



The use of management control systems to manage CSR strategy: A levers of control perspective

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ABSTRACT

Little is known about the role of management control systems (MCS) in managing the strategic processes that underpin Corporate Social Responsibility (CSR). To enhance our understanding of this phenomenon, this study employs Simons' (1995) levers of control framework to explore how organizations leverage MCS in different ways in order to drive strategic renewal and trigger organizational change while simultaneously supporting society's broader sustainability agenda. Drawing on data gathered from France's largest listed companies – members of the CAC 40 – we provide insights into the structures and processes that companies employ to design, implement and monitor their CSR strategy. In doing so, we provide evidence of the way that organizations seek to attain their CSR objectives, and of the relationship between the management of CSR and other business processes. Of particular interest is the role of the levers of control in enabling managers to identify and manage threats and opportunities associated with CSR strategy, thus forming risk management processes that support organizations in their attainment of strategic objectives. Furthermore, the study provides evidence suggesting the use of MCS has the potential to contribute to society's broader sustainability agenda through processes that enable innovation, communication, reporting, and the identification of threats and opportunities.

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1. Introduction

The perceived importance of Corporate Social Responsibility (CSR) has developed in recent years in line with a growing recognition that it offers companies the potential to develop a competitive advantage (Porter and Kramer, 2006, 2011). CSR consists of a set of social and environmental activities that companies implement on a voluntary basis in order to address the social and environmental impact of their business and the expectations of their stakeholders (European Commission, 2001). In contrast to a

stream of accounting literature that regards CSR strategy as part of an instrumental plan by corporations to gain legitimacy or manage reputation, offering limited capacity to contribute to society's broader sustainability agenda (cf. Gray, 2010; Milne et al., 2006), in this study we adopt a perspective that views CSR strategy as an essential element of an organization's core business. This approach does not exclude the possibility of 'greenwashing'² as a set of legitimizing actions within this strategy, but advocates that CSR strategy is essentially concerned with embedding socially and environmentally responsible actions throughout the organization in order to enhance long-term value (Moon, 2007).

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² Greenwashing refers to a form of marketing and promotional activity that is used to promote the perception, regardless of the evidence, that an organization is environmentally friendly.

Firms face increasing pressures in relation to their management of CSR. First, if improvements in social and environmental performance are to translate into long-term shareholder value, firms will need to ensure that associated activities are fully integrated into strategic processes (Adams and McNicholas, 2007; Perez et al., 2007). Research is therefore required to understand the role of management control systems (MCS) in facilitating the management of CSR activities that can in turn support the attainment of organizational objectives (Gond et al., 2012; Perez et al., 2007). This also requires a greater understanding of the internal processes through which CSR performance is managed and linked to other business processes. Second, as stakeholders demand more information about CSR performance, or about the relation between economic and CSR performance, firms will need to become more proactive and transparent in their management of social and environmental activities (Bartolomeo et al., 2000; Burnett and Hansen, 2008; O'Dwyer, 2002, 2005; Perego and Hartmann, 2009). For example, social and environmental reporting and auditing processes can enhance corporate transparency and accountability by providing a greater visibility of the inner functioning of organizations (Hopwood, 2009). Third, increasingly stringent environmental legislation means that firms will need to incorporate external costs into their business planning in order to manage the risks associated with undertaking or even avoiding CSR activities (Bartolomeo et al., 2000; Porter and Kramer, 2006, 2011; Porter and van der Linde, 1995; Schaltegger and Burritt, 2010). This implies an important role for MCS in helping managers to identify and manage potential threats and opportunities.

With these concerns in mind, this paper addresses recent calls in the literature for empirical research into the role of MCS in relation to the social and environmental activities undertaken by organizations (for example Ferreira et al., 2010; Gond et al., 2012; Henri and Journeaut, 2010; Perez et al., 2007) by shedding light on the following research question: *How do organizations use management control systems to manage CSR strategy?* The distinction between the different levers of control used by senior managers to control strategy (Simons, 1995) (LOC) provides the conceptual framework for the paper. We employ the LOC framework to explore how managers combine two types of processes, diagnostic and interactive, to balance 'intended' (i.e. top-down) and 'emergent' (i.e. bottom-up) strategies, while simultaneously identifying opportunities and managing risks through the use of two other types of systems, beliefs and boundaries. A balance between these different uses of MCS is fundamental to the success of any strategy (Mundy, 2010; Simons, 1995; Widener, 2007) and therefore appears of primary importance for the successful management of CSR strategy.

In seeking to address the above research question, the current study draws on data collected via a questionnaire from the CAC 40 group of publicly listed companies in France. Prior research in this area has tended to employ in-depth case studies (cf. Crutzen and Herzig, 2012), but is limited in its ability to provide a broader picture of practices across a group of organizations. The findings from the study demonstrate how organizations use their MCS

to facilitate change and strategic renewal in CSR. Specifically, by employing the levers of control framework, we show how organizations use their MCS to communicate the vision and purpose of CSR; to combine intended and emergent strategy; to prescribe acceptable CSR activities, and to manage CSR performance. Of particular interest is the use of MCS in enabling managers to identify and manage threats and opportunities associated with CSR strategy, thus forming risk management processes that support organizations in their attainment of strategic objectives. Furthermore, the study provides evidence suggesting that MCS have the potential to support the transformation of organizational practices that can contribute to sustainable development through processes that facilitate innovation, communication, reporting, and the identification of threats and opportunities.

The paper makes several contributions to the literature. First, it addresses recent calls in the literature for research into the role of MCS in the transformation of organizational practices that contribute to society's sustainability agenda (Adams and McNicholas, 2007; Gond et al., 2012; Perez et al., 2007). By focusing on the management and control of CSR within a group of large organizations, the current study provides insights into the structures and processes that companies use to manage CSR strategy, and enhances our understanding of the relationship between the management of CSR and other business processes. Second, by investigating how managers use MCS to identify and manage risks and opportunities associated with CSR, the current study responds to recent calls in the literature for more research into risk management processes, an important but under-developed area in MCS research (Binder, 2007; Tessier and Otley, 2012). Third, this study seeks insights from managers who are directly involved in the development of CSR activities, an approach which is being increasingly encouraged, whether such research is associated with achieving radical change or simply supporting managers in their efforts to undertake CSR activities (Schaltegger and Burritt, 2010). Fourth, the study provides evidence of managers' use of MCS in managing the subsequent tension between intended ('top-down') and emergent ('bottom-up') strategies. The current study thus contributes to the literature by providing further insights into the use of the LOC as an analytical tool for understanding the management of strategic processes (Gond et al., 2012).

The paper is structured as follows. The following section outlines the LOC framework and outlines its relevance and application to the study of the management of CSR strategy. This is followed by the research design, including the methods used to conduct the study. The subsequent section presents the study's findings and discussion. The final section provides some concluding comments.

2. CSR strategy and the role of MCS

2.1. The relationship between sustainability, CSR and MCS

Sustainable development (SD) and sustainability are highly complex notions whose various definitions are

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