Guest editorial

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Revisiting the linkages between sustainability, corporate social responsibility and management control systems

Introduction

Over the past few years, the concepts of sustainability, corporate social responsibility (CSR) and management control systems (MCSs) have continued to draw the attention of scholars and practitioners alike. While a great deal of research has been conducted to explore the separate areas of sustainability, CSR and MCSs, very few concerted research efforts have been made to systematically integrate these concepts (Gond *et al.*, 2012; Lueg and Radlach, 2016).

This special issue of corporate governance: The International Journal of Business in Society discusses the design and use of MCSs and/or sustainability control systems (SCSs). MCSs are essential for fostering sustainability and CSR implementation. However, the traditional accounting-based MCSs offer limited opportunity to address sustainability and CSR issues including the non-financial – social and environmental interests of wide-ranging stakeholder groups (Bonacchi and Rinaldi, 2007; Burritt and Schaltegger, 2010; Herzig *et al.*, 2012). Accordingly, there is a growing need to understand the design and use of MCSs and/or SCSs to foster the implementation of sustainability and CSR strategies (Ghosh *et al.*, 2019; Laguir *et al.*, 2019; Wijethilake and Upadhaya, 2020). Research on the design of control systems for sustainability and CSR has been demanded to reveal the degree of integration of sustainability and business strategy (Battaglia *et al.*, 2016; George *et al.*, 2016; Gond *et al.*, 2012). The management control package (Malmi and Brown, 2008; Simons, 1995) perspective is adopted to systematically explore what different MCSs and/or SCSs configurations are observable in practice and informed by different strategic orientations (Crutzen *et al.*, 2017; Gond *et al.*, 2012). Similarly, studies related to the use of MCSs for sustainability and CSR have been conducted to identify how companies use MCSs and/or SCSs in their sustainability and CSR practices (Crutzen *et al.*, 2017; Durden, 2008; Riccaboni and Leone, 2010). Some scholars have argued that formal and informal controls need to reinforce one another to promote sustainability and CSR objectives internally, while others discuss the primacy of informal controls negating the need for formal controls (Crutzen, 2017; Ghosh *et al.*, 2019). Control congruity or primacy is based on research undertaken on a limited number of organizations (Ghosh *et al.*, 2019).

Research on the role of control systems for strategy formulation is also scarce. For example, the levers of control framework by Simons (1995) has been applied to examine the role of controls in developing emerging strategies (Laguir *et al.*, 2019). In addition, informal controls can raise awareness of sustainability and CSR within organizations and support strategy formulation (Ghosh *et al.*, 2019). Thus, it is necessary to discuss how formal interactive controls and informal controls can benefit companies in formulating sustainability and CSR strategies (Ghosh *et al.*, 2019).

Moreover, we know little about the optimal role of different types of controls that exist in varied contexts and purposes. There are several research topics that have room for further discussion such as combinations of MCSs and corporate reporting (e.g. sustainability reporting and integrated reporting) (de Villiers *et al.*, 2016; Dimes and de Villiers, 2020),

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managing sustainability issues in the supply chain through the use of SCSs (Burritt and Schaltegger, 2014; de Haan-Hoek *et al.*, 2020), the use of SCSs to solve individual sustainability issues such as employee health and safety (Christ *et al.*, 2020; Passetti *et al.*, 2020) and the relationships between corporate governance as one of the MCSs and sustainability performance (Hussain *et al.*, 2018; Orazalin, 2020). There is now a need to go beyond these topics and consider how MCSs and/or SCSs can benefit companies in implementing sustainability and CSR strategies (Ghosh *et al.*, 2019; Laguir *et al.*, 2019; Wijethilake and Upadhaya, 2020).

Overview of the contents

The papers in this Special Issue are central to corporate governance, sustainability, CSR and MCSs research, focusing on issues that are critical, topical and needed at this stage of the discussion. More importantly, these papers seek to provide the current state of thinking, trends and assessment in the abovementioned subjects.

The first paper in this issue, by Mohamed Adib, Xianzhi Zhang, Mohammad Zaid and Ahmad Sahyouni – A management control system for corporate social responsibility implementation – A stakeholder's perspective – proposes a framework designed to help organizations define, implement and control their CSR strategies. Based on a stakeholder's perspective, they propose a sustainable MCSs model specifically made for the definition and implementation of CSR strategy in connection with the key stakeholders, while being dynamic and adaptable to different business environments. Their findings suggest that adopting stakeholder theory as a key lens to re-frame, organize and guide the debate over the performance consequences of CSR has the potential to overcome the simplistic and (eventual) misleading conceptions of CSR strategy implementation, thus fostering the move toward more effective and efficient CSR strategies, by developing MCSs for CSR issues.

In the second paper – Integrated reporting and changes in MCSs in large Japanese companies – Masahiro Hosoda examines the incorporation of integrated reporting (IR) into the formal MCSs early adopters use to implement IR and investigates whether it drives informal control systems change at an early stage. In this paper, he found that as Japanese companies engaged in environmental, CSR and sustainability reporting as part of their CSR and environmental management practices, the adoption of IR is seamless. The results showed incremental changes to formal control systems. IR can modify functions of formal control systems to support long-term sustainability management which is reported in an integrated report. However, it may not cause radical changes to informal control systems because all sample companies recognized the importance and necessity of embedding integrated thinking in all levels of their organizations to put it into practice for value creation over time.

Hasitha Rupasinghe and Chaminda Wijethilake in the third paper – The impact of leanness on supply chain sustainability: Examining the role of SCSs – examines:

- the impact of leanness on supply chain sustainability; and
- the moderating role of SCSs on the relationship between leanness and supply chain sustainability.

The study finds that the lean manufacturing practices – such as just-in-time deliveries, quality management, employee involvement and environmental management – have a significant positive impact on environmental, social and economic supply chain sustainability. Further, the enabling use of SCSs positively moderates the relationship between leanness and economic supply chain sustainability. In contrast, the controlling use of SCSs has a positive moderating impact. The study finds no significant moderating impact of SCSs on the relationship between leanness and environmental and social supply chain sustainability.

Integrating MCSs, mindfulness and sustainability: An occupational health and safety perspective is the fourth paper. Wahab Shahbaz and Aymen Sajjad integrate the notions of MCSs, mindfulness and sustainability and introduce a framework demonstrating how sustainability outcomes – specifically occupational health and safety (OHS) improvements – can be accomplished by incorporating mindfulness-based interventions (or mindfulness-based training) as an effective MCSs enabler. The findings revealed that there is a dearth of research that has investigated the potential linkages between mindfulness, MCSs and sustainability. The paper extends the sustainability, mindfulness and MCSs literature by explicating how mindfulness-based interventions can be used as one of the key MCSs enablers that support sustainability and OHS outcomes.

In the fifth paper – Corporate board for innovative managerial control: Implications of corporate governance deviance perspective – Irfan Saleem, Mujtaba Khan, Rashedul Hasan and Muhammad Ashfaq question why firms deviate from the standard corporate governance practices and apply innovative management control. The authors use a panel of 2,538 public companies listed with the New York Stock Exchange to explain the impact of corporate governance deviance on firm performance by relying on unique governance variables extracted from the Bloomberg database by extending the logic of Gomper *et al.* (2003) to develop a deviance index. Their results show that corporate governance deviance positively influences firm performance. This study supports the recent theory by confirming that corporate governance deviance leads to efficient operating margins for US firms.

The sixth paper – Adopting MCSs through CSR strategic integration and investigating the system’s impact on company performance: Evidence from Indonesia – authored by Esti Dwi Rinawiyanti, Xueli Huang and Sharif As-Saber investigates the extent to which the adoption of MCSs in the integration of CSR into business strategy has an impact on companies’ performance. Their findings reveal that CSR strategic integration has a positive and significant impact on companies’ performance, including employee, operating and financial performance. This paper also found that company size can positively moderate the impact of CSR strategic integration on both operating and financial performance. They suggest that their findings can encourage managers, particularly those working in manufacturing companies, to adopt MCSs by undertaking CSR at the strategic level through a variety of activities that are better aligned with their business strategy, resulting in superior performance, both socially and financially.

Juliana Walkiewicz, Jenny Lay-Kumar and Christian Herzig, in the seventh paper – The integration of sustainability and externalities into the “corporate DNA”: A practice-orientated approach – present a methodology to establish and integrate formal SCSs into MCSs. Their innovative approach aims at addressing the need for SCS integration by permeating and transforming MCSs so that positive and negative externalities can be internalized into financial performance measurement and reporting. In their findings, they argue that the workshop series reveals the importance of including relevant stakeholders, multiple feedback loops and permanent dialogue to abolish cognitive barriers. The approach enables the development of multicriterial KPIs and identification of costs and benefits for integrated financial accounting. This paper contributes to practice and research in the field of SCSs by providing insights into the process of an exploratory workshop series developing multicriteria KPIs for controlling and financial accounting.

The eighth paper, by Muhammad Arif, Aymen Sajjad, Farooq Sanaullah, Abrar Maira and Ahmed Shafique Joyo – The impact of audit committee attributes on the quality and quantity of environmental, social and governance (ESG) disclosures – aims to ascertain the impact of audit committee (AC) activism and independence on the quality and quantity of ESG disclosures for energy sector firms in Australia. They further investigate how AC attributes such as meeting frequency, the number of independent directors and an independent chairperson influence the compliance with Global Reporting Initiative (GRI) guidelines and quantity of ESG disclosures. Their results show a significant positive effect of AC activism and independence on the level of compliance with the GRI guidelines, indicating the favorable effect of AC attributes on ESG reporting quality. Likewise, AC attributes positively affect the quantity of ESG disclosures, and notably, the impact of AC attributes is more pronounced on environmental disclosures.

On the linkage between CEOs' statements and CSR reporting: An analysis of visuals and verbal texts is the title of the ninth paper. The authors, Majid Khan and Rahizah Sulaiman, examine the linkages between CEOs' statements (words and images) in relation to CSR and the performativity of such communication. Their findings uncover three main discourses (economic, environmental and social) along with other discourses (achievements and recognition and challenges). The texts and images are found to be lacking in clarity and consistency and in many ways leave the stakeholders to make their own conclusions about the reported information. Their analysis suggests an increasing scientism in CEOs' messaging in relation to CSR as a tool to enhance perceived accountability of the business.

The tenth paper by Jamal Nazari, Fereshteh Mahmoudian and Irene Herremans – Sustainability control system components, reporting and performance – examines organizations' SCSs designed to achieve the interrelated sustainability objectives of performance and reporting. The authors used three-stage least squares (3SLS) regressions on archival data for a large sample of international companies. Their findings suggest that improved environmental performance and sustainability reporting quality are related to certain control system components and the dual objectives of sustainability performance and reporting are interrelated. This study provides theoretical contributions and practical implications by demonstrating how a set of sustainability control components can enable better sustainability reporting and performance outcomes.

In the final paper – Contextual and corporate governance effects on carbon accounting and carbon performance in emerging economies – Carmen Cordova, Ana Zorio-Grima and Paloma Merello investigate the importance of having MCSs that allow for the gathering, analysis, management and reporting of carbon information. They explore the driving forces for having carbon reporting and carbon reduction management strategies in emerging and developing countries. Their results reveal that the carbon reporting decision is positively related to being located in Africa or America (as opposed to Asia), publishing a sustainability report and having certain corporate governance attributes such as a CSR committee, larger board size and an executive compensation policy based on environmental and social performance. Regarding the driving forces leading to a reduction of carbon emissions, no evidence is obtained on the effect of the variables considered. They argue that the evidence obtained in their study is valuable, as it can help standard-setters in these geographical areas to promote actions in the field of corporate governance to increase transparency.

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