ofori & Hinson, 2007). Due to the social and regulatory relevance, many companies have made a shift towards sustainability and the integration and implementation of CSR into the business strategy can be seen as a strategic change (redirection). Strategic uncertainty is a result of introducing CSR as it comes with new sets of opportunities and risks for the firm that must be addressed (Schaltegger & Burritt, 2010). In the mid-1970 a focus shifted to the organisational environment's effect on strategy, which entailed creating harmony between the organisation and its surroundings in terms of strategic adaptation (Kald, Nilsson & Rapp, 2000). The processes of controlling these actions are seen as management control (MC).

Originally defined by Anthony (1965), MC involves ensuring that resources are used effectively and efficiently in achieving the organisational objectives. This process creates a link

between strategic planning and operational control where goals could be broken down into sub-goals, allowing a more coordinated and monitored set of actions (Otley, Broadbent & Berry, 1995). Several authors have since provided various definitions and interpretations of MC (e.g., Malmi & Brown, 2008; Merchant, 1982; Ouchi, 1979; Simons, 1995; Speklé, 2001; Zimmerman, 2014). MC can occur as entire systems as well as packages. According to Malmi and Brown (2008, p. 290) Management control systems (MCS) are all *"those systems, rules, practices, values and other activities management puts in place in order to direct employee behaviour."* These entire systems can be considered as tools to achieve corporate goals by aligning employee interests and objectives of the company (Bedford, Malmi & Sandelin, 2016). Moreover, MC can be used to direct an organisation towards operational and strategic goals (Ferreira & Otley, 2009; Gond et al., 2012; Ouchi, 1977; Simons, 1994). MC as a package therefore represents the entire collection of control practices in use, regardless of if the MC practices are interdependent or the design decisions take interdependencies into consideration (Grabner & Moers, 2013; Malmi & Brown, 2008). This indicates that the MC package can consist of a set of MCS or a set of distinct MC techniques tackling different control problems (Grabner & Moers, 2013). There has been increasing attention around issues of MC and CSR among academics and researchers emphasising that MC is essential to achieve the integration of sustainability as a strategy with its CSR dimensions (Ball & Milne, 2005; Covaleski, Evans, Luft & Shields, 2006; Durden, 2008; Gond et al., 2012; Norris & O'Dwyer, 2004; Stacey, 2010).

## **1.2. Problematization**

MCS are an essential aspect in the integration of a new strategy of a company, as well as for the implementation of different sustainability aspects (Laguir, Laguir & Tchemeni, 2019; Otley, 1999; Simons, 2000). According to Otley (1999), there is no universally applicable MCS, thus the choice of an appropriate control system depends on organisational circumstances. Traditionally, strategies were designed by top management during formulation, but today strategic change is embedded throughout the process with MC being relevant during the entire process (Chenhall 2005; Hoskisson, Wan, You & Hitt, 1999). Strategic change is classified as either radical or incremental, with incremental change regarding small modifications focused on improving efficiency, productivity and associated with lower risks and expected returns (Davila, 2005). Radical change involves transformative shifts in overall strategy, enabling a company to disrupt the market, but also potentially upsetting the



organisational structure, competencies, design and industry structure (Davila, 2005). Since organisations are now major contributors to socially responsible behaviour, how managers use MCS plays a significant role reforming companies sustainability practices, objectives and compliances (Gond et al., 2012; Laguir et al., 2019). Strongly improved CSR performance is positively associated with financial performance and generates a competitive advantage. Thus, it can be considered a key factor for companies' survival and success (Aguinis & Glavas, 2012; Boesso, Kumar & Michelon, 2013; Eccles, Ioannou & Serafeim, 2014; Orlitzky, Schmidt & Rynes, 2003; Laguir et al., 2019; Porter & Kramer, 2006; 2011;). Further, facilitating the MCS can support the achievement of organisational goals and show proactivity in response to higher stakeholder demands. It is necessary to understand how managers are enabled by MCS to control and monitor the risks and opportunities of a CSR strategy (Arjaliès & Mundy, 2013).

In our study we have adopted a perspective that sees CSR strategy integration and implementation through MCS as a vital component of an organisation's core business and success. According to Simons (1995) MCS are used to sustain or modify patterns in organisational operations. MCS can consist of either formal or informal controls. Formal controls comprise rules, budgeting systems, performance evaluation and reward criteria to control results. These controls are intentionally articulated practices and rules (Langfield-Smith, 1997; Norris & O'Dwyer, 2004). In contrast, informal controls are less visible than formal controls and serve to direct the behaviour of the employees by creating an organisational climate through shared values and beliefs (Riccaboni & Leone, 2010). However, many companies struggle with integrating CSR strategies in their business strategy as well as implementing CSR activities into their operations through MCS (Beusch, Frisk, Rosén, & Dilla, 2022; Gond et al., 2012; Lueg & Radlach, 2016). First, this problem shows that it is essential to understand how sustainability is integrated into the business strategy and how the strategy is implemented into practice as a next step. A crucial aspect here is whether the CSR strategy is integrated as a separate strategy alongside the usual business strategy, as an add-on, or whether it is integrated into the overall business strategy. If sustainability is managed as a separate strategy, this can cause several problems, such as the need for separate incentives and key performance indicators (KPIs), which can make management of the overall business more difficult. Integrating the sustainability strategy into the business strategy leads to a single coherent strategy to focus on. Second, the various forms of MC that companies use for integration and implementation into practice are of particular importance. Initially, it must be understood how formal and informal controls are used and how they relate to each other and

to what extent they are balanced. Furthermore, different controls may be effective at different stages of implementation. This highlights the need to understand how organisations combine these controls into practice. Moreover, the individual steps to change the strategy must be understood, as it is impossible to change the entire strategy at once (Malmi & Brown, 2008).

In general, the research of CSR and MCS is still an emerging topic (e.g., Arjaliès & Mundy, 2013; Deegan, 2016; Laguir et al., 2019; O'Dwyer & Unerman, 2016). Despite the growing interest in the relationship of strategy and MCS, decades later it remains to be one of the most enduring issues in management accounting literature (Davila, Foster & Oyon, 2009; Langfield-Smith, 1997). Sustainability has also influenced the way we think about controls. A few studies have examined the role of MCS in the integration of CSR strategies in business strategy and implementation into practice. These studies show that MCS play a central role in supporting, formulating and managing strategies related to sustainability and can be used and modified in certain ways to integrate and implement an appropriate CSR strategy in the company (e.g., Bhuiyan, Baird & Munir, 2022; Durden, 2008; Gond et al., 2012; Laguir et al., 2019). However, in these studies there are contradictory findings regarding the use of the different MC. For instance, Laguir et al. (2019) concluded in their case study that the MC that communicate sustainable values play a significant role. However, Bhuiyan et al. (2022) observed in their survey that these MC have a negative direct effect on CSR use. As sustainability has become a strategic issue (Kivivirta, 2010), it is crucial to understand how to integrate and implement a new strategy. According to Simons (1995), MC for guiding behaviour play a decisive role and are used for communicating the values of a new strategy to employees and to get everyone on board. Thus, studies point in different directions and too little is known about how companies use different controls.

### **1.3. Purpose and research question**

The purpose of this study is to explore how leading companies have successfully managed strategic change. To the best of our knowledge, no studies to date have closed the research gap on how companies use different forms of controls to achieve this end. From a practical point of view, the way companies balance different forms of formal and informal controls when they successfully integrate and implement CSR is essential to investigate. From a theoretical perspective it is relevant to understand how formal and informal controls can support different stages of strategic change. We examine Swedish companies that are considered leaders in adopting management practices within the field of sustainability (Strand, Freeman & Hockerts,

2015). By comparing multiple cases we explore how companies use MCS in different stages of the integration and implementation processes. Thus, this study addresses the following research question:

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*How do different leading Swedish companies, in terms of sustainability, use formal and informal controls to integrate and implement sustainability as a strategy into practice?*

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We contribute to the existing literature by providing greater insights into the ways companies use formal and informal controls to integrate and implement sustainability as a strategy and respond to calls for more field-based research (Arjaliès & Mundy, 2013; Durden, 2008; Gond et al., 2012; Laguir et al., 2019).

#### **1.4. Outline of the thesis**

The remainder of the thesis is structured as follows: The next chapter introduces and discusses the methodology used. In chapter three, the theoretical framework for the study is provided by conducting a literature review on the topics of MCS and the role of MCS in integrating and implementing a CSR strategy. The following chapter reports and consolidates the findings of the analyses. In chapter five implications are discussed including our contribution to existing literature, limitations and research opportunities and the sixth chapter finally draws a conclusion.

## **2. RESEARCH METHODOLOGY**

### **2.1. Research approach**

As the purpose of this study is how a sustainability strategy can be integrated and implemented using MCS an exploratory method is needed that will allow for a more contextual data collection. Thus, the chosen approach is qualitative rather than a quantitative approach. Qualitative research can be a source of rich, well-founded descriptions and explanations of processes taking place under local conditions. In this way, qualitative data is preserved chronologically, allowing assessment of local causes and providing the basis for detailed explanations (Lee & Tan, 2011).

Within the qualitative research strategy different research designs that can be applied (Bryman, 2012; Bryman & Bell, 2011). For our research purpose, the optimal method would be

longitudinal studies, which use continuous or repeated measurements to track specific variables over an extended period and thus can show a certain evolution. This study design is time consuming (Bryman & Bell, 2011) and therefore exceeds our capacities. Furthermore, cross sectional studies typically use surveys to collect panel data over several years. For our purpose, a survey is not suitable, as an understanding of balances and interfaces of different forms of control that can vary across cases is necessary. In this regard, a detailed exchange with the cases is needed. In addition, our study is bound to a limited period, which would have been exceeded by cross sectional studies (Bryman & Bell, 2011).

For this reason, the case study approach was chosen to understand the complexities of the case and the relationship between theory and research (inductive approach) (Bryman, 2012; Bryman & Bell, 2011). Although this method has limitations (see chapter 2.3), it is a common method for studying MCS (Durden, 2008; Sandelin, 2008) and is considered suitable for researching and understanding specific topics due to interviews with high reliability (Yin, 2003). With a case study, it is possible to gain contextual knowledge and a clear picture of what is unknown to external stakeholders and thus gain insights from managers who implement processes. The study design chosen for this study was a multiple-case study, which can be defined as a study that investigates a contemporary phenomenon at different sites (Stewart, 2012). According to Yin (2009), Eisenhardt and Graebner, (2007) and Stewart (2012), this kind of study is suitable to achieve more generality in the results. The use of multiple cases further allows us for comparability between the cases (Bryman & Bell, 2017). For our purpose, a comparison is relevant to investigate companies in different stages of the integration and implementation of a sustainability strategy. In this study, a real phenomenon surrounded by significant contextual factors is to be investigated. According to Yin (2009), Baxter and Jack (2008) and Bryman and Bell (2011) the case study method is useful when a contemporary phenomenon is analysed within its real-life context to retain meaningful characteristics in organisational processes and individuals. Therefore, a multiple-case study with characteristics of a comparative study was chosen to drive the analysis and conclusions.

As we study a real-life situation with organisations and individuals, semi-structured interviews were chosen as the method to obtain qualitative data. Standardised interviews have been criticised for being too structured to gain access to the interviewees and to get their exact opinion (Mishler, 1986; Tovstiga, 2015). According to Rabionet (2011), qualitative interviews are flexible to capture the different views of people. Our interviews need to be flexible to reach

a certain depth, which an over-structured format can only achieve to a limited extent. In addition, this structure gives the interviewer wide latitude in highlighting the intricacies of the research topic and ensures that all aspects are addressed (Bryman & Bell, 2007; 2017). The goal was not to derive universal implications that can be applied to every company, rather analysing the specific cases and highlighting the unique aspects (Bryman & Bell, 2017). Case studies are mainly used to reveal a deep understanding with all the intricacies of a particular research subject. Therefore, it is mainly concerned with the questions of "why" and "how" rather than the details of "who" and "what" (Yin, 2009). The purpose of this study was to understand the way sustainability was integrated and implemented, that is, to answer the "how" question. Thus, a multiple-case study was chosen as the most appropriate method to reflect the purpose of the study.

## **2.2. Research design**

### **2.2.1 Selection of cases**

This study investigates seven large Swedish corporations listed on the Nasdaq OMX, operating globally, in different industries. Sweden was selected as Scandinavia is regularly cited as a world leader in the field of CSR and in the adoption of management practices within sustainability (Strand et al., 2015). As a basis for our selection, we chose the Swedish Corporate Sustainability Ranking, investigated together by Lund University, Dagens Industri and Aktuell Hållbarhet, that demonstrates a transparent ranking-process highlighting companies with strong corporate sustainability initiatives, conducted annually. The ranking exhibits how companies communicate sustainability performance in a value relevant, credible and comparable way to display how far Swedish companies are in the process of performing in different sustainability areas and where improvements are needed (LUSEM, 2021). The reason behind this ranking as main criterion is that we believe that companies with high sustainability performance are inevitably aware and engaged in practices in the area, allowing us to retrieve significant amounts of qualitative data to establish the relationship between the companies' CSR and MCS. All companies claim that they are carefully considering and acting on these issues. Even though the ranking is already limited to mainly Swedish operating companies, another reason for this criterion is that evidently sustainability practices might vary significantly depending on the institutional and cultural context. Thus, to increase the reliability and possible generalisation of the results the geographical area was considered. Furthermore,

the study assumes an awareness and perception of MC in place to assist our examination of the various controls and how interviewees see and conceptualise them. Therefore, we established three criteria in order to select relevant companies:

1. Their presence in the Swedish Corporate Sustainability Ranking
2. Their CSR commitment: The firms had to have implemented CSR practices in their external reporting. To evaluate these practices, we consulted secondary sources such as company websites and annual reports (incl. sustainability reports)
3. The country in which they are headquartered in: Sweden

As a result of this phase, a preliminary sample of 60 companies were chosen from top to bottom from the Swedish Corporate Sustainability Ranking. The companies participating in this study were all within the placements of top 45 (out of 133 companies in total). In the next step we contacted these companies through e-mail to establish their willingness to participate in our study. Ultimately, seven large firms from different industries consented to participate in this study. All companies are based in Sweden and operate internationally.

### **2.2.2 Selection of interviewees**

In our study, we interviewed one individual per company. It was essential that this person represents the entire company and provides qualified answers in order to serve the purpose of this study. It was paramount that the interviewees possessed adequate knowledge of the firm's measures and controls regarding sustainability to get insight into how formal, but mainly informal information is applied. Patton (1987) argues that it is critical for conducting a strategic selection where choosing skilled experts in the area will provide relevant findings and significant contributions to the study. Thus, we decided to establish contact through email with the head of sustainability or sustainability manager at the companies according to ranking order from top to bottom. The formal e-mail consisted of a brief introduction to our topic as well as questions to be expected. An interview was planned only after receiving a response. Other specific criteria, such as education level, background, gender, ethnicity, and age were not considered in our study.

Transparently, our initial aim was to collect a higher number of interviews inside the companies participating. We acknowledge that a limitation of the interviewee criterion of sustainability managerial positions is that individuals in these positions might be more optimistic and driven

in this area and overstate their success, giving an idealistic and biased perception of the firm's sustainability role. To increase the reliability and get a broader insight into the companies it would have been ideal to capture a wider spectrum of perspectives through further interviews from other employees in the companies on different levels. However, data triangulation by multiple interviewees could not be achieved as this request was not addressed by the main interview contacts. We therefore decided to pursue the path of solely interviewing the sustainability managers to achieve a higher level of comparison in our findings. In general, many of the contacts declined our request due to the stressful period during our writing (e.g., preparation of annual report).

### **2.2.3 Data collection process**

As a guide for the empirical data collection process and following Yin (2009), the questions were sent to the interviewees after the interview was scheduled, so that the participants could be optimally prepared, and the interviews could be conducted efficiently. These questions covered the integration of CSR into business strategy and the implementation into practice with a focus on formal and informal controls, based on our theoretical framework developed in the next chapter. An additional more extensive interview guide was used as a tool by us to ensure that all relevant topics were adequately covered. The interview guide with the questions used is included in *Appendix 1*. Within the context of the overarching themes, the interviewees were encouraged to speak freely about their experiences and perceptions, which accounts for the semi-structured nature of the interviews. By doing so, we enabled a more open dialogue to retrieve more informal and internal information which was the aim of our study and therefore valuable in our analysis. The flexibility of this approach allowed respondents to focus on aspects they felt were relevant (Bryman & Bell, 2011; 2017). To ensure that interviewees felt comfortable and free to speak (transparency), they were assured of both company and their own anonymity (confidentiality). This was also done with ethical considerations in mind. A total of seven interviews were conducted, each with an employee who was most informed about the company's sustainability practices (e.g., Head of Sustainability and Sustainability Manager). All interviews were conducted in English and, with the explicit consent of the interviewee, were audio recorded. In this way, we could pay closer attention to the respondents, creating a purposeful discussion and less focus on taking notes. The duration of the interviews varied between 45 and 60 minutes. Interviews were conducted digitally via video call (Zoom and Microsoft Teams) in April and May 2023. *Table 1* presents key facts from all interviews

conducted. In this study, no details about the case companies are disclosed for confidentiality reasons. Since the interviews were time limited, preparation was of high importance. Before the interviews, secondary sources (e.g., sustainability reports and company websites) were utilised to obtain further detailed information, particularly in the area of sustainability objectives and targets. Furthermore, our preparations made it possible to question or clarify the information received from secondary sources.

Case	Position	Years in comp.	Years in position	Comm. Style	Date	Duration	Industry
C1	Head of Sustainability	>10	<5	Video call	12.04.2023	60 min	Capital goods
C2	Head of Sustainability	<5	<5	Video call	21.04.2023	45 min	Capital goods
C3	Sustainability Manager	>10	<1	Video call	24.04.2023	55 min	Capital goods
C4	Head of Sustainability	<5	<5	Video call	25.04.2023	45 min	Consumer goods
C5	Head of Sustainability	>10	<5	Video call	05.05.2023	60 min	Capital goods
C6	Group Sustainability Director	<5	<5	Video call	16.05.2023	60 min	Capital goods
C7	Sustainability manager	<1	<1	Video call	17.05.2023	60 min	Capital goods

Table 1: General information about each conducted interview in the case study.

## 2.2.4 Data analysis

First-hand data had been extracted through numerous interviews. Each of the interviews conducted was recorded and subsequently transcribed to collect key concepts and thoughts but not attached due to confidentiality reasons. To reduce the risk of wrongful quotations, the interviews were conducted in English. However, for certain ideas and terms, it was easier for the interviewees to explain them in Swedish. The empirical data were then summarised and analysed, and the results are presented in the *Empirical Findings* chapter. Meaningful direct quotations were used to make the results more understandable and reliable. Since the interviews were semi-structured, the responses covered several different topics. This highlighted the need for a thorough review of the data to reduce the risk of losing relevant quotations in the process. Later, the transcripts and quotations were inspected by both of us in order to check for eventual errors or accidental omissions. The finished transcript was then categorised in accordance with the theory used to identify relevant themes (Bryman, 2012; Bryman & Bell, 2007). This was essential to facilitate the process of analysing the findings and results. The next step was then



to identify similarities and differences between the individual companies in the sample by integrating the data from each company (cross-case analysis). Note that due to confidentiality reasons no details about the case companies are disclosed. Secondary sources (e.g., sustainability reports) were also accessed to obtain a more comprehensive picture and were cross-checked with the information collected in the interviews to improve the comprehension of the company's performance in relation to the relevant research topics (Yin, 2003). The questions were designed to allocate individual questions to specific formal and informal controls used in our framework to easily answer the research question. The categorised data were also related to considerations from previous scientific studies and publications in the discussion section of this paper to formulate appropriate conclusions, in line with pattern matching (Yin, 2009).

## **2.3. Research quality and limitations of the applied method**

### **2.3.1 Research quality**

Considering the research approach and the design of a multiple-case study, research quality and validity were enhanced by several factors. To increase confidence in the construct's validity, the data for each case in this study was compiled from multiple sources and a chain of custody was created. Even though data triangulation could not be strengthened by several interviewees in one case, the validity of the construct could be enhanced through the confirmation by the interviewees and the use of sustainability reports (Patton, 1990; Yin, 2003). Furthermore, the use of semi-structured interviews ensured that the correct and relevant questions for the purpose of this study were asked. Secondary sources were added to each case and then cross-checked with the information collected in the interviews to improve the understanding of company performance in relation to the relevant research topics (Yin, 2003). The data was further analysed using cross-case analyses and the findings and results were compared with the existing literature to increase the research quality (Bryman & Bell, 2007; Yin, 2003). In this study, research quality was further ensured by thoroughly describing the processes of data collection and analysis. We also attempted to find meaningful parallelism of results across data sources. To achieve investigator triangulation (Patton, 1990), each interview was conducted by a team of two researchers to ensure that the data were reviewed, and a consensus of understanding was reached.

### **2.3.2 Limitations of research approach and design**

The selected research method also implies certain limitations that must be considered when evaluating the analysis results. A general limitation of the research arises from the aforementioned access problems of obtaining more than one interview per company due to time limitations. The research question was adapted according to the access and information obtained.

Due to the purpose of this thesis, leading Swedish companies in terms of sustainability were deliberately selected. Thus, limitations arise here as we have selected leading companies that are known for strong sustainability initiatives. Thus, the results cannot easily be applied to other cases. Even though secondary sources have been used to strengthen the statements of the interviewees, a triangulation of data sources is not completely achieved, as we could only conduct one interview per case. Therefore, this is a limitation, as corroborating a statement with multiple interviews could strengthen our findings. We acknowledge that by only selecting sustainability leadership positions; these individuals may be more optimistic in this area and may overstate their achievements, leading to an idealistic and biased perception of the company's role in sustainability. Therefore, considering individuals from other positions in the company to gain more reliability would have been beneficial. Most of the interviewees are from Sweden and therefore the native language is Swedish. As the interviews were conducted in English, a possibility exists that certain concepts were not fully explained in detail and therefore relevant information might be lost. Furthermore, because the geographical area of the cases is Sweden, culture might have an impact on the results and therefore cannot be applied to other regions without caution. Moreover, the empirical findings are based on inferences since the true object is not directly observable (Yin, 2009). Although research quality was increased by a multiple-case study, it must also be emphasised that only limited generalizability of the analysis results can be achieved through qualitative studies (Yin, 2009). Despite these limitations, we concluded that the multiple-case study method is an appropriate approach to investigate our research question because it enables us to study the use of formal and informal controls in different stages. Nevertheless, the empirical results should be treated with caution, as they cannot be interpreted as predictive, statistically significant causality, but rather as concrete and contextual (Flyvbjerg, 2006).

## **2.4. Ethical considerations**

The participation of respondents was voluntary, and we treated individuals and companies anonymously (confidential). In addition, participants were informed of their right to withdraw from the study at any time, if desired. Our principle of informed consent included assurances about participation in the study so that respondents understood the implications of participation, the research context, and the agreement freely made, without pressure or coercion (Saunders, Lewis & Thornhill, 2012).

## **3. THEORETICAL FRAMEWORK AND EMPIRICAL EVIDENCE**

This study includes the topic of strategic change, MCS, and the connection of these two areas. For this reason, the theoretical framework will first explain the topic of strategic change in terms of CSR, followed by the theory of MCS, including Simons' formal LOC (1995) and informal controls, before empirical evidence through earlier studies is presented.

### **3.1. Theoretical framework**

#### **3.1.1 Strategic change and management control**

Visions, strategies, and plans are of great interest to academics as well as managers and have therefore been prioritised over control. One of an organisation's most significant function is MC, and despite this, most managers neglect or fail with the implementation (Hutzschenreuter, 2009). As organisations face strategic change and uncertainty, there is a need for adapted solutions in a continuous and dynamic way. Due to the increasingly close relationship between companies and their stakeholders, CSR is currently one of the most critical issues in the business environment. Thus, the integration and implementation of CSR into the company is seen as a strategic change (Asgary & Li, 2016). Companies are recommended to create a strategic framework that makes CSR an essential component of their business model (Gond et al., 2012; Shital, 2014).

In general, strategy can be described as the deliberate formulation of goals and plans for achieving them (Andrews, 1980; Ansoff, 1987; Steiner, 1969), or as a pattern of behaviour growing over time based on understanding accomplishments (Jelinek, 1979). Changes to strategy were traditionally designed at the top of the organisation during the formulation stage,

with MC being irrelevant until the implementation stage. Since both stages run together, strategic change is not an isolated event at the beginning of the process; rather it is embedded throughout the process (Chenhall, 2005; Hoskisson et al., 1999). The results show that strategy and MCS demonstrate a two-way relationship. Thus, strategy both shapes and is shaped by MCS (Kober, Ng, & Paul, 2007). Strategic change occurs differently within organisations and is generally classified as either radical or incremental (Kanter, Stein & Jick, 1992; Kotter, 1996; Phillips, 1992). Incremental change refers to small, gradual modifications to current strategies or processes which builds upon competencies already present or relatively easy to acquire within the organisation. Rather than fundamentally changing the organisation's core business, the focus is on improving efficiency and productivity, and therefore associated with lower risks. Radical change on the other hand involves significant, transformative shifts in the organisation's overall strategy. A radical redefinition might enable a company to disrupt the market and achieve a major competitive advantage. The shift can on the other hand be dramatic and upset the organisation by redefining power- and industry structures, core competencies and design (Davila, 2005).

Davila's (2005) framework of incremental and radical change with linkages of control can be applied to any type of strategic change. Davila et al. (2009) argue with empirical evidence that control is detrimental to innovation and strategic change in today's environment. For companies to have a chance to expand and succeed, control over the employees needs to be limited. Innovations and strategic changes in a company can create risks, but also unexpected opportunities (Davila et al., 2009). In these environments of experimenting, failing, succeeding and adapting, the focus is not about eliminating control, but modifying it. Davila et al. (2009) therefore emphasise that in today's highly competitive environment, the effects, design and use of controls are highly fundamental, and companies can no longer rely only on people just to execute a certain strategy.

Although ensuring that an organisation achieves its goals may be considered as the central concern of MC, how it is represented has evolved as the context in which organisations operate has changed (Grabner & Moers, 2013). Conventionally, MCS are viewed as passive instruments that provide information to management. In recent decades, the emerging sociological approaches see MCS as more active, providing individuals with power to achieve their own goals (Malmi & Brown, 2008). Anthony (1965) defined the classic view, which split the realm of control into strategic planning, managerial control, and operational control.

However, this ended up being a more restrictive term than was intended and has caused many different conceptualizations in various ways (Ferreira & Otley, 2009). Some of the most influential conceptualizations of MCS over the years are developed by authors such as Hopwood (1976), Ouchi (1979), Adler and Borys (1996), Alvesson and Kärreman (2004), Malmi and Brown (2008), Simons (1995), Ferreira and Otley (2009) and Merchant and Van der Stede (2012).

How organisations develop strategies or create a competitive advantage through MC are some of the key questions raised (Hutzschenreuter, 2009). Different strategic contexts can be affected differently for firms by the combinations of MC and is crucial for effectiveness (Bedford et al., 2016). Since the concept of strategy has so many facets, it is neither desirable nor feasible to develop a single method of classification that would be useful in every situation. Rather, the challenge is to combine different strategic factors (Kald et al., 2000). The lack of clarity and coherence in how MCS have been conceptualised has led to several research challenges, including the interpretation of findings and the development of MCS to promote strategic change. These theoretical views of MCS offer a sufficiently comprehensive, yet constrained enough, approach for empirically examining the phenomena. Rather than proposing a comprehensive solution to all associated conceptual differences, its goal is to encourage and enable conversation and research in this field (Malmi & Brown, 2008).

### **3.1.2 Simons' Levers of Control**

As strategic change and sustainability have become more prevalent, MC research has expanded to comprehend the usage of formal systems in times of significant change and shows to be a powerful catalyst (Ferreira & Otley, 2004; Simons & Davila, 2021). Instead of focusing on the existence of accounting tools and procedures, it may be possible to gain a deeper understanding of the function of MCS in managing CSR strategy by looking at how they are used (Arjaliès & Mundy, 2013). For this reason, specifically the framework of Simons LOC has been widely applied. Simons (1994) provided a useful broader framework representing a strategic management tool and theoretical framework for comprehending relationships between strategy and control (Martyn et al., 2016; Simons, 1994). He argues that traditional control techniques are ineffective in competitive environments where employee initiative and creativity are crucial to achieve success. Thus, Simons (1994) presented four different LOC that influences behaviour and performance, namely belief systems, interactive control systems, boundary systems and diagnostic control systems (see *Figure 1*). The use of the LOC framework is

appropriate in our study for several reasons. First, it focuses on the use of MCS to promote strategy renewal while also exercising control over the achievement of strategic objectives through the development of CSR (Arjaliès & Ponssard, 2010). Second, a fundamental component of the LOC framework emphasises on how managers ensure that desired strategies are successfully implemented while also remaining open to strategies that develop from other parts of the business (Arjaliès & Mundy, 2013). Third, the framework serves as a tool for analysis when examining how managers apply MCS to address strategic uncertainty, such as sustainability (Arjaliès & Mundy, 2013; Simons, 1995). Furthermore, Sheehan (2006) describes in his paper how the four levers can be used specifically to support strategic change efficiently. He states that managers must first get employees to embrace the firm's belief system to convince them to support the mission of the company before moving on. The four levers work together to align strategy with employees' actual activities (Simons, 2000).

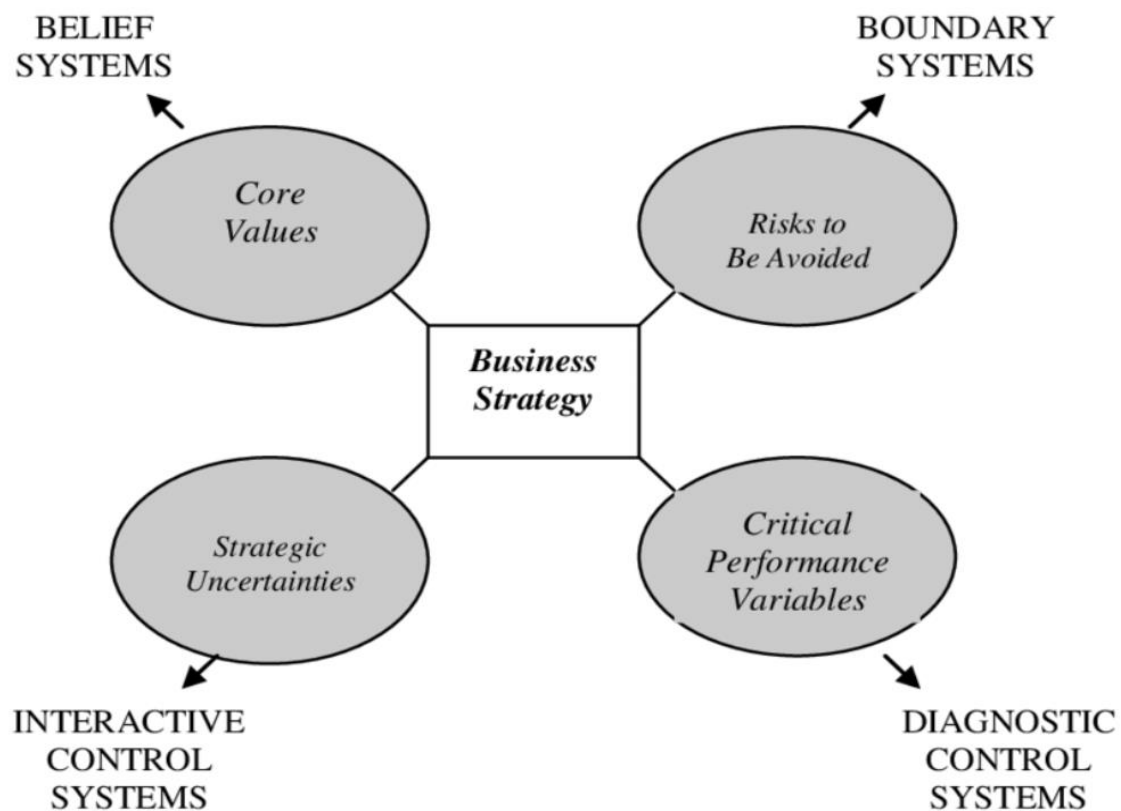


Figure 1: Overview of Simons' LOC framework (Simons, 1994; 1995).

*Belief systems* use guiding behaviour controls that serve to inspire and show the path of new value-creating directions. They are a set of organisational definitions that managers use to communicate formal values, purposes and directions of the company through e.g., mission- and

purpose statements. This lever is useful to ensure that employees are motivated and aligned with these values (Ahrens & Chapman, 2004; Simons, 1995). By using formal beliefs, the actions are intended to increase commitment and provide stability. Individuals are intrinsically motivated by commitments and the pursuit of personal fulfilment. In an organisational context it implies a high willingness to achieve the goals of the company (Simons, 1994; 1995). Regarding strategic change to sustainability, belief systems promote stability and continuity when managers utilise it to implement new CSR goals or values (Bruining, Bonnet & Wright, 2004; Laguir et al., 2019; Simons, 1995). While strong belief systems provide a competitive advantage in implementation, organisations may suffer when faced with discontinuous change. Managers must therefore closely monitor strategic uncertainties that may invalidate the strategy if organisations are to be successful in the long run (Sheehan, 2006).

Closely intertwined with the belief systems are the *interactive control systems*. They are used to facilitate dialogue and communication through different parts of the organisation. In order to find new ways to manage strategic uncertainties, managers need to collaborate closely with their employees, learn from them and involve them in decision-making (Laguir et al., 2019; Simons, 1994). The employees should be encouraged to question the directions the organisation is facing and discuss creative ideas. By making a control system interactive, it can serve as a powerful tool for managers to shape the actions of the company and eventually lead to a competitive advantage (Simons, 1994). With closer communication, interactive systems can therefore enable managers to obtain a deeper understanding of opportunities and capabilities while also communicating the organisation's strategic priorities to employees (Miles, Munilla & Darroch, 2006; Simons, 1995). Companies that can proactively identify environmental developments and update their strategies serve the organisation's benefits (Sheehan, 2006; Sheth and Sisodia, 2005). Managers need to interact by holding regular face-to-face meetings with employees at different levels to receive their feedback on the drivers of change. These discussions should lead to new strategies and activities, such as CSR activities (Simons, 2000).

Designed to guarantee predictable goal achievement, *diagnostic control systems* consist of feedback systems that form the core of traditional MC. With the purpose of holding employees accountable, they are provided with incentives to motivate them to achieve pre-set goals or standards. Deviations are easily identified with a functioning control system and actions can be taken in the right time to fulfil desired performance levels. Examples of diagnostic controls

include performance management systems and initiatives, with tools such as monthly and quarterly budgets and exception reports (Simons, 1994). In the integration and implementation of a CSR strategy, diagnostic controls can aid in measuring and monitoring outcomes of the strategy as well as guide and correct actions by setting CSR objectives, goals and targets. Providing guidance for employees as they work towards common goals allows for advances on strategic policies to be evaluated against critical performance variables, including both financial and non-financial accomplishments as well as comparative data on competitors (Ittner & Larcker, 2003).

Lastly, to help establish limits within the firm are the *boundary systems*. In contrast to belief systems, boundary systems do not have the similar positive ideals specified. This lever is focused on preventing undesirable or unethical employee behaviour. Acceptable behaviour requires well defined and enforced boundaries through a set of rules or operating procedures such as Codes of Conduct (COC), operating directives, strategic planning systems or policies (Laguir et al., 2019; Simons, 1995). In the context of a CSR strategy, certain sustainability frameworks and guidelines can serve as a boundary for employees which is especially relevant for organisations operating in dangerous environments or have high compliance and regulation requirements. Managers are faced with the dilemma of dictating what their employees should do and to which extent they can rely on their individual commitment and creativity. Thus, boundary systems can be seen as negative or limiting, but they give managers room to delegate decision-making and allow the organisation to achieve full flexibility and creativity (Simons, 1994; 1995).

### **3.1.3 Combination of formal and informal controls**

While the main framework used to achieve our research purpose is based on Simon's (1995) formal LOC, MCS consist of both formal and informal controls. Formal controls are used to influence employees to implement the organisation's strategy, while informal systems promote interactions within the organisation through free information flow and flexibility (Simons, 1994). As the formal controls are consciously communicated rules and practices deliberately designed to direct employee attention, they are usually more visible than the informal controls. Despite this, informal controls are considered to be at least as effective as formal ones (Bedford et al., 2016; Laguir, 2019; Ouchi, 1979). In fact, both controls are shown to support one another and collectively have a favourable impact on performance. Informal controls can buffer the adaptive constraints of formal controls, thus significantly modifying the link between formal



controls and alliance outcomes (Stouthuysen, Slabbinck & Roodhooft, 2017). There is little empirical research and knowledge about the extent to which formal and informal controls support organisations in their efforts to achieve their objectives, particularly in the area of sustainability (Gond et al., 2012, Guenther, Endrikat & Guenther, 2016, Maas, Schaltegger & Crutzen, 2016). Crutzen, Zvezdov & Schaltegger, (2017) explores the interfaces between formal and informal controls in a sustainability context and suggest that informal controls act as a first step where managers try to motivate and involve all employees. When a solid foundation of shared awareness and motivation for sustainability has been developed, actions of implementing harsher, more formalised ways to manage the employees can be applied. However, a lack of formal MC could cause problems for managers in terms of pursuing CSR goals when these are not reflected formally (Crutzen et al., 2017). This demonstrates the complex relationship between these embedded co-existing controls and that individual controls cannot operate in isolation (Cardinal, Sitkin & Long, 2010; Kreutzer, Cardinal, Walter & Lechner, 2016).

Researchers have found that combining controls is particularly useful when investigating how MCS influence aspects of organisational life such as integration and implementation of a CSR strategy (Naranjo-Gil & Hartmann, 2006). To address research concerns on complicated control settings involving both employee autonomy and manager attention patterns, the framework of Simons' LOC alongside with the theory of coercive and enabling control by Adler and Borys (1996) have been widely applied. As proposed by Adler and Borys (1996), enabling controls are used to motivate dedicated employees to accomplish their tasks more successfully, reinforce their dedication, empower and involve them whilst coercive controls refer to control mechanisms used to coerce people to work hard and comply. A valuable connection has been found between coercive/enabling control and the diagnostic/interactive control levers (Ahrens & Chapman, 2004; Bisbe, Kruis, & Madini, 2019; Ferreira & Otley, 2009). While the characteristics of the diagnostic lever can reflect coercive control, the interactive lever can express enabling control. Organisations coerce employees to conduct the organisation's strategy by using the controlling characteristics of diagnostic and boundary systems, namely goals and rules. On the other hand, they exploit the enabling characteristics of belief and interactive systems to generate debate and inspire employees (Ahrens & Chapman, 2004). In addition, Mundy (2010) emphasises the need for balanced enabling and coercive controls. He states that both diagnostic and interactive controls can be used in a coercive or enabling way, always depending on the design of the controls. Previous studies

confirmed that these categorizations support the rationality and understanding of assessing complex MCS situations by providing a broader, holistic and effective strategy than used alone (Bisbe et al., 2019).

In summary, MCS can be used and designed in different combinations and contexts. Informal controls may support or undermine formal controls (Norris & O'Dwyer, 2004). When formal controls are planned and implemented with an emphasis on facilitating rather than coercive capabilities, they fit well into more flexible adaptive control cultures and are consistent with informal controls (Adler & Borys, 1996; Crutzen et al., 2017). For example, informal controls are considered coherent with formal controls when their ideals and norms foster behaviours that improve the organisation's goals and values. This congruency of controls encourages managers and employees to act in ways that reflect these goals (Bedford et al., 2016; Falkenberg and Herremans, 1995; Laguir et al., 2019). Thus, managers need to be careful when combining different controls (Tiwana, 2010). In our study, we consider MCS to be any controls that are critical and utilised in ensuring that CSR operations are integrated into the business and investigate to which extent they are used and combined.

### **3.2. Empirical evidence on integrating CSR in a strategy through MCS**

Researchers have observed a lack of empirical evidence focusing on techniques to incorporate CSR or sustainability into MCS (Adams & Larrinaga-González, 2007; Albelda, 2011; Gond et al., 2012). As a result, research has been conducted to study how corporations promote CSR activities within the organisation using both formal and informal controls. These studies have demonstrated that these need to work together to enhance the implementation of CSR activities (Durden, 2008; Norris & O'Dwyer, 2004; Riccaboni & Leone, 2010). The LOC framework's possibility to work as an analytical tool and language for explaining a package or set of controls has resulted in a broadening of the range of issues examined by qualitative studies. Topics that were unlikely to be analysed in organisations when the framework was developed are now in the forefront (Martyn, Sweeney & Curtis, 2016). An examination of previous research on empirical studies of MCS practices in relation to CSR shows that the interplay and use of diverse MC supports and enhances the integration and implementation of CSR strategies in the overall business strategy.

Norris and O'Dwyer (2004) analysed the impact of formal and informal controls on socially oriented management decisions based on a case study of a large UK firm and concluded that informal controls have a strong influence on managers' socially responsible decision-making. Another study by Durden (2008) examined the measurement and monitoring of social responsibility in MCS using a single in-depth case study of a small manufacturing company in New Zealand. According to his findings, both formal and informal controls play an essential role in addressing social responsibility. Lueg and Radlach (2016) examined whether and how MCS plays a role in the implementation of sustainability strategies. By using the framework of Malmi and Brown (2008), they support the finding of Durden (2008). Especially cybernetic controls (e.g., budgets and financial measurement systems) are the preferred MCS while researchers found disagreements regarding the application of culture controls (e.g., values and social norms) (Lueg & Radlach, 2016). These findings were also substantiated by the study of Crutzen et al. (2017), who examined the extent to which large firms have developed a package of formal and informal MC and based on semi-structured interviews with each firm's sustainability manager, observed patterns of sustainability control were theorised. The results show that companies that mainly use formal controls have limited cultural controls and vice versa. Another study by Riccaboni and Leone (2010) also investigate in their case study how formal and informal controls are used to ensure an effective implementation of sustainability as a strategy. By using a multinational company as an example, they concluded that the integration of formal and informal controls with existing traditional monitoring systems is decisive for the implementation of a sustainability strategy.

Furthermore, Arjaliès and Mundy (2013) studied the role of formal MCS in the social and environmental activities of the largest French public companies using data collected through a questionnaire. They demonstrate in their paper the utility of the LOC in controlling CSR and how various control systems are utilised as levers to manage strategic variables. Analysing the use, rather than the existence, of certain accounting tools and methods is crucial in understanding the role of MCS in managing CSR strategy (Arjaliès & Mundy, 2013). The organisations covered in this study share a common vision regarding sustainability and are working across the company to communicate their sustainability mission. Thus, sustainability becomes part of the belief system. To manage sustainability risks boundary systems are used and include definitions of appropriate (e.g., reducing carbon emissions) and prohibited activities (e.g., purchasing from suppliers that violate labour regulations). Diagnostic controls consist of sustainability KPIs to measure sustainable development (Arjaliès & Mundy, 2013).

Hosoda and Suzuki (2015) addressed how managers in Japan use MCS to implement CSR. Employee dedication, a consensus decision-making process, and long-term management were shown to be Japanese management's attributes that improved the MCS approach. When these variables are realised collaboratively using the MCS approach, the contradiction between achieving financial goals and implementing CSR is eliminated. Environmental and social goals were explicitly integrated in most of the companies that did not encounter conflict to achieve CSR achievements throughout the firm under the organisational climate dictated by informal controls systems (Hosoda & Suzuki, 2015). By using Simons' LOC framework, Gond et al. (2012) concluded in their study that MCS are necessary to integrate sustainability as a strategy. This conclusion is supported by the longitudinal study from Beusch et al. (2022) who identified that sustainability can be managed through incremental changes in MCS.

Moreover in 2019, Laguir et al. investigated in their case study of ten large French organisations how they implement and manage CSR activities through informal and formal MCS using Simons' LOC framework. They discovered that belief systems play a significant role in imparting CSR culture to employees. Social MCS are used to communicate the company's CSR values, assess CSR activities, manage risks and identify opportunities and threats, which helps them become more conscious of their company's CSR culture. A strong CSR culture in turn raised organisational performance by appealing to the ideals and values of significant stakeholders through meaningful and unified goals. Boundary systems further help manage risks, determine strategic priorities, and ensure regulatory compliance. Diagnostic systems are used to examine CSR achievements, measure how close businesses are to reaching their strategic goals and give stakeholders feedback on the results of their CSR operations. Finally, the interactive systems discover innovations, opportunities, and uncertainties, which can then drive CSR initiatives aimed at key stakeholder groups. These findings are supported by Arjaliès and Mundy (2013) and Hosoda (2018) who point out that interactive controls are used to promote CSR activities through dialogue between managers, employees and external stakeholders to implement their opinions. The findings showed that informal systems and controls are emphasised to enhance organisational values, encourage behaviours that are in line with CSR activities, and to maintain the formal MCS (Laguir et al., 2019).

Simons' LOC framework was furthermore applied by Bhuiyan et al. (2022) to investigate the association between MCS and CSR use using a survey of 201 Bangladeshi firms. While the results from Laguir et al. (2019) and Arjaliès and Mundy (2013) found that companies use belief systems to communicate CSR values to employees and fulfil stakeholder expectations,

their study contradicted this. Bhuiyan et al. (2022) surprisingly showed that belief systems in the areas of accountability to external stakeholders and compliance with certain science and technology requirements have a direct negative effect on CSR use. However, the other three LOC demonstrate a direct positive effect on the use of these CSR dimensions (Bhuiyan et al., 2022). Within the boundary systems, organisations can motivate employees to pay attention to customer needs, develop market intelligence, and facilitate organisational coordination by developing a COC. Therefore, this lever in Bhuiyan's study indicated that the boundary systems had a positive effect on multiple CSR dimensions, such as market orientation, accountability to stakeholders and environmental, occupational and public health and safety (Bhuiyan et al., 2022). Additional evidence of a direct relationship suggests that a strict COC and risk analysis procedure (i.e., boundary systems) supports the implementation of CSR through enhanced control (Mundy, 2010). Furthermore, Bhuiyan et al. (2022) discovered that the diagnostic use of controls was positively associated with several CSR dimensions, except accountability to external stakeholders, in contrast to prior studies that reported a negative association between the diagnostic use of controls and firm outcomes (Guenther & Heinicke, 2019). These findings are in line with Laguir et al. (2019) who suggest that a diagnostic use of controls can support CSR by placing CSR at the centre of employees' performance goals. Lastly, the findings indicate a significant influence on multiple CSR dimensions in translating stakeholders' opinions into CSR use through the interactive lever. Compatible with the findings of e.g., Hosoda (2018), firms should ensure that all managers communicate, interact, and meet face-to-face on a regular basis to enhance the use of CSR (Bhuiyan et al., 2022).

In summary, research has found limited empirical evidence supporting the use of MCS to integrate and implement sustainability. Various studies have examined the role of different controls in managing CSR, showing that MC supports and enhances the integration of CSR strategies in the overall business strategy. The use of Simons' LOC framework has been found to be helpful in managing strategic change such as CSR. However, the empirical evidence is contradictory and disagreeing in the sense of how controls are used to enhance it, especially the use of belief systems. For this reason, our study takes an MC perspective to identify how firms in Sweden have successfully managed the strategic change and integrated and implemented sustainability as a strategy.

## 4. EMPIRICAL FINDINGS

This section presents the empirical findings of the multiple-case study. These were codified and sorted into five main categories, which were defined according to Simons' LOC (1995): "Integration of CSR strategy", "Implementing CSR through belief systems", "Implementing CSR through interactive control", "Implementing CSR through diagnostic control systems" and "Implementing CSR through boundary systems". These categories contain the information from the interviews. In addition, secondary sources, such as the companies' sustainability report and formal documents, were used as supplementary sources in this section. It should be noted that, due to confidentiality, no specific details of the companies are disclosed. In accordance with the purpose of this study, the findings first deal with the integration of the CSR strategy into the general business strategy, before the implementation of the CSR activities into practice by MCS is presented. For this purpose, Simon's formal LOC is used as a framework and extended with informal controls and enabling and coercive controls, as these are embedded in the individual levers, so that the individual categories present findings in both the formal and informal controls. The categories contain cross-case analyses, in which the individual companies are compared with each other. The results are identical in many of the companies. We have established that there is a strong common factor among the companies regarding the level of CSR integration into operations. However, we noticed that some companies are at different stages in the process of integrating and implementing sustainability as a strategy, despite the high ambitions and actions planned. This is also due to the experience of the individual managers and the point in time at which the companies started their CSR strategy and is also reflected in the companies' positions in the sustainability rankings.

### 4.1. Integration and implementation of CSR strategy

#### Integration of CSR strategy

Overall, our findings indicate that all companies in different extents highly integrate their CSR strategy into their overall business strategy.

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*"We do not have a sustainability strategy; we have a strategy that is sustainable."*

*- C4's manager*

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Several managers argue that sustainability shall be embedded in all operations and therefore serve as an underpinning foundation of the company and core values. While all companies aim

for having it fully integrated, due to the rapid developments within sustainability, the companies are in somewhat different stages of the process. However, it is not perceived as a particularly radical process.

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*“The ambition is to have it completely integrated into our business strategy because we look at sustainability and business as two sides of the same coin. All the initiatives that we do, should support business and are the starting point of every discussion.” - C5’s manager*

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Many managers view the rapid growth of sustainability as a challenge, but also emphasise that a higher outcome can be achieved by ensuring that strategy and sustainability are aligned through co-development with various stakeholders, e.g., suppliers. Operations are extended beyond the organisation, which increases the scrutiny of companies. Therefore, higher demands, dialogues and partnerships are of greater significance. The companies put pressure and demands on their stakeholders to act sustainably, and vice versa the stakeholders have high demands on the companies to act likewise.

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*“Ten years ago, you were focused on your own operations and what you can do with energy savings and waste for the operation. But today, you need to partner up with your suppliers, you need to have a dialogue, communicate, share a joint vision of what you want to achieve together.” - C2’s manager*

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C6 and C7 are specifically in early stages as they are both working with strategy reformation and higher implementation of CSR in their operations. All managers talk about the broader responsibility and impact they have, but also point to the opportunities to be at the forefront and to be highly competitive through their CSR strategy and work.

### Implementing CSR through belief systems

The results from our study show that companies utilise both belief and informal controls to a high extent to implement and emphasise the importance of CSR. The communication takes place through tools and channels such as intranets, company websites, value and vision/mission statements, communication stories on sustainability, introduction- training programmes, e-learnings, workshops as well as corporate culture documents. Several organisations even combine their COC with organisational culture and core value statements in introduction training to highlight that knowledge of and compliance with the core values and organisational

goals are as set as the formal conduct requirements. Since all cases are larger and listed organisations, C1 emphasises the importance of having multiple channels of communication to the employees.

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*“Whether it is through campaigns, posters, notice boards or very regular traditional media you need to have that regular communication, and you need to support that with development programs.” - C1’s manager*

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Four respondents argue that communication to all stakeholders is the main challenge they are facing in the communication of CSR values.

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*“One of the most difficult parts is how to communicate effectively to all your stakeholders. But ideally, everyone should feel included in the work and know what they are contributing to.” - C4’s manager*

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The manager of C6 adds to the difficulties of communicating in additional layers with globally different perspectives on sustainability:

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*“Being a decentralised company with a lot of companies in different countries that have different priorities is a challenge. When sustainability is a very high priority, it is important and most people believe that as well, but other countries have not come that far” - C6’s manager*

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However, despite the overall common view from the managers that communication is tricky, all of them agree that they do not need to invest significantly in measures for motivating the employees to contribute to achieving sustainability goals. C5’s respondent discusses change in motivation and business structures.

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*“From having a push mode, it is quite strong pull mode. To exemplify this is that when I started in sustainability in 2017, I was the first person in the business area or in the divisions who has worked with sustainability. I was the only one and today, we have business area-, division-, and site responsables, dedicated specialists and a group of 50 - 70 people working with sustainability. So, from 2017 to today, extremely quick transitions and changes have happened.” - C5’s manager*

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The manager of C7 expresses the importance of balancing the high expectations and eagerness from the stakeholders to bring sustainability into a business perspective.

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*“Around 80% of the employees are excited about the future or how we can support the transition. And we should use that in the internal processes to enhance the possibilities for us to earn more money. To get customer satisfaction and to get customers to buy your product, you have to score high when it comes to sustainability. Otherwise, they would choose another product from another company that may be scoring higher.” - C7’s manager*

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C4’s manager further discusses how the employees are highly motivated to contribute to sustainability, but regarding work contribution it takes extra effort.

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*“Clearly people want to be involved. But they also need to invest in trying to understand what kind of things they could be contributing with, as opposed to, eating less red meat or not investing in plastic. To really understand in their everyday job, what kind of contribution they could be making, that takes actually a bit of investment to get to that point.” - C4’s manager*

*“There is maybe a small part we need to push much more using the carrot. We need to be creative. How can we inspire and how can we pull people in that direction? And it is constantly driving and educating, constantly driving that level of awareness. Some people seek it out and come looking for it, or we just need to make sure that they get exposed to it in a repeatable way.” - C1’s manager*

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In summary, companies extensively utilise belief and informal controls to implement and emphasise CSR. Communication occurs through various channels and tools. While communication challenges exist, managers agree that significant investment in motivating employees for sustainability goals is not required, as employees demonstrate high motivation to contribute but may need support in understanding their specific role.

#### Implementing CSR through interactive control systems

Closely connected to belief systems, interactive and additionally informal processes are of high importance in the companies interviewed. Both formal (surveys, contracts, stakeholder dialogues, statements and reports) and informal discussions take place to different extents

between departments to facilitate CSR implementation. There are slight differences between companies, either how top-down decisions are taken or how open the feedback channels are. Overall managers consider feedback loops and enable employees to come up with new ideas and concerns. For example, the manager of C2 expresses the importance of being present on all stages throughout the process.

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*“You need to have direct contact and be a part of their operation in combination to raise their awareness, because one of the main things I have experienced is that everyone has heard about sustainability, but they do not really know what it is. In order to tackle that, you need to go out there, have training and workshops with the management team, tweak and turn, look at your operation, where is your impact, what can you do and so on. And based on that, we get good insights and input on how to improve.” - C2’s manager*

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Feedback channels such as whistleblower systems, intranet feedback boxes and encouraged contact are frequent in the companies. Additionally, C3’s manager exhibits the range of input and engagement an open communication can facilitate in strategic uncertainties.

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*“Feedback is done in so many different ways, by communicating with their manager at the local level, or the corporate level, if there are serious breaches, but also on the smaller issues and it is all about having a transparent culture. That is also one part of our core values, honest and humble communication. But of course, in a large company it can be hard to actually make sure at all different levels.” - C3’s manager*

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However, C4 and C6 do not have a formal channel developed yet.

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*“My personal vision is that I want people that are the most capable to think about how they solve problems. Because you can give a suggestion that we stopped using paper cups in the office, but that is not the thing that we want to really dig into. The people that are the best at what they do should figure out how to solve the problems.”- C4’s manager*

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Instead, C4 encourages unit managers to involve employees in their operations but generally has no formal and informal channel at any level, while C6 still encourages feedback informally.

In contrast, at other companies, employees at any level are encouraged to input. Through interactive systems, the firms further use formal and informal information exchange between all stakeholders and managers to achieve meaningful feedback loops. Exchanges and engagements such as requests for quotation, questionnaires, wish- or demand lists, presentations, interviews, networks served as communication- and feedback channels for other stakeholders such as suppliers, customers and investors. C5's manager exemplifies the importance of these dialogues.

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*“Either we have the direct interaction with them where they have a list of demands or wishes and that is a really quick feedback loop. And we get questionnaires from direct dialogues. And from those we adapt, but we try not to be reactive, it is much better to be proactive. Because if we instead say everything is in place, just buy our stuff, it makes life much simpler. If you are always trying to catch up, then the risk is that competition is ahead of you, we want to be ahead and instead drive the change for the customer.” - C5's manager*

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All companies agree on having weekly or monthly check-ins and the extent of feedback depending on the size of the stakeholder while managing their expectations. Furthermore, these communications serve to be meaningful in the identification of strategic uncertainties harmful for the organisation.

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*“I am talking about sustainability with geeks around the world, looking, what are they discussing? What are the topics, what is written in the books, what are the articles in magazines? And then you have these internal discussions where I get feedback from the businesses. What did you think? What did your customers talk to you about?” - C5's manager*

*“Regularly we get letters from some of the big investors, and they have expectations, so they are going to call in a month. So, we have a little kind of a back-and-forth communication. Because they want everything straight away as well, but this is going to take time to build up. And if it takes time to build up, it is real and sustainable. Otherwise, you are going to see that it is going to fall apart quite quickly.” - C1's manager*

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In conclusion, both formal and informal discussions occur, with managers encouraging feedback loops and idea exchanges. Various stakeholder engagements facilitate communication and meaningful input with suppliers, customers, and investors which play a crucial role in identifying strategic uncertainties and managing expectations and opportunities. Besides the stakeholders providing essential feedback to benefit the organisation, their engagement is crucial to support the implementation of sustainable development. Managers discuss this new way of co-development between stakeholders, such as suppliers, and the company as a channel where both can work to achieve joint CSR goals. To function sustainably, the firm puts pressure on its stakeholders. In turn, the stakeholders have high expectations of the company.

### Implementing CSR through diagnostic control systems

All interviewed companies use diagnostic, informal and coercive control systems to implement and monitor CSR activities. Various objectives, targets and concrete measures are used to implement sustainability goals that address both environmental and social aspects. These are used for steering and reported both internally and externally and can vary depending on the business area. Objectives and targets are in some cases used to coerce employees to carry the strategy and to reach the targets. All companies report their KPIs through their annual sustainability report. Most companies have integrated it into their annual report, only a few publish a separate report. Everyone is fully encouraged and enabled to contribute to the achievement of these targets.

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*"It has to be ensured that sustainability issues are integrated into the daily operations and contribute to efficiency enhancements." - C2's manager*

*"KPIs are generally aligned with the sustainability targets. We have some targets irrelevant to certain business areas and some uniquely specific for certain business areas. Some examples are to increase waste circularity, reduce water consumption, reduce total diversity and inclusion rates, recordable injury frequency rate and share of female managers." - C5's manager*

*"All KPIs are divided into environmental and social KPIs and monitored if they are on track or if there is a need for action. These include carbon footprint, energy and water intensity, hazardous waste intensity, injury rate or gender equality. It is a materiality perspective, which has the biggest impact? That is where we focus*

*our attention. It is under everybody's jurisdiction, depending on where they have the biggest impact." - C1's manager*

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Employee satisfaction is also among the most relevant KPIs, according to C3's manager. Companies have set targets up to certain years as a way to monitor performance annually. Many of the companies have set these targets to 5-10 years. These KPIs are mostly similar for all companies studied, but with different specific targets. A difference between the cases is the amount of KPIs that are used to monitor the performance. These are reported and monitored annually, but also quarterly or even monthly (on unit basis for C2) for some companies.

*"We review these KPIs every quarter and then we have focus sessions in between. We have a deep dive into each division and want to follow up every quarter. We are not always at that fluid level. It takes time to get there." - C1's manager*

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To further encourage the employees, the companies also applied incentives and bonuses in different approaches when certain sustainability targets are achieved to improve the effectiveness of their CSR strategies, usually both on short-and long-term perspectives. According to C1 and C5's manager, they engage employees through competitions and awards regarding CSR. If there is no financial incentive in place, the firms use corrective measures and keep the employees on track. However, sanctions are not applied by any company.

*"We have a sustainability award that we give out at every annual general meeting based on our set of criteria and has done something proven related to sustainability. To motivate them, provoke them, but also, showcase the importance of it." - C5's manager*

*"You need to put actions in place to be in line with the target. So, if you are doing what you are required to do, you do not have any sanctions, but on the other hand, you have to take corrective actions to be back on track again." - C3's manager*

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In general, bonuses and incentives differ and are often only applied at management level (e.g., at C1, C4 and C6). As C7 is still in an early stage, no incentives linked to specific targets are established yet.

*"We certainly have incentives. And that typically goes down through a management structure. The heads of divisions have sustainability targets as part of their bonus*

*structure. The same for operations management, down to supervisory level. There is only a bonus down to a certain level within the organisation, but not for every single employee." - C1's manager*

*"We have long-term and short-term incentives; they are connected to the strategy which includes sustainability. So, you need to work on everything. And if you sort of fall short towards sustainability, that will impact your overall incentive." - C5's manager*

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C5 has no separate sustainability targets for employees as these targets are already included in the overall business targets. All companies base their indicators on the standards proposed in various frameworks, such as UN Sustainable Development Goals (SDG), CSRD or ESG objectives. Many of the managers highlight that the social and environmental indicators can be measured and aligned with the company's financial performance.

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*"The most direct impact on financial performance is through reduced energy and water consumption which have a big impact on our EBIT."- C1's manager*

*"With a lower carbon footprint, we can see increased sales for these product groups. We can also see an indirect effect from the investor perspective if you show a good ESG performance." - C2's manager*

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Furthermore, diagnostic controls are used to identify and address sustainability risks and opportunities. Scenario analyses and materiality analyses are conducted by all companies to understand financial risks and opportunities for the group regarding sustainability.

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*"The materiality analysis helps to identify the most important sustainability issues and lays the foundation for priorities and long-term targets both for our stakeholders and our own interests, financially, environmentally and socially."  
- C3's manager*

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For example, C1 has a task force on climate-related financial disclosures to enable us to identify those risks and opportunities. This involves a series of workshops with heads of different functions. Many companies analyse the financial impact and consider legal risks (regulatory issues).

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*"Legislation is not just about reporting; it is about becoming better." - C5's manager*

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But opportunities are also identified through market analysis to gain a competitive advantage. Company C5 and C4 also look at the general industry trend and conduct stakeholder conversations to identify relevant topics. Most companies see the risks as a chance to benefit from and to get an advantage. All organisations interviewed agreed that evaluating CSR activities is essential because it affects not only how prominent a company's CSR behaviour is to its key stakeholders, but also how profitable a company is.

#### Implementing CSR through boundary systems

Several organisations in this study mobilised boundary systems, coercive controls as well as informal systems to comply with regulations, manage risks and set limits on certain behaviour. All companies have specific policies and guidelines that serve as the basis for all employee activities. These include internal and external frameworks, such as UN Global compact principles, UN Guiding principles on Business and Human Rights, Sustainability Accounting Standards Board (SASB), Task Force on Climate-related Financial Disclosures (TCFD), SDG, GRI guidelines, CSRD, Corporate Sustainability Due Diligence (CSDD) Directive, which help to identify and minimise risks.

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*"Our sustainability policy sets the overarching direction and ambition of what we stand for, which is a mandatory internal document that the group follows." - C5's manager*

*"You can say that everything is connected with these cornerstones. And that is the basis of the sustainability strategy, the background and pillars of the company."  
- C3's manager*

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However, C7's manager expresses the importance of formal principles such as SDGs and Agenda 2030 as an initial guideline and basis but emphasises the challenge of making it realised and tangible for the employees in later stages. Additionally, C7 applies a framework for sustaining strategic sustainable development to assess their activities and concretize the goals and limits for the employees.

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*“When I began, we had the approach and vision that we work towards sustainability with the SDGs as a guideline, and that is perfectly fine as a beginning, but very few people know what that is, and it is not the way you will become fully sustainable. But if we make a vision that is quite easy to understand and we approach it step by step where we also analyse the current situation, that is a start.” - C7’s manager*

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In addition, all companies have a COC, which is built on the internal core values and external principles (e.g., business ethics, communication, human rights and labour standards, the environment, and health and safety) that describes the principles of behaviour that all our employees should aspire to, provides practical guidance in actions and everyday business decisions and ensure compliance with core values and principles. These guidelines and procedures also function to coerce employees not to exceed certain limits and boundaries.

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*“There is zero tolerance with our Code of Conduct. That's our absolute minimum and everybody signs it. It is our foundation. We have the same request for our business partners (e.g., suppliers) with the business partner Code of Conduct.”*  
*- C1’s manager*

*“The Code of Conduct is revised every year and we take any breach of it seriously.”*  
*- C7’s manager*

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C6 and C7 implements sustainability throughout the entire value chain, from material selection to reparation and recycling, in compliance with its ethical guidelines for suppliers. Our overall empirical findings are summarised in *Table 2*.



MCS	Purpose	Main findings
<b>Belief systems</b>	<ul style="list-style-type: none"> <li>• Communication of core values and creation of CSR culture.</li> </ul>	<ul style="list-style-type: none"> <li>• Companies prioritize belief systems and informal controls to implement and emphasize CSR.</li> <li>• Employees are intrinsically motivated, and a shared vision and common goals foster a strong sustainability culture.</li> <li>• Communication is key, using various tools and channels.</li> <li>• Examples: intranets, company websites, value statements, communication stories on sustainability, training programs, workshops, and corporate culture documents.</li> </ul>
<b>Interactive controls</b>	<ul style="list-style-type: none"> <li>• Identification and management of strategic uncertainties and opportunities.</li> </ul>	<ul style="list-style-type: none"> <li>• Companies underline feedback loops, open communication, and engagement with all stakeholders.</li> <li>• Regular communication and input help identify strategic uncertainties and improve CSR strategies.</li> <li>• The involvement of stakeholders enhances credibility, employee engagement, and overall organizational effectiveness in sustainability practices.</li> </ul>
<b>Diagnostic controls</b>	<ul style="list-style-type: none"> <li>• Measurement and monitoring of CSR activities against specific targets to evaluate and adjust performance.</li> </ul>	<ul style="list-style-type: none"> <li>• Companies implement CSR activities with objectives, targets and concrete measures to manage sustainability performance, evaluate the achievement of strategic goals related to employees, give incentives and provide feedback to different stakeholders on the results of these CSR activities.</li> <li>• Incentives are mainly provided to top-management positions. Through these systems companies monitor sustainability indicators and are able to adjust activities in an efficient manner.</li> </ul>
<b>Boundary systems</b>	<ul style="list-style-type: none"> <li>• Compliance with regulations, management of risks and setting limits.</li> </ul>	<ul style="list-style-type: none"> <li>• Internal and external frameworks are applied to identify and manage risks as well as provide guidance for appropriate and inappropriate behaviour of employees and external stakeholders.</li> <li>• Examples: COC, UN Global compact principles, SASB, TCFD, SDG, GRI guidelines, CSRD, CSDD and others.</li> </ul>

Table 2: Summary of the mobilised formal and informal controls.

## 4.2. Comparison of cases

The findings from our case study indicate that the investigated companies integrate CSR into their business strategy and apply all formal LOC as well as informal controls to implement CSR activities into practice. In terms of the integration stages, C1-C4 are in a more progressed stage than the other companies. The first-mentioned companies experience a realised strategy where CSR is fully embedded in their overall business strategy. C5-C7 however, which are in a lower placement on the ranking, have ambitions and actions planned to reach that stage, but have not yet undergone a complete integration. All the companies put high emphasis on communicating the vision, mission and core values to all employees through different channels and utilise both formal and informal ways to do that. Within *belief systems*, C7 is the only company which does not possess a formal channel due to its early transformation stage but is in progress of developing it while applying informal channels such as employee dialogues and meetings. Regarding the application of *interactive systems*, the channels consisting of dialogues

and feedback were generally open and encouraged by the managers interviewed but limited in two companies. C4 and C6 do not have a formal channel developed yet. Instead, C4 encourages the unit managers to involve employees in their operations, while C6 still encourages feedback informally. In the *diagnostic lever* all seven companies have measures, goals and targets to implement and monitor CSR activities and overall agree on similar KPIs. In the achievement of these targets, most companies apply financial incentives to motivate the employees, but in different types and to different extents. C1, C4 and C6 apply financial incentives, but only to a certain level, such as a unit management level but not for all employees. As C7 is still in an early stage, no incentives linked to specific targets are established yet but aimed to be. In the *boundary lever*, all companies have specific policies and guidelines that serve as the basis and limits for all employee activities. C7, however, slightly differs in terms of their view on formal principles as being intangible to the employees, in contrast to the other companies which more or less view these principles as cornerstones of the business. Lastly, *informal controls* were used extensively by all companies, especially those that are still at an early stage of integrating and implementing CSR into the business.

Although formal controls are of high importance, our findings show that companies particularly use informal controls and communication through belief systems (e.g., value and vision/mission statements and introduction training) as a start to move to the next step in the process. Furthermore, the relationship between these controls is highly embedded in the overall process and are closely linked in the achievement of a successful strategy. The companies make it clear that their approach is successful and has a positive effect on the company's success and creates benefits for all stakeholders.

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*"If you have done a good work with regard to sustainability, if you are in the front line, then you are really competitive, because more and more customers have these requirements. So being in the forefront is really a competitive advantage." - C3's manager*

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Nevertheless, differences can be seen in the application of the various controls. Belief systems, however, play a crucial role in implementation for all companies and can be seen as a starting point for such. Especially when updating the strategy, companies see belief systems with the communication of core values as necessary to get all employees on board.

## 5. DISCUSSION

We studied the use of formal and informal MCS to integrate and implement a sustainability strategy at different Swedish companies. The discussion of our findings is structured as follows: First, we summarise the main results from the findings part. Then we discuss how the companies communicate values and create a sustainable culture to foster the implementation of sustainability into its daily operations. Further, we discuss how strategic uncertainties and opportunities are identified. Moreover, we discuss how CSR activities are measured and evaluated and how risks are managed through guidelines and frameworks. All findings are compared to the findings of other research. Our contribution to existing literature is then presented and thereafter we identify implications for practitioners. Finally, we discuss limitations of our study and research opportunities.

### 5.1. Integration and implementation of sustainability

#### Summary of findings

With reference to the research purpose, the case study suggests that MCS are highly used by all companies to integrate their CSR strategy into their overall business strategy and implement CSR activities, relying upon both formal and informal controls. The data indicate that the companies mobilise all LOC. They create a strong CSR culture by communicating core values to employees through mission statements, training, workshops, etc. (belief systems). Moreover, the companies use dialogues (interactive controls) to involve employees and external stakeholders in the development of CSR practices to identify strategic uncertainties (co-development of practices). With the use of objectives, targets and measures companies implement and monitor CSR activities (diagnostic controls) and provide guidance for appropriate and inappropriate behaviour through COCs, guidelines and policies (boundary systems). Overall, the companies use a combination of informal and formal controls as well as enabling (providing autonomy) and coercive controls (strict targets and limits) to establish their specific values and purpose and communicate them to their employees.

#### Communication and creation of shared CSR values

The results indicate that all firms put high importance and investments in different types of communication of core values throughout the entire organisation using belief systems and informal controls. Through a variety of communication controls each company raises

awareness of the influence of CSR on business activities, for example through the sustainability communication stories or the various trainings. Thus, belief systems are used to develop commitment and drive the employees to achieve the firm's sustainability goals. Moreover, firms utilise belief systems to enhance awareness for all stakeholders regarding their personal efforts in environmental contexts. Belief systems are activated through the distribution of objectives through linking individual activities to larger CSR topics. Formal documents are intertwined with informal as both eventually aim for achieving the company's CSR objectives. Although communication occurs regularly, the heavy emphasis on belief systems and informal controls in initial deployment activities indicates that managers must get everyone on board before proceeding with other activities. This is in line with the idea of belief systems introduced by Simons (1995). By getting everyone agreed upon and motivated towards the same goals it enhances their commitment. A shared vision and common goals also develop a strong sustainability culture, which in turn guides the employees' behaviour, efforts and priorities.

We found that transparent communication and formal statements (i.e., mission statements, policies, and COCs) are used to communicate sustainability as a strategy. This is also supported by Simons' (1995; 2000) concept of the importance of belief systems as a starting point for strategic change. While our findings, supported by other studies (e.g., Arjaliès & Mundy, 2013; Hosoda, 2018; Laguir et al., 2019), show that belief systems are used to communicate CSR values to employees and to meet stakeholder expectations, Bhuiyan et al. (2022) come to a contrary conclusion. They have found that the use of belief systems has a negative direct impact on CSR use, especially in terms of accountability to external stakeholders. Thus, as core values become more prevalent throughout the organisation, accountability to external stakeholders decreases significantly. The authors themselves did not find a clear interpretation of the results. Potential reasons may include, on the one hand, the use of surveys that do not provide a deeper insight into corporate convictions and, on the other hand, the selection of companies from Bangladesh where stakeholders may have different priorities. Our case study contradicts these results. Thus, it is crucial to note the cultural impact, as all our companies are based in Sweden. This cultural contingency may have an influence on the use of certain MCS and requires further research. Furthermore, it must be emphasised that we have deliberately taken companies out of a sustainability ranking, which therefore already have strong corporate sustainability initiatives. One of the companies has not yet introduced any formal communication channels, but places great emphasis on informal channels. This might be due to the early stage of implementation, in which mainly informal channels are used. Furthermore, this can also be

linked to the position in the sustainability ranking. Companies ranked higher have already introduced a large number of formal channels, while those ranked lower use only a few or only informal channels. That may be a reason for the successful application of belief systems. Belief systems play a key role in communicating CSR values and can also enhance corporate performance by setting meaningful goals that are aligned with stakeholder opinion.

#### Identification of strategic uncertainties and opportunities

From the results we can establish that through interactive processes companies apply both formal and informal channels for all employees and other stakeholders for them to give feedback, but to also help identify weaknesses and strategic uncertainties. When all stakeholders are closely involved in the development of new CSR strategies and practices they are enabled to come up with ideas and input, which further encourages them to be consistent with their core business activities and improve the company's processes (enabling control). Formal discussions about CSR measures with external stakeholders occur for several reasons, such as reputational reasons (e.g., attractive workplace), competitive advantages or legitimacy (in line with Simons, 1994). It is essential for managers to see how the company is perceived externally which can assist them in further improvements and employee engagement. External stakeholders are not just encouraged to conduct formal dialogues, but also informal, similarly to employees. Employees, customers and suppliers appreciate to be heard and involved, which can in turn increase the credibility of the organisation and impression with other stakeholders such as investors. Stakeholder engagement is necessary to promote the implementation of sustainable development in addition to providing the organisation with critical input. Through joint visions regarding CSR, stakeholders and the organisation cooperate to achieve sustainability goals (co-development). Suppliers and the company need to help each other meet certain sustainability requirements and influence behaviour to enhance awareness. The companies will not collaborate with certain suppliers if they are not aware of CSR issues. Similarly, suppliers can also make demands on companies to implement CSR measures. This increases the common knowledge about CSR and especially emphasises the required exchange between both partners. From an enabling control point of view, managers operate through a substantial level of employee autonomy and are given high managerial attentiveness. An effective way to activate interactive processes is to spread useful practices throughout the organisation. Besides involving stakeholders in development of new CSR targets, measures or strategies these dialogues are useful in identifying strategic uncertainties and opportunities (e.g., innovations).

These findings are consistent with those of Arjaliès and Mundy (2013), Bhuiyan et al. (2022), Hosoda (2018) and Laguir et al. (2019) who found that companies use interactive controls to incorporate stakeholder opinions into CSR. As a result, current business issues can be discussed within the company in order to introduce new strategic goals and to be compliant with current regulations. Furthermore, these interactions can be used to identify potential threats as well as opportunities and increase their visibility (Arjaliès & Mundy, 2013; Hosoda, 2018; Laguir et al., 2019). Our findings are also consistent with Simons (1995), who considered the importance of stakeholder interaction to integrate their opinions into the company's own activities. All companies see the high importance of an exchange with different stakeholder groups and illustrate the importance of their opinion for the company's success beyond CSR. Only companies in the early stages do not have a formal dialogue channel yet, as other controls are more relevant at this stage. Furthermore, communication with the help of interactive controls can create shared values that strengthen the implementation of CSR activities and further reinforce these controls (Crutzen et al., 2017).

#### Measurement and evaluation of CSR activities

Our study demonstrates that companies implement CSR activities through diagnostic controls. These help companies assess the CSR activities of the employees, evaluate their achievement of strategic goals, provide incentives and give feedback to management, employees, and external stakeholders on the results of these activities. The study also reveals that these companies use diagnostic systems to conduct environment-related CSR activities. Through the diagnostic control systems, sustainability indicators can be monitored, prioritised and, if necessary, adjusted in an efficient manner, thus serving the companies in the implementation of their strategy and goals. This is in accordance with Simons' (1994; 1995) concept of diagnostic controls. With diagnostic control systems, targeted decisions can be made that have an impact on both short-term and long-term financial performance and can also generate a competitive advantage. Diagnostic systems thus play a key role when it comes to implementing and controlling CSR activities as well as finding opportunities for improvement.

According to Arjaliès and Mundy (2013), Bhuiyan et al. (2022) and Laguir et al. (2019), diagnostic controls consist of relevant KPIs to measure sustainable development and are used to examine the results of CSR activities to monitor the achievement of strategic goals. In addition, they found that the diagnostic use of controls can promote CSR by aligning employee

expectations with CSR. This is consistent with the findings of our study. Although our results are in line with most studies, there are also contradictory findings. Guenther and Heinicke (2019), based on a survey of 276 mid-sized companies, found a negative association between diagnostic controls and companies' performance. Arjaliès and Mundy (2013) further found that incentives for achieving sustainability KPIs are not widespread. Our analysis shows that most companies have incentive systems. However, these are primarily intended for managerial positions. This could have an impact on the effectiveness of the control systems on employees. Only one company, due to its early stage, has not implemented incentives linked to specific targets yet. In some companies, the incentives are not related to sustainability goals but to business goals in general, which should include sustainability aspects from a given integrated sustainability strategy. Our findings support the statement of Gond et al. (2012) that CSR activities must be measurable to be considered relevant. All companies demonstrate this through accurate KPIs for all three dimensions of CSR. However, they differ in the number of goals and frameworks on which they are based. This can also be explained by the different stages of implementation. Companies in later stages usually have more goals set. These findings are also substantiated by Arjaliès and Mundy (2013), who concluded that success and competitive advantage depend on being able to identify benefits through precise targets and KPIs. In addition, our findings suggest that accurate performance measures can be used to monitor compliance with specific policies and guidelines (in line with Henri & Journeaut, 2010). Consistent with our conclusions regarding boundary systems, diagnostic controls function as coercive controls, by setting clear performance expectations and strict targets, working closely with boundary systems. Nevertheless, diagnostic controls are also designed in an enabling way to encourage employees to take corrective action and to identify sustainability risks and opportunities through scenario and materiality analyses. In addition, they are provided partial autonomy in achieving certain targets. Mundy (2010), in line with our results, emphasises the need for balanced controls as well as that both diagnostic and interactive controls can be used in a coercive or enabling way to support the rationality of MCS. Overall, our findings, supported by numerous studies, show that diagnostic controls can be used intensively to assess actual performance regarding CSR activities and to take corrective action in the event of significant deviations.

#### Managing of risks through guidelines and frameworks

Our study highlights that all companies, in line with Simons (1994; 1995), use boundary systems to implement employee CSR activities through COCs, guidelines, policies and external

frameworks. Only the number of different frameworks and guidelines used varies between the companies. The boundary systems show clear limits and desired behaviour for CSR activities to which employees must adhere. This ensures compliance with regulations and manages strategic priorities and minimises internal risks. Boundary systems are also used to implement CSR activities in all three dimensions and therefore provide guidance for appropriate and inappropriate CSR activities. Further, there are guidelines for sustainable procurement which serve as criteria for the selection of suppliers (e.g., respect for human rights, safe working conditions, compliance with environmental regulations). These can minimise risks throughout the supply chain and sharpen the CSR understanding of their suppliers. For customers, compliance with guidelines and regulations is a sign of product and process quality and can therefore protect the company's reputation.

The strict use of boundary systems facilitates the implementation of CSR activities when permissible and impermissible behaviour is precisely defined. This is also consistent with Simons (1995) and the studies of Arjaliès and Mundy (2013), Bhuiyan et al. (2022), Laguir et al. (2019) and Mundy (2010). Here, boundary systems are mainly applied to avoid risks and to ensure regulatory compliance. Boundary systems can thus be used as a basis for new CSR activities by forcing employees to operate within a certain framework (coercive controls). These controls can be considered as a balancing part to the enabling controls such as interactive controls.

### Realisation of strategic change

In general, our findings are compatible with the findings of other researchers. Strategic change occurs in different ways within companies. For this reason, we have examined the extent to which companies have been exposed to radical or incremental changes in their strategy regarding sustainability. Based on previous research (e.g., Crutzen et al., 2017; Norris & O'Dwyer, 2004) the combination of MC in sustainability contexts have been perceived as an emerging topic and therefore bringing a radical change for the employee's mindset and into the company. Despite several managers bringing up the radical changes that sustainability measures have brought to companies in general, major transformative changes to strategy were not observed within the companies interviewed. A possible reason for the gradual, incremental change might be that our companies are leaders within the area. Managers did not perceive the strategic change as involving major efforts to integrate CSR activities, as the mindset and focus might have been present for a longer time than other companies that do not excel in the area.



For this reason, companies that are less experienced in this area may encounter more difficulties in managing the strategic change. Hence, their execution would require more radical changes to the strategy. Furthermore, as we have deliberately selected leading Swedish companies in the implementation of CSR initiatives, our results can provide valuable insights for the successful integration and implementation of a CSR strategy. It should be mentioned that we did not find significant differences between findings from interviewees in different positions, years in the company/position or industries. Even though some companies are at different stages, all follow the same approach and first integrate CSR in the overall business strategy before implementing CSR activities into practice. The analyses of all companies show that all LOC are essential and that informal controls are highly embedded in the integration as well as implementation. These informal controls reflect the management's emphasis on implementing shared value. According to Ouchi (1979), informal controls are an effective tool for directing the focus of employees toward strategic goals. Although there is evidence that organisations, in some cases, do not use well defined formal controls and instead rely on informal controls to implement CSR activities, our findings indicate that all companies rely on a combination of both controls. To achieve the efficient integration and implementation of a new strategy, both systems with precise definitions of each control should work together (Crutzen et al., 2017; Durden, 2008; Hosoda & Suzuki, 2015; Norris & O'Dwyer, 2004; Ouchi, 1979; Riccaboni & Leone, 2010). Additionally, all companies use enabling controls (providing autonomy) and coercive controls (strict targets and limits) to guide employees' behaviour and to drive the implementation of CSR activities. Further, our findings indicate that belief systems in addition to informal controls are applied as a starting point for getting all employees on board and thereby gaining the support of the other LOC. These results are in line with Sheehan (2006) and Simons (2000) who argue that the four levers work together, but the belief system serve as a crucial start before moving on. Our results thus extend the literature on the influence of different control mechanisms in the integration and implementation of a CSR strategy and illustrate the significant impact of different MCS and their design on the success of the strategic change.

## **5.2. Contribution to existing literature**

This study contributes to the existing literature in several ways. This study shows how companies first integrate sustainability as a strategy before implementing CSR activities into practice through MCS. Additionally, it responds to recent calls to study the implementation of

CSR activities by MCS, thus considering cultural contingencies to increase the external validity of the findings. Moreover, this study provides further insights how formal and informal MCS are used to successfully implement CSR activities and supports the research findings regarding the significant role of MCS in integrating sustainability into the business strategy (Arjaliès & Mundy, 2013; Gond et al., 2012; Laguir et al., 2019). The study also sheds light on the role of MCS in communicating CSR values to an organisation's members and how senior executives (e.g., Head of Sustainability) use various controls to implement and manage CSR activities. Beyond that, the use of the LOC framework shows how companies use MCS to identify and manage risks and opportunities. In addition, the use of a qualitative approach addresses calls for more field-based research in the areas of MCS and CSR (Durden, 2008; Parker, 2005; 2014). By considering only companies from a corporate sustainability ranking, it contributes to how companies with strong external corporate initiatives succeed in implementing sustainability internally using MCS.

### **5.3. Implications for practitioners**

We have deliberately chosen leading Swedish companies in the implementation of CSR initiatives to understand how integration and implementation into practice works successfully. Thus, our findings reveal several implications for practitioners. Companies should first integrate their CSR strategy into their overall business strategy. This approach facilitates the implementation of CSR activities in the second step, as managers thus do not have to install separate MCS due to a single coherent strategy. All formal LOC are essential for a successful integration and implementation of a CSR strategy and informal controls are highly embedded in the integration and implementation. Therefore, managers should use informal controls to communicate shared CSR values to encourage employees' behaviours and thus to strengthen the company's strategic goals through an organisational climate. When combining formal and informal controls, companies must be cautious as informal controls can override the formal ones. Therefore, a precise definition of each control is crucial to overcome implementation problems and that they can support each other in the implementation of CSR activities. With regard to the different stages of implementation, managers should use belief systems in addition to informal controls as a starting point to get all employees on board and thus gain the understanding and support of the other LOC. Especially in the first stage, when it may take some time to establish shared values, it is essential to invest in this communication before moving on to the next lever. As a next step these should be supported by boundary systems

(guidelines, policies and frameworks), which managers should use as a foundation and limit for all employee activities. These also serve as the basis for objectives, goals and targets within the diagnostic controls. Moreover, clearly defined incentives for specific sustainability KPIs would increase employee motivation and thus improve the implementation of sustainable goals. These controls should be supported by interactive controls to identify uncertainties and opportunities. Managers should seek regular communication and interaction with stakeholders to successfully implement new CSR activities (co-development). Further, enabling and coercive controls must be used to the right degree to guide employees' behaviour. Managers should use coercive controls in the boundary systems to set strict limits to employees and enabling controls within the interactive controls to encourage employees to come up with ideas and input, which improve the company's processes. Moreover, managers should use diagnostic controls in a coercive and enabling way, by setting clear and strict targets for CSR activities but at the same time providing partial autonomy in how to achieve these targets. In summary, all MCS within an organisation must be aligned to have an impact on employees' behaviour. Thus, the design of controls is of particular significance to ensure the successful integration and implementation of a CSR strategy.

#### **5.4. Limitations and research opportunities**

Additionally, to the limitations in the *Research Methodology* chapter, this study contains further limitations that provide research opportunities. Due to the purpose of this thesis, the companies investigated were all deliberately taken from a sustainability ranking and are all from Sweden. Thus, the results may be affected by their strong external corporate initiatives to communicate sustainability performance and by cultural contingencies. Moreover, as all companies are operating in the capital and consumer goods industry and are listed companies, the results cannot be easily generalised. Further studies could examine how companies (incl. non-listed companies) from other countries, other cultural contexts and other industries use formal and informal controls to promote strategic change. Moreover, access to the companies is limited due to time constraints, therefore empirical data was only collected from one interviewee per company who holds a management position and is directly and closely involved in the implementation of the CSR strategy (e.g., Head of Sustainability). This could lead to biased results. In this context, further studies could conduct multiple interviews per case, with employees from different positions (e.g., operational managers) and different departments to gain a broader understanding and validate the results. Furthermore, due to the

time limitation of this study and the method used, the results only refer to a specific point in time. These results may, however, change over time, as the companies are in different stages of the integration and implementation of CSR and need time to move to the next stages, which could be investigated with a longitudinal study. Predominantly, Simons' LOC was used as a main framework for this study, which represents a more holistic point of view from a top-down perspective. Further studies could therefore apply different MCS to verify the results and uncover further aspects and employee perspectives. In addition, other research designs, such as surveys, can be used to further substantiate the results. Statistical support is needed to achieve generalizability and to complete the qualitative data. Moreover, a relation between integration and implementation of a CSR strategy and a company's financial performance has been identified. As we applied a qualitative approach, this relation is not the purpose of this study. Thus, a quantitative approach with panel data to uncover the factors that influence this causal relation is needed. Finally, all case companies have integrated sustainability into their existing business strategy. Additional insights could be gained from how companies use different MCSs to implement CSR activities, where sustainability is integrated as a separate strategy alongside the business strategy.

## **6. CONCLUSION**

The purpose of this study was to examine how sustainability is integrated as a strategy and how CSR activities are implemented through MCS by investigating leading Swedish companies in the implementation of sustainable management practices. The results show that the CSR strategy is integrated into the overall business strategy and not treated as a separate component. While sustainability is perceived as bringing radical changes to companies in general, our respondents recognise the strategic change to sustainability as a rather incremental change to strategy. Further, it is indicated that all organisations use a combination of formal and informal MCS to successfully implement CSR activities into practice. Thus, environmental and social issues are effectively aligned with financial issues and a positive direct and indirect correlation between CSR and financial performance is observed.

By analysing the findings, we can draw multiple conclusions that will assist us fulfil the purpose of this study, fill the research gap, and have significant implications for practice. The analyses show that all formal LOC are essential for a successful integration and implementation of a CSR strategy. In addition to the formal controls, informal controls are applied to build a strong organisational climate and strengthen CSR values, align behaviour with CSR activities,

and sustain the applied formal MCS. Thus, the interaction of both controls is considered crucial to successfully implement a strategy. This is supported by the application of enabling and coercive controls to set strict targets and limits, but also to provide a certain degree of autonomy. Furthermore, this study investigated contradictory empirical findings about the use of belief systems in implementing a sustainability strategy. The findings indicate that belief systems and informal controls have a substantial effect on the successful implementation and act as a starting point. Thus, the focus should be on finding ways to communicate the importance of an integrated sustainability strategy. A key takeaway for practitioners is that the MCS and their design are crucial for the successful integration and implementation of a new strategy.

Our study contributes to the existing literature by exploring how leading Swedish companies successfully use formal and informal controls in different stages to integrate and implement a sustainability strategy. Thus, this study provides further insights in how MCS can be used as a tool to promote strategic change towards sustainability. We conclude that this study, despite its limitations, represents another step for practitioners towards a successful integration and implementation of a CSR strategy and for further research opportunities due to its exploratory nature.

## **APPENDIX**

### *Appendix 1: Interview guide*

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#### Introduction:

1. What is your role in the company (position/department/years in position and company)?  
How have you experienced the strategic change to increased sustainability importance?

#### CSR:

2. What is your CSR strategy and how is it included in your overall company's strategy?  
Which areas of CSR do you prioritise? Why?
3. What are your goals/objectives in each of the CSR dimensions (economic, social, environmental)? What actions do you take to put these objectives into practice?
4. What problems have you perceived when integrating your sustainability strategy? How do you overcome problems? What controls do you use?

#### Integration and implementation of sustainability strategy and management control:

5. How does your company communicate the importance of sustainability and core values to employees (values, culture)? Formal documents (value/mission statement)?
6. How do you ensure that employees understand how their work contributes to the company's sustainability goals?
7. How are employees involved and incentivized to contribute to sustainability goals?
8. In what way do you use dialogues/communication with employees to overcome strategic uncertainty? Do you encourage them to facilitate it?
9. How do you respond to feedback and concerns from stakeholders or employees about your company's sustainability performance?
10. How does your company track sustainability performance metrics (key performance measures)? Does it differ across departments?
11. How do you identify and address sustainability risks and opportunities?
12. Do you use specific targets to monitor progress? And how do you review these?
13. Do you have any Code of Conduct, policies or guidelines to ensure that specific activities are avoided/followed? Do you follow specific guidelines (e.g., GRI Guidelines, UN Global Compact Principles)?

#### Accountability:

14. How are employees held accountable for meeting sustainability targets and goals? Are the employees rewarded/punished for certain actions? If yes, how? If not, why?
  15. How do you communicate your company's sustainability performance to stakeholders (employees, customers and investors)?
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