



Global Conference on Business & Social Science-2014, GCBSS-2014, 15th & 16th December,
Kuala Lumpur

A review on Green Integration into Management Control System

Nor Azah Abdul Aziz^{a,*}, Foong Soon Yau^b, Ong Tze San^c, Hassan Attan^d

^aPhD candidate, Putra Business School, Universiti Putra Malaysia, Serdang, Selangor, 43400, Malaysia

^a Faculty of Technology Management and Technopreneurship, Universiti Teknikal Malaysia Melaka, 76100, Malaysia

^bProfessor, Putra Business School, Universiti Putra Malaysia, Serdang, Selangor, 43400, Malaysia

^cAssociate Professor, Faculty of Economics and Management, Universiti Putra Malaysia, Serdang, Selangor, 43400, Malaysia

^dSenior Teaching Engineer, Faculty of Engineering Technology, Universiti Teknikal Malaysia Melaka, 76100, Malaysia

Abstract

Environmental crises have major negative impacts on social, environment and economy in many countries. With the concerns on environmental issues, people and organizations need to adopt sustainability practices. A question arises on the role of accounting in enhancing the effectiveness of environmental practices. Therefore, this paper reviews on the role of management control system (MCS) in managing environmental or green issues and the extent of green integration into MCS. The literature review indicates that MCS plays a very important role in managing green issues. There are various interpretations, dimensions and levels of extent of green integration into MCS.

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Peer-review under responsibility of GLTR International Sdn. Berhad.

Keywords: sustainability; green integration; environmental crisis; management control system (MCS); cultural control.

1. Introduction

Environmental crises such as air and water pollution, resource scarcity, loss of biodiversity and global warming resulted from rapid rate of urbanization, fast growth of population, large scale land development and open burning have major negative impacts on social, environment and economy in many countries. With the concerns on these environmental issues, people and organizations need to adopt sustainability practices. According to the World

* Corresponding author. Tel.: +6-016-711-5504.

E-mail address: azahaziz@utem.edu.my

Commission on Environment and Development [WCED] (1987), sustainability can be defined as “meeting the needs of the present without compromising the ability of future generations to meet their own needs”. The World Summit United Nations General Assembly (2005) categorizes the three pillars of sustainability into environmental, social and economic demands. However, this paper focuses only on the environmental demand.

The environmental demand is also referring to “green” practice, which means carrying out our activities in ways that will not harm the environment, but rather enrich it. The green issues have led to serious question on the role of people and organizations in society. Organizations need to determine whether their operations are contributing to the well-being of the environment or involving in the environmental degradation. The link between the behaviour of organizations and green practices may lead to the recognition of the role of accounting in governing, monitoring and regulating green business activities (Gray et al., 1998; Sumiani, Haslinda & Lehman, 2007). According to the Commission of the European Communities (2001, p. 6), environmental, social and economic concerns must be integrated into the organization’s daily operations to achieve its sustainability goals. Therefore, it should come from certain internal control mechanisms (Bebbington, 2007, p. 6; Gond & Herrbach, 2006). Therefore, this paper focuses on the role of management control system (MCS) in managing green practices and the extent of green integration into MCS.

2. Management control system (MCS)

Taking a broader concept of MCS in the framework by Malmi and Brown (2008), which is based on a review of the works of Otley (1980), Flamholtz et al. (1985), Simons (1995), Langfield-Smith (1997), Fisher (1995, 1998), Chenhall (2003) and amongst others, MCS is defined as all the devices and systems that managers use to ensure that the behaviours and decisions of their employees are consistent with the organization’s objectives and strategies. MCS ensures that overall strategic planning and operational functions will work together (Nilsson & Rapp 1999). Figure 1 and Figure 2 show the MCS package and its description respectively.

Cultural Controls						
Clans		Values			Symbols	
Planning		Cybernetic Controls				Reward and Compensation
Long range planning	Action planning	Budgets	Financial Measurement Systems	Non-Financial Measurement Systems	Hybrid Measurement Systems	
Administrative Controls						
Governance Structure		Organization Structure			Policies and Procedures	

Fig. 1: Management Control System Package. Source: Malmi and Brown (2008)

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