



Research article

Proactive sustainability strategy and corporate sustainability performance: The mediating effect of sustainability control systems



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ABSTRACT

This study examines to what extent corporations use sustainability control systems (SCS) to translate proactive sustainability strategy into corporate sustainability performance. The study investigates the mediating effect of SCS on the relationship between proactive sustainability strategy and corporate sustainability performance. Survey data were collected from top managers in 175 multinational and local corporations operating in Sri Lanka and analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM). SCS were observed to only partially mediate the relationship between proactive sustainability strategy and corporate sustainability performance. The mediating effect of SCS is further examined under three sustainability strategies; environmental and social strategies reveal a partial mediation, while the economic strategy exhibits no mediation. The study also finds that (i) a proactive sustainability strategy is positively associated with SCS and corporate sustainability performance and (ii) SCS are positively associated with corporate sustainability performance.

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1. Introduction

Corporate responsiveness toward sustainability issues is influenced by growing internal and external sustainability concerns, such as regulatory pressures, the increasing sense of the top management's social and ethical responsibility, new business opportunities, and cost factors, such as a carbon tax (Aragón–Correa and Rubio-Lopez, 2007; Phan and Baird, 2015). Researchers argue that corporations are increasingly motivated to proactively integrate sustainability issues into strategy rather than to merely comply with regulatory requirements (Aragón–Correa and Rubio-Lopez, 2007; Bhupendra and Sangle, 2015; Christmann, 2000; Hart, 1995; Phan and Baird, 2015; Sharma and Vredenburg, 1998). Theoretically, proactive sustainability strategy¹ improves corporate sustainability performance through efficient use of resources, increased cost advantage, reduced waste and discharge, promotion

of social reputation, improved customer preferences, and generation of new innovative capabilities (Banerjee, 2001; Bhupendra and Sangle, 2015; Christmann, 2000; Judge and Douglas, 1998; Sharma and Vredenburg, 1998). However, despite the growing momentum and perceived benefits of proactive sustainability strategy to address sustainability challenges, the literature is relatively silent about which internal managerial processes translate proactive sustainability strategy into corporate sustainability performance (Arjaliès and Mundy, 2013; Lisi, 2015). Essentially, do the systems put in place to deliver sustainability strategies result in sustainability outcomes?

This study examines to what extent corporations use sustainability control systems (SCS) to translate proactive sustainability strategy into corporate sustainability performance. SCS, such as eco-controls, are a part of environmental management accounting² and a specific application of management control systems.³ An important assumption in the management control systems

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¹ Aragón–Correa and Rubio-Lopez (2007, p. 358) identify “proactive environmental strategy” as the “systematic patterns of voluntary practices that go beyond regulatory requirements”. Referring to Torugsa et al. (2013), this study uses the term “proactive sustainability strategy” including all three sustainability dimensions: environmental, economic, and social.

² Environmental management accounting is defined as “the management of environmental and economic performance through the development and implementation of appropriate environmental related accounting systems and practices” (IFAC, 1998, p. 3).

³ Management control systems refer to “formal, information-based routines and procedures managers use to maintain or alter patterns in organizational activities” (Simons, 1995, p. 5).

literature is that corporations should adapt management control systems in line with strategic directions and priorities (Henri, 2006; Ittner and Larcker, 1997; Langfield-Smith, 1997). The emphasis given to strategies should also be reflected in management control systems to support decision-making and motivate employees' contribution to the implementation of strategy. The alignment between strategy and management control systems facilitates the implementation of strategy and the achievement of strategic objectives by mitigating risks and uncertainties, which eventually leads to improved corporate performance (Ittner and Larcker, 1997). However, the question that remains unanswered is whether these traditional financially oriented management control systems facilitate the emerging proactive sustainability strategy, and if so to what extent corporations use SCS to implement proactive sustainability strategy.

A small but growing body of literature suggests that SCS not only have a potential role in supporting top management's implementation of a proactive sustainability strategy by disseminating sustainability core values and measuring sustainability performance but also by minimizing sustainability strategic risks and avoiding uncertainties associated with sustainability strategies (e.g., Arjaliès and Mundy, 2013; Gond et al., 2012; Henri and Journeault, 2010; Kerr et al., 2015). Looking beyond proactive sustainability strategy implementation, the use of SCS also enables corporations to manage sustainability threats and opportunities and to respond to stakeholders' sustainability demands by enhancing the transparency and accountability of operational activities (Arjaliès and Mundy, 2013; Phan and Baird, 2015).

Prior studies in this context contribute from different perspectives to understanding the role of SCS in corporate strategies. For instance, Ditillo and Lisi (2016) reveal that proactive corporations are more likely to integrate SCS with traditional control systems in implementing a sustainability strategy, whereas this is not the case in reactive corporations. Examining the moderating impact of enabling and controlling uses of management control systems on the relationship between environmental innovation strategy and organizational performance, Wijethilake et al. (2016) find that while the enabling use of management controls has a positive impact, the controlling use of management controls negatively moderates the relationship. Referring to a natural resource-based view of the firm, Journeault (2016) suggests that the eco-control package fosters the development of environmental capabilities, such as eco-learning, environmental innovation, stakeholder integration, and shared environmental vision and in turn improves corporate performance. Following a case study approach, Wijethilake et al. (2017) explore how corporations use SCS in proactive strategic responses to institutional pressures for sustainability. The authors reveal that corporations use SCS in their proactive strategic responses, from acquiescence to manipulation. However, the extant literature provides less evidence on the extent to which corporations use SCS in translating corporate sustainability strategies into corporate sustainability performance.

For example, in a review of the role of management accounting and sustainable development, Joshi and Li (2016, p.1) conclude that "there is relatively little empirical research on what motivates corporations to pursue different sustainability strategies, and how managers implement effective management control systems to achieve sustainability". Joshi and Li (2016) emphasize the necessity of examining the use of SCS, such as sustainability balanced scorecard, eco-control, or sustainability management control systems, in translating the chosen sustainability strategy into corporate performance. Supporting the argument proposed in this study, Ditillo and Lisi (2016, p. 142) underline that "little is known about the control mechanisms set up by organizations in relation to their sustainability strategies and initiatives". In responding to these

claims in the extant literature, empirical evidence in this study provides rich insights into the use of SCS in translating proactive sustainability strategy into corporate sustainability performance. In particular, the findings in this study allow us to understand the various uses of SCS in difference sustainability strategies.

The extent to which corporations use SCS to enable the implementation of proactive sustainability strategy is theoretically underpinned by the natural resource-based view of the firm (Hart, 1995) and the levers of control framework (Simons, 1995). Hart (1995) argues that the extent to which corporations integrate the natural environment into the strategic process leads to sustainable competitive advantage. However, 15 years after the introduction of this proposition, Hart and Dowell (2011, p. 1470) claim that "the academic literature on the link between sustainable development strategies and firm performance is virtually nonexistent". This deficiency raises concerns regarding not only what is needed to link proactive sustainability strategy and corporate sustainability performance but also how to build the relationship. Simons' (1995) levers of control framework facilitates the top management's implementation of proactive sustainability strategy by revealing this missing link.

The examination of the use of SCS to implement proactive sustainability strategy addresses several important limitations in the current literature and practice. First, the lack of formal managerial processes for implementing proactive sustainability strategy is a major impediment for corporations' achievement of corporate sustainability performance, resulting in a conflicting relationship (González-Benito and González-Benito, 2005; Thornton et al., 2003; Wagner et al., 2002; Wagner and Schaltegger, 2004). Top management may be interested in investing in sustainability projects but unaware of how to execute them. This may increase environmental cost and risk, generate no clear payoffs, and decrease customer satisfaction through inability to provide innovative products and services, such as environmentally friendly, green products (Aragón-Correa and Rubio-Lopez, 2007; Epstein and Buhovac, 2014). The core argument in this study is that corporations' use of well-designed SCS enables them to effectively translate proactive sustainability strategy into corporate sustainability performance.

Second, while the few existing SCS studies in sustainability strategy largely focus on the *design* characteristics of SCS in the strategic process (Durden, 2008; Epstein and Wisner, 2005; Perego and Hartmann, 2009; Pondeville et al., 2013; Riccaboni and Leone, 2010; Rodrigue et al., 2013), they pay less attention to the use of SCS in implementing sustainability strategy. Whereas past SCS studies considerably contribute to the design characteristics of SCS and overlook the use of SCS, this study uses the levers of control framework and provides empirical evidence to support the use of SCS in implementing proactive sustainability strategy.

Third, most prior studies on the relationships among proactive sustainability strategy, SCS, and corporate sustainability performance focus on individual aspects of sustainability strategy and performance (mostly environmental strategy and environmental and economic performance, e.g., Lisi, 2015; Russo and Fouts, 1997; Sharma and Vredenburg, 1998). While this study agrees that studies based on a piecemeal approach are to develop the discipline and provide deeper insights, such an approach is less likely to provide a comprehensive view of corporate sustainable development. This study provides empirical evidence and a comprehensive view of sustainable development and attempts to resolve previous conflicting findings concerning proactive sustainability strategy and corporate sustainability performance.

Fourth, while most of the current sustainability strategy and SCS studies contribute to understanding sustainability issues, most are qualitative, conceptual, and based on developed economies

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