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Challenges in controlling CSR:

A case study of two Swedish companies

This thesis is part of the examination for a Master of Science degree in Business and Management, specialization in Management at the Stockholm School of Economics.

Abstract: The purpose of this study is to provide insight on how companies control Corporate Social Responsibility (CSR) and to shed light on the challenges faced by formal and informal management control of CSR. Few studies investigate CSR control systems and even fewer include both formal and informal controls in doing so. Although some challenges faced by CSR control have been previously identified, no study has provided an overview over the challenges faced by CSR control. This study aims at filling these gaps by answering the two research questions: *1. How is CSR controlled in large companies? And, 2. What challenges do large companies meet in controlling CSR?*

The research questions are answered through in-depth case studies of two large Swedish companies. It is found that both companies use formal and informal control systems to control CSR. Informal controls showed to play a larger role than might be expected; due to that formal control systems were found partly dysfunctional. Especially in one company, managers used internal communication to increase the intensity of CSR values being expressed in the corporate culture thus influencing the informal controls. Furthermore, nine challenges in CSR control were found of which three had not been previously identified. One of the challenges, insufficient CSR measures, was likely to cause several of the other challenges. Several prominent CSR experts confirmed the findings of the study.

The findings imply that managers and researchers should focus their efforts on finding simple measures that reflect CSR performance well. In addition, managers should use internal communication to support CSR values in the culture. Researchers could further use the overview of challenges as a smorgasbord of future research topics.

Key words: CSR, reporting, CSR control, management control, GRI

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1 Introduction

The introduction consists of six parts. In background (1.1), the background to the thesis topic is presented. In purpose (1.2), the specific purpose of the study is presented along with the research question. Thereafter, the expected research contribution is presented (1.3), along with delimitations (1.4). In case study objects (1.5), the cases used for empirical data gathering are presented. Lastly, the thesis structure is presented (1.6).

1.1 Background

CSR (Corporate Social Responsibility) is an organizations integrated responsibility covering three areas: environment, working conditions and human rights (UN Global Compact). Working with CSR means that companies voluntarily integrate social and environmental aspects of the business and in interaction with stakeholders, beyond what the law requires. CSR is therefore about more than just sponsorship and philanthropy, but rather how a company is implementing and integrating these issues into the core business. Working with CSR is about finding what areas within the business where you practically can implement ethical considerations in order to contribute to a more sustainable society.

Some businesses view CSR as an opportunity to enhance and strengthen their brand. Due to this, many company have external CSR communication to its stakeholders (Gond et al., 2012). A common view is that such communication is a "veil" that covers the dirty truth of companies' social and environmental impact in purpose of maintaining external legitimacy (Banerjee, 2008; Gond et al., 2009; Adams, 2004; Adams & Harte, 1998; O'Dwyer, 2002, 2003). This view is nurtured by a lack of knowledge of company-internal CSR work since there is relatively limited research on this area (Gond et al., 2012; Crutzen & Herzig, 2013; Derchi et al., 2013; Durden, 2008; Riccaboni & Leone, 2009).

Referring to the emerging body of literature on organizational CSR-work (e.g. Creutzen & Herzig, 2013; Derchi et al., 2013), there is however no doubt that organizations *are* in fact operationalizing CSR strategies and have been doing so for rather long. Seen from the organization's perspective, there are two theoretical explanations to why they are doing so (Mathews, 1993; Marcus & Fremeth, 2009). First, companies play a role similar to that of an individual in society. Companies must thus behave legitimately by acting with sufficient transparency and showing congruence with societal expectations. The second explanation is that companies see financial benefits from engaging in CSR activities. Such benefits can come from reduced waste and use of resources resulting in cost savings (ISO14000) (Rezaee & Szendi, 2000), from improved reputation of the company, or from reduction of long- and short-term risks (Drechi et al., 2013).

When operationalizing CSR strategy, managers turn to control systems for assistance. Management control is traditionally developed for controlling financial performance and other concrete and tangible matters. However, CSR is different from most other strategies used by companies in a number of ways. First, CSR is per definition long-term oriented, whereas businesses and existing management control systems are short-term oriented (Drechi et al., 2013, p. 199), along with most strategies that are implemented. Second, the benefit of CSR is intangible and primarily favors other stakeholders than the customers, such as society and the environment why the direct business case for profit is not clear (Epstein, 2010). Third, CSR is emotional in nature and might appeal stronger to employees than most other managerial themes (Epstein,

2010; Norris & O'Dwyer, 2004). Consequently, operationalizing CSR *could* mean that new controlling methods have to be developed, as traditional financial controls are not adapted to the special needs of CSR.

In order to understand the special needs of CSR control, researchers have performed case studies to investigate how these needs play out in real life (Curtzen & Herzig, 2013). Indeed, differences have been found. In particular, corporate culture has shown to play a more important role in CSR control as compared to other types of management control (Herndon, Fraedrich & Yeh, 2001; Wood, 1991; Epstein, 2010; Norris & O'Dwyer, 2004). Along with these differences, some challenges in how to achieve control over CSR have surfaced (e.g. Norris & O'Dwyer, 2004). However, no study has taken the approach to specifically investigate those challenges, which we find strange since understanding those challenges might help both researchers and practitioners to focus their efforts on overcoming those challenges. This would in turn help companies improve their social and environmental footprints. There is thus a clear gap to fill.

1.2 Purpose & Research Question

The purpose of this study is to provide insight on how companies control CSR and to shed light on the challenges faced by formal and informal management control of CSR. The small number of case studies that have investigated management control of CSR have been explorative in nature and often focused on formal controls, excluding informal controls, which have been proven important (Creutzen & Herzig, 2013; Derchi et al., 2013). Further, none of those studies considers CSR control challenges in particular. Accordingly, our research questions are as follows:

1. How is CSR controlled in large companies?

2. What challenges do large companies meet in controlling CSR?

1.3 Expected Research Contribution

By addressing these research questions, the study contributes to the literature by first, adding a case study description of how two Swedish companies control CSR. Second, it takes a broad perspective, accounting for both formal and informal control processes. Third, it sheds light on, and provides an overview of the challenges facing companies in controlling CSR. Fourth, we define CSR broadly, thereby including all types of social and environmental factors, thus contributing to an otherwise very environmental (CO_2) focused research body (Crutzen & Herzig, 2013).

1.4 Delimitations

This study aims at researching the CSR control in large companies from a headquarters-perspective. It does not aim at small or medium-sized companies that might have different conditions regarding CSR.

The empirical study is of case study nature and uses information only from the two companies studied and from five external experts. No other external information is considered.

Since the concept of CSR is a key concept in our thesis it needs to be defined. Thus, CSR (Corporate Social Responsibility) is an organizations integrated responsibility covering three areas: environment, working conditions and human rights.

In studying CSR control, formal and informal control will be accounted for as specified in the literature review. External factors such as the culture of a country or alike are not considered, unless otherwise stated.

1.5 Case Study Objects

This case study was conducted on two large companies[1]. Both companies are listed on the Large Cap-list of the Stockholm Stock Exchange and are widely exposed to scrutiny from the public, from media, from investors and from governments. Both act in a highly global environment and have undertakings that expose them to closer scrutiny than many other companies. The first object, Atlas Copco[2], is a world-leading manufacturer of industrial compressors, tools, drilling rigs, and construction and mining equipment. It has got some 40 000 employees and business in 180 countries. It is using an integrated annual report, where financial reporting is mixed with reporting on environmental impact and employee health. The company has enjoyed high profitability during a long period of time (Atlas Copco, Annual Report, 2013). As a supplier to the mining industry, it has been under pressure from the Swedish media to take responsibility for human rights and environmental damages in Ghana in 2003[3]. AC does not sell directly to end customers.

The second object, H&M, is a world-leading fashion retailer with 116 000 employees and sales in 53 countries. It uses separate financial and sustainability reports, but emphasis is put on CSR also in the financial report (H&M, Annual Report, 2013). Their sustainability report shows evidence of vast undertakings in the CSR area (H&M Sustainability Report, 2013). The company has enjoyed strong long-term growth and profitability. As a low to mid price retailer in a fast-moving industry, it pushes prices and speed. Much of the production is therefore performed in developing countries in Southeast Asia, and the clothes are often flown to its sales destination. These things are controversial and as a company with direct contact to the customer, it receives strong pressure to act ethically.

1.6 Thesis Structure

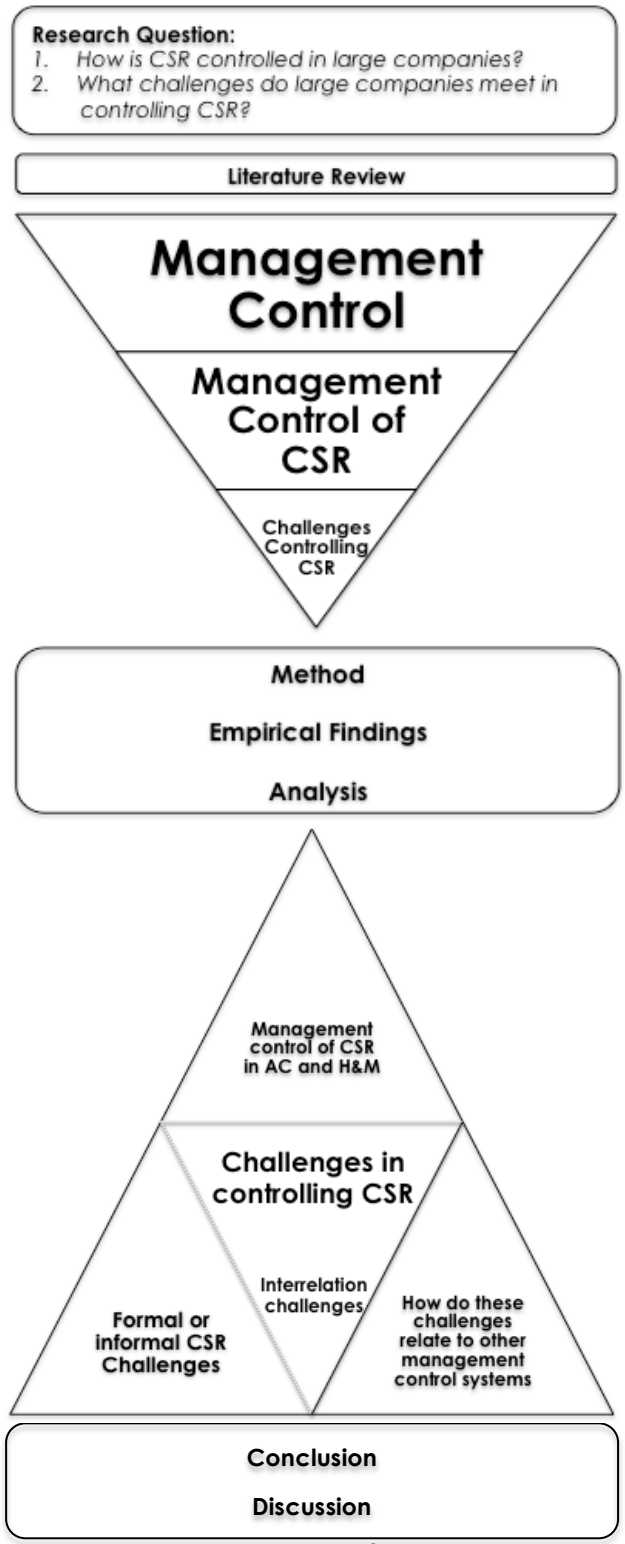
In the introduction (1), a background to the study was presented along with the research questions under study. In the literature review (2), we start out broadly by describing the basics of management control, then the key concepts of CSR control are defined, whereupon a list of challenges of controlling CSR that have been identified in previous research is presented. The literature review ends with a precise description of the research gap. In method (3) the key design choices for the study are presented.

[1] This case study was conducted on two large companies, which is also reflected in our research question, but due to simplicity reasons we will further on refer to companies or organizations throughout this thesis.

[2] Will be referred to as AC.

[3] In Swedish public service television SVT's show "*Uppdrag Granskning*" questioned Atlas Copco's actions in Ghana in 2003, whereupon a media storm of criticism arose around the company.

Thereafter, the results of the empirical study are presented. The descriptions of the two cases studied are presented separately in (4) H&M and (5) AC. The (6) analysis joins the concepts presented in the literature review with the case study findings. The analysis starts by addressing the first research question through summarizing and comparing how H&M and AC control their CSR work. It continues by analyzing the challenges of controlling CSR found in the case studies in more detail. In (7) conclusion, we refer back to the research question and answer it with the results of the analysis. In the (8) discussion, the perspective is broadened to discuss the research contribution, generalizability, managerial implications, and suggestions for future research. In (9) a list of sources is presented.



2 Literature review

The literature review starts by describing the basics of management control (2.1). Then, the existing literature on management control of CSR is reviewed (2.2), whereupon the CSR control challenges identified by us when reviewing previous research are summarized (2.3). Thereafter, the research gap addressed in this thesis is described in more detail (2.4). Finally, our theoretical framework is presented (2.5).

2.1 Management Control

Management control systems are the systems managers use to influence their organizations. Traditional definitions of the concept have a clear focus on formal routines and procedures (Berry et al. 2009). According to Simons (1995): *"Management Control Systems are the formal, information-based routines and procedures which managers use to maintain or alter patterns in organizational activities".* For our use, however, and as pointed at by several influential authors in the field of CSR control, (e.g. Durden, 2008; Galbreath, 2010; Norris & O'Dwyer, 2004; Perrini & Tencati, 2006) the importance of assistance from informal controls such as culture and employee values in working with CSR strategy is high (Langfield-Smith, 1997). We will use this broader definition, including both formal and informal control systems.

Formal management control systems are the systems that managers actively use to gain control over organizations. *"[Formal controls are] the written procedures and policies that direct behavior so as to achieve the organization's goals, and/or detect/deter misconduct"* (Falkenberg and Herremans, 1995). In its broadest sense, a management control system consisting of three parts: (1) communication of goals, (2) monitoring and follow-up of those goals and (3) incentives connected to the performance in meeting those goals (Lindsey et al., 1996). The communication of goals makes sure that everyone knows what the manager wants their employees to do, and thus what will be rewarded. Monitoring and follow-up allows managers to gather information from the organization, thereby decreasing the so-called information bias, and to provide a basis for incentives. Incentives are provided for satisfactory fulfillment of the communicated goals. Together, these activities create a feedback loop that motivates employees to achieve the specified objectives (Henri, 2006). It implies that all three components are necessary to achieve effective control and missing one will impair the effectiveness of the other two (Falkenberg and Herremans, 1995)

In addition to formal controls, informal controls, or culture, is widely acknowledged for being important in determining employee behavior. Informal control systems are "*the shared values and traditions that influence employee action"* (Falkenberg and Herremans, 1995). Cooke and Rousseau (1988) provide a frame that helps understanding the role of culture in relation to formal management control systems (here somewhat simplified). They measure culture in terms of *direction* and *intensity*. The direction consists of the values, norms and thinking style included in the culture whereas the intensity is the strength with which the direction is expressed. In a humanistic and caring type of culture, the focus is on helping each other, why needs of external and internal stakeholders are likely to be considered in decision making. In such a culture, implementation of formal controls is likely to be helped by the culture. On the contrary, a competitive culture puts focus on the individual and not on helping

each other. In a company with such a culture, culture is likely to be an obstacle in implementation of CSR.

Authors from different camps have suggested that cultural and formal controls interact in different ways. Schein (1984) and Simons (1995) agree that culture is dominated by formal controls and that managers can design and steer the direction and intensity of the culture. Several authors have, however proposed that the relationship is more complex and that the influence between cultural and formal control is mutual (e.g. Scott, 1995; Ouchi, 1980). Later practical evidence supports the latter (e.g. Norris & O'Dwyer, 2004).

2.2 Management Control of CSR

A small number of case studies of CSR control have been performed. The majority part of them focuses on one particular part of the control systems used for CSR. Some authors have focused on CSR performance measurement systems (e.g. Perego & Hartmann, 2009; Bonacci & Rinaldi, 2007; Albelda, 2011) while others have investigated the role of culture in CSR control (e.g. Galbreath, 2010; Morsing & Oswald, 2009). Only very few papers took a holistic approach by considering both formal and informal controls (Crutzen & Herzig, 2013). Below, the findings from these studies are summarized in order to provide a basis for analysis of our case study findings.

Studies investigating CSR control have found that organizations communicate CSR goals and values internally through magazines, intranets, leadership speeches, formal goal-setting and CSR scorecards, whereas external communication happens mostly through CSR reports and webpages (e.g. Norris & O'Dwyer, 2004; Riccaboni & Leone, 2009; Morsing & Oswald, 2009). In their study of Procter & Gamble, Riccaboni & Leone (2009) found the use of Balanced Scorecard-methodology in creating a set of KPI's[4] with corresponding goals that are broken down to each operational unit, which made CSR more visible across the organization.

Some studies investigating performance measurement of CSR (e.g. Morsing & Oswald, 2009; Riccaboni & Leone, 2009; Albelda, 2011) found opposing results on the extent of successful CSR measurement. For example, Riccaboni & Leone (2009) describe a fully implemented and functioning measurement-loop in P&G, whereas Morsing & Oswald (2009) described dysfunctional monitoring in their study. Other studies focus specifically on either social or environmental measures with varying results. This is well explained by Riccaboni & Leone (2009), who concluded that organizations seem to find better ways of measuring environmental measures, such as CO_2 emission than social measures, such as corruption. In order to deal with this difference, we will mostly refer to "CSR measures" or "CSR KPI's" as a collective name for social and environmental measures and when required they are separated as "environmental" or "social" factors.

A strong consensus in the research on CSR control concludes that formal incentives, which are a common concept in general management control theory and practice as described in part 2.1, are mostly not used to support CSR measures. This is surprising,

[4] Key Performance Indicators

as management control authors point out that incentives are a vital part in the management control system (e.g. Falkenberg & Herremans, 1995).

As described in the introduction, culture seems to play a larger role in CSR strategy support than in many other management control cases. Since cultural norms provide guidelines for filtration of acceptable and non-acceptable behavior in organizations (Morsing & Oswald 2006), a culture fostering ethical behavior should help CSR implementation. Accordingly, Riccaboni & Leone (2009) found that culture acted as a facilitator of CSR practices in their study of Procter & Gamble. Corporate culture can even act as a driving force behind implementing and sustaining CSR strategy (Galbreath, 2010; Morsing & Oswald, 2009). Norris & O'Dwyer (2004) agree with this position, but further suggest that a culture that strongly influences values other than CSR could act as an obstacle for CSR implementation, as exemplified by Adams & Frost's (2008) study of an Australian utility company. Culture thus seems to be important in CSR implementation and strong management support is key in developing such a culture (Riccaboni & Leone, 2009). This might lead one to the question whether culture is in fact *enough* to implement CSR; that companies with a CSR fostering culture could save costs by *not* controlling CSR formally. Adam & Frost (2008), however, give a disappointing answer to this question. A fostering culture might be helpful in CSR strategy implementation, but it is also vulnerable and cannot replace formal controls in, for example, supplying information to management.

Researchers have also found that organizations like GRI, ISO, UN Global Compact[5] and consultants try to establish CSR control standards that influence the way organizations deal with CSR. These organizations offer companies voluntary certificates if they fulfill certain criteria. Earlier studies of the ISO 14001 (Barth and McNichols, 1994; Blacconiere and Patten, 1994; Power, 1997; Shields & Boer, 1997; Walden and Schwatz, 1997) show that such voluntary standards becomes a way of gaining legitimacy, thereby pushing organizations to fulfill a specified criteria. Larrinaga-Gonzalez and Bebbington (2001) describes that such standards has forced accounting and controlling functions to become more integrated with environmental strategy, thus speeding up the CSR strategy implementation. In addition, the controlling organization has the potential to play an important role in finding good ways of measuring physical flows, like CO_2 and waste (Masanet-Llodra, 2006). In multiple case studies on Australian companies, Adams & Frost (2008) found that external reporting standards helped companies to develop their internal controls as information and methods were shared which was easier as compared to developing new standards from scratch.

A general problem in the existing research on CSR control is that the studied objects are all in the forefront of CSR work. This is likely do result in some conclusions about CSR control being biased. Cultural support provides a good example. As described above, culture has shown to play a major role in companies that have come far in operationalizing CSR. It has proven to be effective in some cases - but would a shell gas extraction company receive the same help from its corporate culture in operationalizing CSR as was found in the Danish pharmaceutical company Novo Nordisk (Morsing and Oswald, 2009) or in a British eco-targeted food retailer (Norris & O'Dwyer, 2004)? Probably not. Realities of how CSR is operationalized (or rather not operationalized) in

[5] For Global Reporting Initiative, International Organization for Standardization, and United Nations Global Compact

less CSR-successful companies is unknown and the need for formal controls in CSR operationalization might be much stronger. For CSR to be successfully implemented in all types of companies, researchers and practitioners need to find sufficient ways to achieve formal control. It may be using the traditional controlling methods or not. Although this aspect is not covered in our study, we elaborate what effects the lack of cultural support might have on CSR control in the analysis.

2.3 CSR Control Challenges

When reviewing a large number of articles on CSR control, as described above, a number of control challenges could be identified. Each challenge is related to controlling CSR and does in one way or another impose an important control problem to managers if it is not overcome.

Well-defined measurable measures and targets

Difficulties in creating easy-to-measure targets were found by some authors (Riccaboni & Leone, 2009; Adams & Frost, 2008). These authors explain that finding good measures is key for creating a functioning formal control system. Adam & Frost (2008) asked a number of companies how they had developed the measures they used. A number of ways have been used, from internal development to using external consultancies but this problem still persists.

Control throughout the organization

Morsing & Oswald's (2009) found that CSR measures were incorporated in the corporate balanced scorecard in their study of Novo Nordisk. When the scorecard was broken down through the organization the CSR related measures were neglected. This was extra surprising, since the company of study was seen as a predecessor in CSR strategy implementation. Putting further importance to this matter, Riccaboni & Leone (2009) found that Procter & Gamble in fact did break down their CSR measures and that this had been key in their CSR implementation.

Incentives not connected to CSR goals

Several studies have found situations where monetary incentives were connected only to financial objectives, while they are trying to implement a CSR strategy (e.g. Norris & O'Dwyer, 2004; Morsing & Oswald, 2009). Management control literature in general suggest that measurement has to be linked to sufficient rewards to be effective, especially in cases where other objectives are incentivized (Vroom, 1964).

Adaption to multiple countries worldwide operations

Adam & Frost (2008) describe the difficulties some companies of study had in adapting measures to local circumstances in different countries. Some experienced different pressures form stakeholders in different countries and some experienced cultural misunderstandings as corporate functions attempted to impose formal controlling procedures on foreign locations.

Incongruence between CSR and profitability goals

Norris & O'Dwyer (2004) found incongruence between CSR related and financial goals in a study of a British food retailer. In the case, CSR was to a large extent implemented

though personnel initiatives driven by culture. These initiatives were to some extent in conflict with the formal control systems that focused on profitability. In this duel CSR often won over by money even in a financially though situation. To avoid similar problems, it is key to align the objectives of CSR strategy and corporate strategy. Riccaboni & Leone (2009) suggest that this is best done through integrating the CSR control in the ordinary management control systems, so that the potential trade-offs can be controlled in a systematic way on the management level. Another researcher Epstein (2010) describe that this incongruence appears as a result form that CEO and CFO wants to promote financial performance, whereas the CSR managers wants CSR on their agenda, whereby a organizational clash arises.

Reliance on cultural support

As pointed at by several influential authors in the field of CSR control, (e.g. Durden, 2008; Galbreath, 2010; Norris & O'Dwyer, 2004; Perrini & Tencati, 2006) the importance of assistance from informal controls such as culture and employee values in working with CSR strategy is high (Langfield-Smith, 1997). This was in several studies experienced as a challenge, as informal controls per definition are not directly under governance of management.

For simplicity, we will name these challenges in the rest of the thesis as:

Well-defined measurable measures and targets	**Insufficient measures**
Breakdown of goals throughout the organization	**Control myopia**
Incentives not connected to CSR goals	**CSR incentive absence**
Adaption to multiple countries worldwide operations	**Different culture-based perceptions**
Incongruence between CSR and profitability goals	**CSR-profitability trade-off**
Reliance on cultural support	**Reliance on cultural support**

2.4 Research Gap

This study addresses a gap in the literature that exists in the intersection between management control literature and CSR literature.

A number of case studies are starting to form a foundation of how CSR control is performed in companies (e.g. Perego & Hartmann, 2009; Bonacci & Rinaldi, 2007; Albelda, 2011; Galbreath, 2010; Morsing & Oswald, 2009). However, the state of this literature is still nascent, which is shown by differences in the conclusions of several studies. In addition, only a few studies have taken a holistic perspective by studying both formal and informal controls (e.g. Riccaboni & Leone, 2009; Morsing & Oswald, 2009). Our first research question aims to contribute to filling this gap by adding additional insights to how two companies control CSR, considering both formal and informal controls.

CSR researchers can add valuable insights in how management control works and how it can be improved, thereby helping managers to implement CSR strategies and in turn help companies in becoming more sustainable. One such insight is mapping and understanding of challenges faced by companies in controlling CSR. Several studies have emphasized certain CSR control challenges (e.g. Riccaboni & Leone, 2009; Adams & Frost, 2008; Galbreath, 2010; Morsing & Oswald, 2009), but no study has provided an overview of all existing challenges. Our second research question addresses this gap by providing an overview of the CSR control challenges organizations face, based on previous research and a dual case study.

2.5 Theoretical Framework

Management control of CSR and its challenges can be well understood using the concepts found in previous research on general management control and CSR control. In the following, the concepts of *formal* and *informal controls* are used to separate controls that are directly steered by management and those that are not.

To describe formal controls, the concepts of *communication of objectives, follow-up,* and *formal incentives* are used to nuance the descriptions and separate between the major blocks of the CSR control system. To describe informal controls, or culture, the concepts of *direction* and *intensity* are used. These concepts have all been used successfully in previous studies of management control and/or CSR control.

3 Method

In this section, we discuss the approaches used to conduct our study. We start by discussing the research strategy (3.1), then the research approach (3.2), the research design (3.3), our data collection (3.4), and lastly the quality of our research (3.5).

3.1 Research Strategy

On a theoretical level there are two approaches for conducting research: Quantitative and Qualitative. It is not easy separating the two methods, and the opportunity to have a hybrid among the two is also possible (Edmondson and McManus 2007).

The relatively nascent state of the literature on this topic supports a qualitative research design according to (Edmondson and McManus 2007). In addition the existing research gap suggests that a qualitative case study is appropriate to examine emerging patterns in this limited explored research area. Our data analysis will be conducted according to Yin's (2003) method of "pattern-matching" where empirical patterns are compared and analyzed with identified patterns from theory. Our research will be focused on "how" and "why" questions in accordance with Yin (2003, p. 1–9) since we cannot manipulate events directly due to our contemporary focus in real life events.

3.2 Research Approach

In this section we will be discussing relation between theory and research, whether it is an inductive or a deductive study (Bryman and Bell, 2007). As others have noted (e.g., Fine and Elsbach, 2000), iterating between inductive and deductive method is a way of testing our advances and understanding an organizational phenomena (Bryman and Bell, 2007). This is a common development process for researchers since it is hard to

completely separate them. Since our intentions are to explore a research area within the academic research field of CSR and management control, where the combination of them is in an early theory stage, the intensive conceptualization work will appear during and after our data collection in order to seek patterns and to explain the data. Due to potential gaps identified in earlier research, we will use a deductive approach studying the findings form the literature for the empirical study and throughout the research-phase adopt an inductive approach, as the data is being collected and finally analyzed. Consequently, both deductive and inductive approaches will be applied at various stages.

3.3 Research Design

For our research a comparative case study of two companies and expert interviews has been found to have the highest methodological fit when having our objective and our particular research field in mind.

The research was conducted over a 5-month period from January 2014 to May 2014. In total 19 interviews, 1 hour each was conducted in the two case organizations with people from different positions. Interviews were compiled via personal visits, along additional data collection done via e-mail and telephone. Additional data were collected from published materials like annual and CSR reports. All our interviews were conducted with open-ended questions with a fixed set of topics, which can be found in Appendix.

This approach, when collecting more than one type of data, preferably three sources, is called to triangulate, which is a way to increase the validity of the findings since the research question is analyzed with different viewpoints. According to Masanet-Llodra (2006) achieving validation in a research project with this methodology is necessary in order to corroborate the information. Our comparative elements were both between the organizations, between "expert practitioners" and what existing theory is stating about the topic. To increase the validity of our findings we applied an explorative approach, which guided the development of the subsequent interviews.

Limiting the case study to two organizations helped us facilitate the isolation of a greater number of variables and easier generalized conclusions compared to when more organizations would have been studied. With this setup we also made sure that a sufficient number of interviews were conducted across hierarchies and specializations within the studied organizations.

3.4 Data Collection

Selection of Case Companies

After finishing the literature study, we started to develop the criteria for companies on which they were selected. They were as follows:

Firstly, since CSR was an area of our research we wanted to focus on companies who actively worked with these questions. In our case we used the GRI[6] guidelines and the UN global compact[7] as a discriminatory factor.

Secondly, due to the fact that this research methodology requires a number of interviews and field visits in the two case companies we needed to see some motivation from them to take part in our study, so that we could secure dedication from the participating firms.

Thirdly, we had a demand that they would operate on a global arena with minimum 500 employees and listed on the Stockholm Stock Exchange.

A Swedish listed company was preferred to facilitate the information gathering. The size of the company also had a matter so that we could find relevant number of respondents in both of the companies. It was also of importance that the two companies studied were of similar size so that conclusions could be made from both of them in identified patterns. Global companies were preferred to due to that fact that we wanted to study if the CSR control performed at the headquarters also included foreign locations. In emerging countries there might be more challenges associated with operating its business, such as corruption and working conditions, which might not live up to the Swedish standards and thereby in need of a great CSR control system for following this up.

The chosen case study objects, AC and H&M, fit well into the criteria described above.

Primary data – interviews

According to Yin (2003), interviews are the most vital sources of evidence in case studies, which supports in-depth interviews with employees from different positions within the studied companies as our primary data source. This will yield qualitative data about how this topic is treated within the organization. Access to company documentation will help us in understanding the communication, reporting and monitoring of CSR within organization.

The next step in our research was to decide how to conduct the interview. Yin (2009) states that there is three ways to structure your interview, ranging interviews, focused interviews and guided conversations. We applied a mix of focused interviews and guided conversations, which is called a semi-structured question format (Yin, 2003). Focused interviews require the interviewer to have the same questions for each respondent whereas guided conversation is more flexible in its nature with open-ended and less formal interviews. With semi-structured we mean that we have some fixed topics that we discuss with the respondent, but depending on specialization or seniority we modify the topics since a more senior executive usually has a more holistic approach of the CSR work as compared to a specialist. With this interview format we can also

[6] The **Global Reporting Initiative (GRI)** is a non-profit organization that promotes economic sustainability and produces one of the world's most prevalent standards for sustainability reporting. GRI seeks to make sustainability reporting by all organizations as routine as, and comparable to, financial reporting.

[7] The **United Nations Global Compact** is a United Nations initiative to encourage businesses worldwide to adopt sustainable and socially responsible policies, and to report on their implementation. The UN Global Compact is a principle-based framework for businesses, stating ten principles in the areas of human rights, labour, the environment and anti-corruption.

adopt the questions during the actual interview depending on what kind of examples the respondents give. The topics for our interview format were developed with reference to existing research on CSR, management control and with having our research question in mind.

Selection of respondents

Respondents were chosen from LinkedIn or recommendations depending upon their working profile, which was either due to a specialization within CSR or because they operated in a controller or management positions.

Expert interviews

In order to validate our findings and acquire the ability to dig into anomalies encountered, five expert interviews were conducted. According to Masanet-Llodra (2006) achieving this comparative element in a research project, is necessary in order to verify the conclusions. These "experts" were chosen because of the experience from various institutions touching on the CSR field so that their opinions and views could be holistic and not biased. The people interviewed were from: **Confederation of Swedish Enterprises** (Head of the Department of Industry Policy), **Ministry of Finance Swedish Government** (Publicly Owned Corporations, unit Sustainable Corporations), **Storeband** (Head of Sustainability), **KPMG** (Climate Change & Sustainability Services).

Secondary data

Secondary data was taken from annual CSR reports, annual reports, income statements and other written documentation.

Literature Review

In order to structure our research we used multiple sources in order to find relevant literature for our field. Using keywords like CSR, sustainability, monitoring, reporting, control, management control and sustainability control the scope of literature was narrowed down and we found some limitations in our initial research. The combination of management control and CSR is quite nascent, but the two fields separately have been studied for a long time and are mature.

3.5 Research Quality

The case study research allows a variety of evidence, like documentation, archival records, interviews, direct observation, participant observations and physical evidences, for achieving validation and reliability (Masanet-Llodra, 2006). These are two factors on which trustworthiness of a research can be decided. If the data provided and the deduced conclusion is not reliable or valid then there is no point of the research (Bryman & Bell 2007).

Reliability

Reliability refers to the quality of measurement and whether other researchers in similar cases can accurately replicate the findings. Put in another way, it relates to the deviations in data collection that vary from time to time or depending on who collects the data (Bryman & Bell, 2007).

To minimize the deviations between the observations, even a simple read-up level knowledge of the subject can be helpful in avoiding basic problems, which are otherwise referred to as reliability related weaknesses. With this in mind we made sure that our data collection procedures could be repeated, with the same results.

According to Silverman (2013) one of the main threats to reliability in qualitative studies is the researcher's own interpretation. Information comes from different individual sources and interpretations can differ due to discrepancies in educational/social background, values and prior experiences. Their way of expressing the same things can be different and vice versa. Any possibility of confusion or misinterpretation in the answer can be eliminated with more clarifying questions.

Since we have used a comparative method, where we have third to identify empirical patterns compared to patterns from theory, it has been beneficial being two researchers since we have been able to examine and crosscheck the respondent's statements, both internally between us and externally with our supervisors and expert interviews. As both researchers took part in transcribing interviews, we got an opportunity to discuss the answers and give our own personal reflections of the topic. This enabled us to perform the pattern-matching analysis and ensured that we had understood the interviewees correctly and avoided misinterpretations. With our precautious actions taken to prevent misinterpretations, we believe, reliability problems will be low.

Validity

Another aspect related to the quality of the research is the validity, which becomes important as it decides the outcome of the study. Validity defines how well we do critical investigations of all data instead of providing some "well-chosen examples" which probably put an incorrect picture of the investigation (Silverman 2013, p. 276). To validity there are different aspects, namely: construct, internal and external validity, which becomes critical in qualitative research (Kidder & Judd, 1986, p. 26–29).

The internal validity becomes vital while analyzing the data collected via interviews, for example if the conclusion is that x causes y, in reaching internal validity you need to establish the causal relationship between the two conditions (Bryman & Bell, 2007). It becomes important in doing the analysis of the internal correlation between different attributes.

External validity is important for our study (Masanet-Llodra, 2006) since we are attempting to find generalizable factors from our studies and interviews. It deals with whether the result and conclusions coming out of the study are relevant and applicable to a greater context or not (Yin, 2003).

During the interviews one risk was the modification of the statement from the interviewees because they knew about our purpose of study, which might have caused a change in their behavior (Trochim & Donnelly 2008). Despite this, and to demystify the CSR concept, we gave the interviewees basic knowledge about our research so that they were aware of our intentions of the research. Also sharing some typical terminologies with the respondents beforehand helped minimizing the possibility of confusion.

Another risk to this research was the possible anxiety of respondents when being evaluated on this sensitive topic of CSR and thus leaving out information or mitigate how they would normally act (Cook et al. 1979). These two risks are related to construct validity, which is describing the degree to which the research is investigating what it claims, or purports, to be measuring (Brown, J. D. 1996). This means that established interview topics and questions are used for the concepts being studied (Masanet-Llodra, 2006). But, we believe our informal approach to the interviews in addition to the external interviews served as a way to ease the feeling of anxiety.

4 H&M

This section provides an empirical description of our case study at H&M. It is solely based on interviews with H&M employees and on the annual and sustainability reports of 2013. The first section focuses on H&M's CSR challenge (4.1). The second section describes H&M's CSR organization (4.2). The third section looks at formal CSR control activities (4.3), and the fourth section describes how CSR is communicated to external stakeholders (4.4). Section 4.5 treats how a CSR-promoting culture is supported. The final section (4.6) describes controls aimed at suppliers. Challenges that will be further discussed in the analysis are marked in parenthesizes. Table 1 provides an overview of the interviewees.

Hierarchy Level	Relation to formal control of CSR
Sustainability employee 1	• Communication of goals • Delegate CSR responsibility • Follow up KPIs
Sustainability employee 2	• Communication of goals • Delegate CSR responsibility • Follow up KPIs
Sustainability employee 3	• Communication of goals • Delegate CSR responsibility • Follow up KPIs
Sustainability employee 4	• Communication of goals • Delegate CSR responsibility • Follow up KPIs
Manager 1	• Communication of goals
Manager 2	• Communication of goals • Formation of KPIs
Manager 3	• Follow up KPIs • Influence of formation of KPIs
Manager 4	• Limited formal relation
Controller 1	• Report KPI trends
Controller 2	• Report KPI trends
Financial controller	• Limited formal relation

Table 1 *provides an overview of the various employees from H&M that appear in the empirical findings and their relation to CSR.*

4.1 The CSR Challenge

H&M is the world's second largest fashion retailer with 2700 stores in 53 countries and 800 factories worldwide. The combined number of employees was 116,000 at the time of the study. With such a global reach in an industry that is often criticized for using child labor and destroying the environment, H&M has a great responsibility associated with CSR and ethical behavior. The main owners and top management describe CSR as important for long-term success and the commitment to CSR is clearly expressed.

"At H&M, we have set ourselves the challenge of ultimately making fashion sustainable and sustainability fashionable. We want to help people express their personality and feel proud of what they wear. I'm very excited to see the progress we've made so far and how this will help us to make an even better offer and create a more sustainable fashion future". – CEO Karl-Johan Persson

H&M keeps an open dialogue their stakeholder groups, which helps them to prioritize actions and resource investments. The stakeholder groups are identified as: customers, colleagues, communities, suppliers and their employees, industry peers, NGOs, IGOs, policymakers and investors. The interaction with these is done on a day-to-day basis through regular roundtables on a global and local level and through their so-called wage advisory board.

More practically, this commitment has translated into a number of concrete actions in their value chain. An example is the "Fair Living Wage Roadmap" which is a statement against unfair wages in clothing factories. As a result of this, H&M has actively negotiated with the government in Bangladesh to increase the minimum wage in the country. Another example is that they now are trying to "close the loop" by allowing customers to leave clothes for recycling at the H&M stores.

H&M's CSR initiatives have increased dramatically over the years and today it is a hygiene factor in H&M.

"*When I started at H&M 10 years ago, no one knew what CSR was or even what it stood for. But today we have more people than ever working within this field. We can witness a transformation in our clothing lines and in our stores. And this year our Head of CSR was awarded the most powerful women in Sweden, so I believe we must do some things right.*" – Manger 1

H&M has gained plenty of recognition for their efforts, according to the president of WWF International:

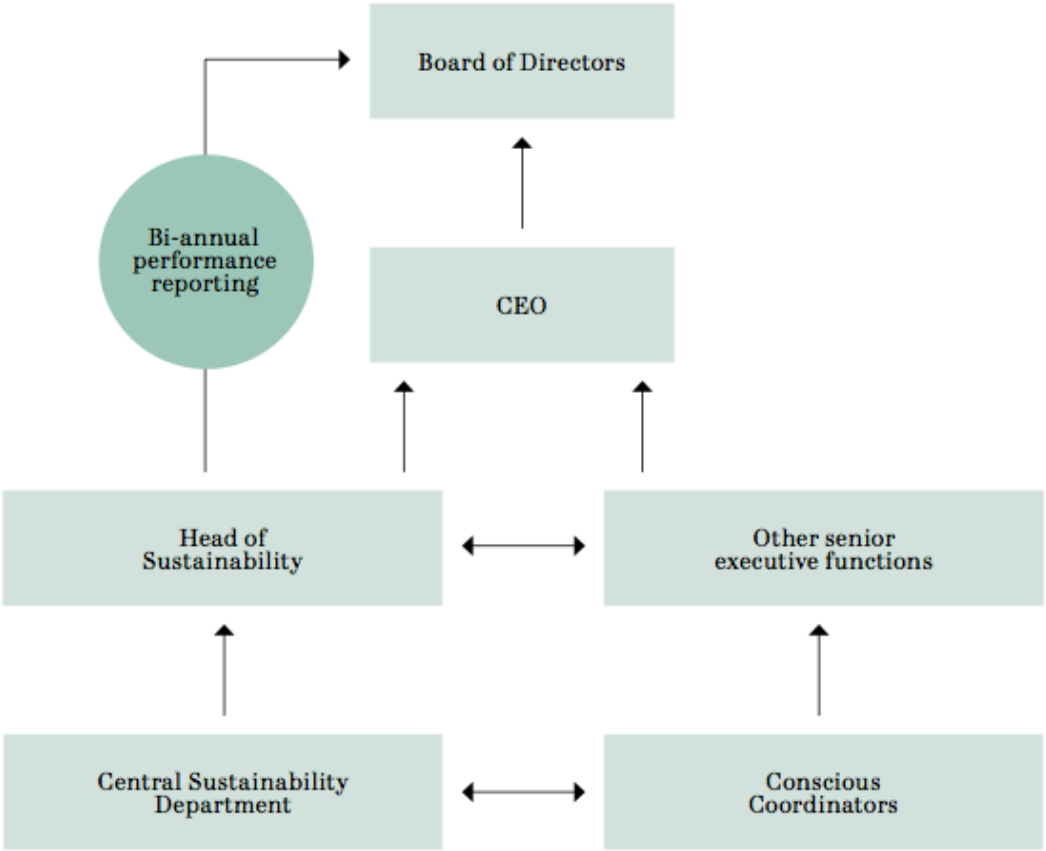
"*H&M is one of the companies that are honestly trying to make a difference*".
– Yolanda Kakabadse

4.2 The CSR Control Organization

A central sustainability department at the head office is engaged in developing the relevant CSR strategy and providing guidance to different departments for their effective implementation of CSR. This department has 20 employees who get help from an additional 50 "conscious coordinators" who work in the sales organization's country offices to support the implementation of H&M's global sustainability strategy locally.

In the 19 locally based production offices, H&M have around 100 employees in their production sustainability team. They work directly with suppliers to support them in complying with H&M's code of conduct and make their production more sustainable.

The target for H&M's CSR reporting is the head of sustainability who directly report to the CEO. The executive management team is responsible for the implementation of their sustainability strategy. Twice a year, the CEO and the head of sustainability perform formal reviews of the progress made. With the same frequency, the head of sustainability reports performance against key sustainability indicators to the board of directors. It is the sustainability department that collects and consolidates the key sustainability indicators (see Picture 1).



Picture 1 *An illustration of H&M's reporting flows*

CSR reports do not travel the ordinary financial reporting flows up the organization. A financial controller explains that her connection to CSR reporting is very limited:

"*From an accounting perspective we are not so involved in CSR. We are only affected practically. One example is H&M's engagement in Bangladesh where they have raised the minimum wage for textile workers. As a result form that, the price of our orders has gone up which affects us in the way that we see differences in the financial statements, in our books when we look at the cost of goods sold. But not more than that.*" – Financial Controller 1

However, the fact that CSR is managed through the sustainability department is not identified as an issue after discussing the topic during our interviews.

4.3 Formal CSR Control Activities

H&M relies on a number of KPI's for formal follow-up and monitoring of CSR. After interviewing 11 employees within H&M, we concluded that there is a large number of KPIs used, and that they differ between units and hierarchical levels. An employee from the sustainability department explains:

"*Different functions within the organization appear on different maturity levels and we have started to work actively with different business units. I would say that the*

production and distribution functions are the most mature. That is why these business areas naturally have more KPI's". – Sustainability Employee 1

Due to the production and distribution focus, most of the CSR related KPI's cover issues regarding environmental issues related to production, such as energy and water consumption. A further clue to the diversity of KPI's is that all internally used KPI's within the company are discussed with the relevant business unit and then finally decided by the sustainability department. This means that new KPI's often are invented to serve special needs. This led to that a large number of KPI's were used in the organization to sufficiently show the CSR progress of each unit (**Challenge 1: Measure overflow**).

"We use rather many KPI's and sometimes people have problems understanding them. It would be better to have a small number of universally applicable KPI's". – Sustainability Employee 2

The same employee described a challenge with retrieving sufficient data from the units being followed-up, due to troubles finding well-functioning measuring methods (**Challenge 2: Unreliable data**). This resulted in unreliable data that was hard to compare between units.

"Environmental impact measurement has proved to be difficult to measure on a worldwide basis due to lack of embedded technology necessary to accurately measure emissions". – Sustainability Employee 2

Except that some units are more mature in their CSR work, and thus in their follow-ups, other units were not followed up on any CSR-related KPI's at all. An employee in the IT-department explains:

"In my department we do not report any information regarding CSR upwards, because there is no need for that. But within H&M there is a hygiene factor to act ethically and you are expected to do the right thing". – Manager 2

However, neither of the respondents mentions it as a problem that there is a heavier focus on CSR in the more "mature functions"; they rather concluded that this is how it is. Despite much effort, the participation of all the departments was still not ensured, which was evident from one of our interviewee's response when asked about their participation and her daily working routine with CSR:

"It's a certainty that CSR should be an integral part of our daily work, but it is not like that yet, since this way of working is quite new for us. For example, before we did not even have controllers within the production units. It is all about the maturity level, within the more mature functions, controllers are naturally more involved". – Sustainability Employee 3

4.4 External CSR Communication

This year (2014), H&M publish their 12th sustainability report, which is the company's main mean of external CSR communication. It is published annually and is fully separate from the annual financial report. The purpose of the report is to inform

external stakeholders about H&M's CSR work. In the sustainability report, one can follow the progress on each of the "seven commitments":

1. Provide fashion for conscious customers
2. Choose and reward responsible partners
3. Be ethical
4. Be climate smart
5. Reduce, reuse, recycle
6. Use natural resources responsibly
7. Strengthen communities

The progress on each commitment is measured by a number of selected indicators and the overall progress of each commitment is summed up in a status; "more to do", "on track" or "done". This type of reporting shows a clear difference to financial reporting where you can clearly identify fluctuations and follow up numbers from previous years.

The sustainability team collects data from all relevant functions within the organization and from external parties such as suppliers. Thereafter, controllers and relevant experts in H&M's sustainability team as well as expert functions in other parts of the company review it before it is published. External auditors audit the external CSR reporting.

H&M is a signatory of the UN Global compact and they follow the GRI guidelines in their annual sustainability report. GRI serves as a communication tool representing H&M's corporate sustainability messages, results and future targets. It specifies that they should report in certain areas, rather than exactly what to report.

"In our sustainability report we are very transparent in our reporting, which is done according to the framework of GRI. H&M has been very active in the design if GRI4, which is the latest edition of the GRI reporting framework. However, there are a lot of challenges with the GRI framework; we do not structure our report exactly as them but we report on all their topics. GRI is more of a framework for conducting reports rather than a framework of control and monitoring." – Sustainability Employee 4

However, a discrepancy between what is demanded externally and what measures are considered good internally is noted (**Challenge 3: Different external measurement demand**). The same interviewee continues:

"There is still a lot to do in order to develop the right KPI's that has a high fit towards the organization's core business. Today GRI is developing in that direction, with different sector standards. But today there is not a good enough standard for us to use - if we would only report on an overall GRI level our stakeholders would not be satisfied enough". – Sustainability Employee 4

Another interviewee describes the challenge of finding useful KPI's for external communication (**Challenge 4: Insufficient measures**):

"*There is a challenge to communicate KPI's, since too complicated KPI's are not working externally in a commercial way. It is a challenge to show sufficient complexity that still is understood by the receiver externally*". – Sustainability Employee 1

This shows that there is a tension between what should be reported and measured internally versus externally. This leads to that H&M might report on something that external actors think they should report on, but internally a different KPI is used. This shows that the opinion on what is important to control partly differs between the organization and its external stakeholders.

"*In some cases we report what people want to hear, but I believe we are starting to achieve a match between what we are doing and what is being demanded. Internally we have a goal to always put different measures in relation to each other, but external actors can demand absolute figures, which can work very well to communicate, but it is not sufficient to steer on those kinds of figures internally*". – Sustainability Employee 3

Except for the sustainability report, H&M communicates their CSR profile through marketing:

"I mostly see what is happening in our marketing activities related to CSR such as; recycled clothing lines from denim fiber, the conscious collection, organic cotton, Water aid, and Top Up campaigns over Christmas." – Controller 2

4.5 Culture as a Means of Control

Culture is a major contributor of control within H&M. Acting in accordance with the values of the culture is expected of you as an employee and culture is one of the explanations why very few monetary incentives are used, according to several interviewees. However, the problem of creating monetary incentives was not experienced as a challenge. Culture served as a good replacement. A mid level manager explained to us:

"One challenge for creating incentives for our employees is that we are 110 000 employees worldwide and most of them are store employees. In order to have an organization to do the right thing the culture is the most important thing for affecting employees. In order to enhance and maintain our culture we talk about our culture and it is internalized in everything we do. Bureaucracy does not belong inside the walls of H&M. Our fundamental values are especially important for a company like H&M, because we are very fast moving and we are expanding quickly." – Manager 3

To spread the word about CSR and foster a culture that supports CSR values in H&M, management and the sustainability department engages in a number of communication activities. Stories and progress reports are communicated through the intranet, H&M's website, their personal magazine and different training activities. Furthermore, to ensure that the organization understands and adheres to H&M's CSR practices, all employees have to undertake an online course in the topic. There is an annual, organization-wide goal on how many employees that are going to be educated.

CSR messages are even put on the walls in H&M buildings, both in meeting rooms at the head quarters and in personnel areas in the stores.

"*CSR activities are communicated in the employees coffee rooms on store level and at the head office. If something in this area had happened and is of a serious matter it is also communicated on the staff intranet*". – Controller 1

CSR values are also considered in the recruitment process, to ensure that the "right" people are recruited.

"We have ethical values in our culture and we recruit people who we think will fit in the culture. This means that the people we recruit are likely to have the CSR values." – Manager 4

The focus on CSR is also used in order to attract young responsible employees.

"Already in the interviews we discuss the topic CSR. That is an important part since we want to appear as an attractive workplace for the younger generation of students at business schools and engineering universities with an interest in sustainability. It is also important for our current employees' loyalty and identification with the company". – Manager 4

Cultural values are sometimes enforced using intrinsic motivators. One employee told us that:

"*One morning when I came to my desk, there was a small piece of chocolate lying there. This was a way of showing gratification because I turned off my computer the day before. Who put it there still no one knows*". – Controller 2

To spread and align the culture in different regions, H&M relies on internal recruiting and rotation programs. This clearly shows how H&M has reliance upon the individuals who carry the organizational culture.

"When we are sending people abroad it is important that the person in question has a high fit towards these [CSR and other H&M] values and thereby is becoming a so-called culture bearer". – Manager 3

This informal mechanism to align actions has so far shown to be an effective mechanism for control within H&M. However, due to H&M's strong growth in recent years, considerable pressure is building upon the corporate culture to continue as an effective means of control and of information transfer within the organization (**Challenge 5: Reliance on cultural support**). In order to align and spread the H&M thinking and culture, a mid level manager mentions one activity to strengthen the culture intensity and clearly direct it towards key employees at H&M:

"*In order to align employees mentality around CSR at H&M, the follow-up on the 7 commitments serves as a partial basis of discussions in [salary] raise negotiations."* – Manager 2

However, this follow-up of the 7 commitments is very similar to a formal incentive, although not portrayed as such by the interviewee who considers the cultural influence of the follow-up.

4.6 Control of Suppliers

In addition to internal units, H&M control the CSR work of their suppliers. Suppliers are frequently evaluated on issues such as salaries, working hours, safety, child labor, and working conditions. A set of ethical guidelines, called the Index Code of Conduct (ICOC), is used to evaluate and rate the suppliers' practices. Suppliers need to meet a certain base level on this rating in order to become a supplier of H&M.

"Once we were negotiating a contract with a new supplier of carpets for our stores. They did not meet our requirements and after we had given them some time to correct certain things without any results, we chose a different, more expensive supplier." – Manager 1

A slight trade-off between CSR values and financial performance was sometimes experienced (**Challenge 6: CSR-profitability trade-off**).

"Some deals are obvious to avoid, but sometime it is hard to draw the line to what we think is acceptable or not." – Manager 1

The "ICOC score" is clearly communicated to all suppliers. The ICOC is also an important working tool in the purchasing processes. H&M use the rating to systematically reward suppliers for good sustainability performance with longer or more frequent business contracts. For example, suppliers who score well are often promoted with a longer supplying contract for up to 5 years (norm in the industry is order-based contracts that last 1-8 weeks). Only suppliers with the highest scores can become their strategic partners and their preferred supplier. Current suppliers are put under pressure to improve if they do not score max:

"One example is a simple time stamp clock in the production site. That is a function that is mandatory to have because we need to be able to control the working hours of the staff. Unreasonable long working hours are not accepted". – Manager 1

5 Atlas Copco (AC)

This section provides an empirical description of our case study at Atlas Copco (AC). It is solely based on interviews with AC employees and on the annual report of 2013. The first section focuses on AC's CSR challenge (5.1). The second section describes AC's CSR organization (5.2). The third section looks at formal CSR control activities (5.3), and the fourth section describes how CSR is communicated to external stakeholders (5.4). The final section treats how a CSR-promoting culture is supported (5.5). Challenges that will be further discussed in the analysis are marked in parenthesizes. Table 2 provides an overview of the interviewees.

Hierarchy Level	Relation to formal control of CSR
Group Management 1	• Communicating goals • Formation of KPIs
Group Management 2	• Communicating goals • Formation of KPIs
Group controller	• Follow up reporting from all units • Support function in understanding KPIs • Consolidate KPIs • Follow up KPIs
Controller 1	• Follow up KPIs
Controller 2	• Follow up KPIs • Report KPI trends
Controller 3	• Follow up KPIs • Report KPI trends
Manager 1	• Follow up KPIs • Communicating goals
Manager 2	• Follow up KPIs • Communicating goals

Table 2 *provides an overview of the various employees from AC that appears in the empirical findings and their relation to CSR.*

5.1 The CSR Challenge

AC is a world-leading industrial company that serves customers in more than 180 countries with products including mining machines, drill rigs, industrial compressors and industrial assembly tools. It has 40,000 employees and approximately 100 production units in more than 20 countries. AC has a decentralized organization comprising four business areas with a total of 22 divisions. Within the divisions, there are four types of operational units: production units, R&D units, service units and sales offices.

AC is a supplier to many energy-intensive industries, one of which is the mining industry. This along with business in many complicated markets results in challenges related to corruption, human rights and environmental damages. This has led to an increased focus on CSR initiatives. According to their annual report:

"AC strives to be a responsible corporate citizen in every market that it operates in by finding synergies between economic growth, environmental stewardship and socially responsible operations. In recent years the focus has been to strengthen our market position in emerging markets such as China, India and Brazil, and to develop aftermarket operations there."

Top management has taken leadership in the CSR work through clear incorporation of CSR goals into their overall business strategy. This is represented by the slogan *"Sustainable productivity"*, which can be found on the cover of the annual report. A strong focus is to build sustainability into the products.

"Our brand promise "Sustainable Productivity" is really something that we want to promise to our customers and employees since we are living in society together and it is our responsibility. This is something that we have to do, it is just a matter of a question how far you want to go." – Group Management 1

Another employee explains:

"Sustainability lies at the heart of AC's innovative products and is driven by employee pride in the group's values." – Group Controller

For AC this means delivering energy efficient products that work for a long time instead of being frequently replaced. To make the business model work, an increasing focus is put on selling maintenance services. Through such initiatives, AC is helping customers improve their environmental footprints. In addition, interviewees explain that AC is a strong promoter of human rights, within the company as well as in their business partners' organizations.

AC's CSR work has resulted in a place in the Dow Jones Sustainability Index and a position in the Global 100 most sustainable companies. A controller at group level comments:

"We are proud of what we are doing, so we also want to communicate how important CSR is for us externally which acts to motivate us internally. We want to show that we are working with these questions and that we still want to do better. When we appear on a list related to CSR or improve our ranking, we always celebrate internally and we are proud to share best practices with others if we can." – Group Controller

5.2 The CSR Control Organization

At the time of the study, approximately 200 units within AC reported environmental data and over 300 units reported HR-and people management data that was consolidated to group level.

The CSR organization has two main kinds of roles. The CSR managers operate in the operational units. These are responsible for supporting the line manager in CSR work and collect data that is going to be reported upward in the organization. The CSR managers are lead by a Safety, Health, Environment and Quality (SHEQ) person in the corresponding division. The division is the separate body that takes care of the delivery of objectives set by the group. The SHEQ persons eventually stand under management from a CSR VP[8] on group level. This CSR VP is widely recognized both inside and outside the organization as a symbol for CSR.

[8] Vice President

The data that the CSR managers in the operational units gather is reported using mainly the same controllers, the same consolidation routes, and the same IT systems as are used for financial information.

"*We want to create a streamlined integrated reporting flow where CSR should not be a separately treated measure, it should be as important as any other measure. Today the CSR reporting has ended up on the controller's table and we have gradually poked in new KPI's to make our reporting more nuanced".* – Group Management 2

The final data consolidation on group level is separated between financial and non-financial data, but this is for practical reasons rather than anything else.

"We have financial and non-financial data consolidated by different controllers at group level. This is because it is easier for the controllers to be specialized on either financial or non-financial data rather than mixing the two. We had to split the work in some way, and this is how we did it." – Group Management 1

The consolidated information is then passed on to the group CSR manager who is directly subordinated the SVP[9] of corporate communication and government relations, who is part of the management team.

An advisory board called the Safety, Health and Environment (SHE)[10] council serves as a forum of discussion for CSR topics on group level. The council has representatives from all business areas, from CSR managers on group level and from the controlling organization. Their main task is to give advice to the group management on decisions regarding CSR topics. Among other things, they provide advice on CSR strategy and on new KPI's for CSR monitoring.

The group management uses the SHE council's advice to take CSR related decisions. The management team receives consolidated CSR information quarterly, which is presented by the SVP of corporate communication and governmental relations. By having CSR topics early on the agenda in management meetings, it is made sure that the topic is not given lower priority than other topics.

The board of directors is responsible for the regular assessments of important aspects like financial situation, legal, social and environmental risks, ensuring the appropriation of the structure and controlling within the firm. They also give formal approval to the Business Code of Practice. Like the top management team, they receive consolidated CSR information every quarter.

For especially sensitive matters, an especially dedicated channel for reporting any type of ethical issues like corruption or human rights' violation issues exists. This helpline ensures acknowledgement of the issue and helps in getting it addressed in time in an anonymous and unbiased manner.

[9] Senior Vice President
[10] Note the difference between the SHE council and the SHEQ persons.

5.3 Formal CSR Control Activities

AC uses a combination of KPI's, formal policies and follow-up meetings to control CSR. CSR is grouped together with other non-financial factors under the abbreviation "SHEQ". This includes Safety, Health, Environment and Quality along with human rights. AC rely on a number of CSR KPI's for following up these areas with a majority number of KPI's being environmental measures, such as CO_2 emissions.

The KPI follow-up focuses primarily on the production and distribution units, since they contribute the most to environmental and social impact in their daily work. AC argues that it is important to collect data from those units that have the greatest CSR-related impact. Service companies, which are usually smaller units, do not report CSR data, since their relative impact is considered to small to measure.

Challenges with the follow-up of CSR KPI's were experienced in the organization. First, several environmental KPI's include data that is reported from suppliers of AC. Controllers often experienced problems in retrieving valid data from suppliers, which makes the KPI's hard to measure and their outcomes unreliable (**Challenge 2: Unreliable data**).

"*One challenge in our reporting is traceability of components. A difference appears between the business areas [A] and [B], within the [A] business area we source components from many more suppliers compared to in [B] and thereby it is harder to track from where the different components come and what emissions they have caused. In [division C], where we source big pieces of equipment from only a few suppliers, the traceability is better.*" – Manager 1

Second, misunderstandings about what to include in upward KPI reports happened, which made the data unreliable. A general challenges in finding KPI's that well reflected what should be measured was experienced (**Challenge 4: Insufficient measures**).

"The complicated CSR KPI's sometimes lead to that general managers [line managers] are sometimes held accountable for something they do not understand." – Controller 1

Third, differences in understanding of why and how to measure CSR KPI's were experienced between different countries and cultures (**Challenge 7: Different culture-based perceptions**). For example, the perception of what is "secure enough" differs drastically. An employee compares the perception of security in a developing country to how it was in Sweden 50 years ago:

"If a person within the production industry in Sweden would have hit his thumb with a hammer 50 years ago it would not have been as dramatic as it would have been today. Today, it would have been all over the tabloids the following day." – Manager 2

The same manager continues:

"*We have a challenge in making the KPI's we are collecting relevant for our customers. It is important for us that they can see how this data gathering actually can help them too. For example, an ability to present your own development could lead to a certain certification or other benefits.*" – Manager 2

A member of the SHE council explains regarding the measurement problems:

"*We are new within CSR reporting. We have children diseases; not everyone understand the definitions or have the same sense for the numbers. We do not have many benchmarks to go on. It is even hard to do KPI comparisons within the organization. It is not always you see a change within your non-financial KPI, but it is important to obtain a flow and routine in our reporting, since this will have an impact on our effectiveness*". – Group Controller

As compared to financial KPI's, CSR measures are considered much less reliable. Another employee from group management explains:

"Some CSR goals, honestly, have not been of such a great quality if we go back 5-10 years. We are working hard day by day to increase our KPI quality. But we have a great challenge in showing the exact fluctuations of for example our water consumption or carbon emissions as compared to when we are reporting financial fluctuations. In addition, we can verify our financial KPI's from decades back, and how to verify a KPI is extremely important. But, we have since some years ago increased our ambitions. CSR KPI's cannot be vague, resources must be allocated and clear responsibilities delegated." – Group Management 2

Another member of the group management described a willingness to overcome the challenge of breaking down CSR follow-up to lower levels (**Challenge 8: Control myopia**):

"Within CSR KPI's, we are still new. Our aim is to have goals set up for all employees when we reach sufficient quality in our reporting. I am longing for the day when I can ask my VP of CSR: Have we done any progress regarding our environmental footprint? Accidents? And in general about how the month has gone and what kind of improvements have been made and what implications that has for my organization. If we will reach to that point we drink champagne and celebrate." – Group Management 1

One part of the progress of developing the formal control systems for CSR and making it more similar to the financial control system was to increase the frequency of internal reporting. Before 2011 reported non-financial data was consolidated only on an annual basis, but it was hard to follow up because of the long time gap. According to a Controller:

"Before, processes were forgotten on how to process [CSR], we had a lack of routine and there were no clear responsible persons involved in this reporting. But with our quarterly implementation it has led to a better routine and it enhanced the quality of the data when it is done on a frequent basis." – Controller 2

The KPI's are used in follow-up meetings between managers on different levels. The outcomes of CSR measures were discussed but a challenge was experienced in using CSR data as basis for monetary incentives (**Challenge 9: CSR incentive absence**). A senior manager comments on the bonus system:

"Bonuses to high level managers are partly based on financial targets and partly on other things. Part of the basis for the bonus is set on short term and can vary between managers and in time. It does happen that CSR-measures are used as basis for bonuses, but not often. The manager must be able to influence the outcome of the KPI's used, if the measures do not work well, providing bonuses based on them would be unfair." – Manager 1

In addition to formal control through KPI's, different policy documents were used to provide boundaries for ethical behavior. In case such policies were violated, the immediate manager was contacted and thereafter the Group Legal Counsel discussed the violation under assured anonymity.

5.4 External CSR Reporting

AC has published sustainability reports annually since 2001. Since 2012, a so-called integrated report has been used, where CSR is integrated into the annual report.

"*The reporting regarding CSR topics has increased enormously over the past decade. Today we have a number of KPI's where the development of such things as CO_2-emissions and water consumption is followed. In addition, we set targets and follow trends.*"

AC takes part in the GRI. The GRI expresses that companies should include everything that is relevant for the business in their external reporting, without specifying exact measures. One controller explains:

"It is hard for us to say that GRI is missing something when they are giving us these guidelines. It is up to us to include what we find relevant and GRI is more of an organ that is forcing us to do the analysis on different topics in contrast to for example the IFRS accounting standards. The two standard setters differ quite a lot." – Group Controller

Yet, there is a discrepancy between the demands from the GRI and what AC reports.

"All topics in the GRI standards are not relevant for us. Some areas do simply not apply to our business, or only concerns a small part of it. Such measures are naturally not being reported." – Group Controller

Furthermore, there was a challenge in finding KPI's that well reflected CSR topics for external communication (**Challenge 4: Insufficient measures**).

"*Carbon emissions is a KPI that is put into relation with cost of sales since we are growing and we want to continue to grow. We can from the graph see a relative increase in energy consumption primarily due to the slowdown of business, which had a larger impact on the cost of goods sold than it had on the energy consumption. In absolute numbers our energy consumption can go up since we are growing and getting bigger. But it is always in relation to how big we are that we want to verify ourselves. To put it to relation to turnover would not be relevant for us since it includes a price mechanism, which does not affect cost of sales to the same extent. Cost of sales is more related to*

how much we are producing. But, there is no such thing as the perfect measure or KPI, but this is the most reasonable for us." – Controller 1

In general, the external CSR reporting follows the same structure as financial reporting. The only difference is the frequency of reports. Financial data is published quarterly, whereas CSR data is published annually in the annual report. One employee speculates that this might change:

"*We might start publishing the CSR data quarterly but it is not yet decided. We have been doing it internally by quarter since 2011 but if going public we want to ensure that the quality of the reports is up to our standards for external reports.*" – Controller 2

Except for the annual report, AC publishes information via their web page, where more detailed data can be found compared to in the annual report.

5.5 Supporting a CSR-promoting Culture

AC engages in internal communication activities to inform employees about CSR and to create a culture that support CSR values. The main channels of internal communications are the intranet and internal magazines.

The communication of cultural values starts when an employee enters the company. Newly recruited AC employees receive a book containing the AC business practices. It also covers the company's CSR approach and internal policies associated with it. A mandatory reading of the book together with the employee's closest manager is scheduled during the first six months of the employment. During the reading, the values of the company are thoroughly discussed and employees are encouraged to bring the book home for further careful reading.

"The readings [together with the employee] is a first step in including that person in our culture." – Manager 1

In addition, the firm has an internal database named The Way We Do Things. This database is available at the company's intranet and includes principles, guidelines and instructions on all kinds of practical topics, including CSR. Training is also conducted to make sure that the employees are responsible to get familiarized with these policies.

Management has also decided on several ways to remind people of CSR in their day-to-day work. An example is that a first slide describing AC's CSR values has been added to the internal PowerPoint template that is used in the whole company.

"*Having the CSR topic in the beginning of each meeting gives it much attention and shows how strategically important it is for the business.*" – Manager 2

To provide an intrinsic motivator for CSR performances, the SHE council awards a prize to operational units with outstanding CSR achievements. The prize has only existed a couple of years and the CSR focus so far has been on product innovations.

6 Analysis

In the analysis, the theoretical framework and challenges from the literature review are combined with the empirical data from AC and H&M to answer our two research questions:

1. How is CSR controlled in large companies?
2. What challenges do large companies meet in controlling CSR?

Section 6.1 provides a summary and comparison of how AC and H&M control CSR using the concepts defined in the literature review. Section 6.2 identifies the challenges found in the case study and how these challenges relate to the challenges found in the literature review. In section 6.3, the challenges are identified as formal or informal. It is further discussed how the challenges are interrelated among themselves in section 6.4. Section 6.5 presents an outside perspective on our initial parts of the analysis from expert interviews and section 6.6 takes a broader perspective in elaborating on how the CSR control challenges relate to other types of management control systems.

6.1 Management Control of CSR in AC and H&M

The narratives about AC and H&M describe two organizations that worked actively with CSR. Both had global reach in industries that in different ways came in contact with many CSR related issues. They both used formal control systems to report CSR information to outside and inside stakeholder groups. These were accompanied by informal controls form their corresponding culture.

Both H&M and AC had separate CSR managers in the operative units who supported line managers in implementing and developing the CSR work. They both had a central body (the sustainability department at H&M and the SHE council at AC) that developed CSR KPI's and worked with CSR strategy development. When consolidating CSR data, both organizations used reporting routes that stretched large parts of the organization. However, the paths differed. At AC, CSR data was reported using the same systems and routes as financial data. On the contrary, H&M's controlling structure for CSR was separated from the financial control.

Both organizations used CSR KPI's for formal follow-up of CSR. Most KPI's used measured environmental aspects, but measures for certain social factors such as health and corruption were also evident in both companies. Although experiencing challenges with the KPI's used, both companies used CSR measures for formal follow-up meetings. Both organizations prioritized certain units that were seen as more important in their CSR control. The focus in both companies was on production and transportation units, which have the largest environmental and social impacts. Data for KPI's was collected not only from these units, but also from suppliers.

In AC, CSR measures that were developing in the wrong direction were sometimes used as basis for bonuses for managers, although it did not happen often. At H&M, formal bonuses were not attached to CSR performance, although CSR performance formed part of the basis in salary negotiations. The other main incentives identified were of intrinsic nature, with non-monetary awards for good CSR performance in both companies. At AC, evidence of other formal controls was found. Policies were used to

provide boundaries for behavior and a separate reporting route through which violations could be reported supported these policies.

Both companies used formal control systems to report CSR information to outside and inside stakeholder groups. AC integrated their sustainability reporting into their annual report, whereas H&M separated financial and sustainability reporting into two separate reports. AC integrated their sustainability reporting into their annual report, which internally was seen as a symbol in the company for that CSR is given equal priority to financial goals. H&M on the other hand separated financial and sustainability reporting into two separate reports, allowing separate attention for CSR as compared to financial results. AC used the same measures for controlling inside the organization as in their external reporting. H&M, on the other hand, experienced stronger discrepancy between what measures were considered useful inside the organization in comparison to what was demanded from external stakeholders. Therefore, they used different KPI's internally and externally.

As described in the literature review, management communication of values can shape culture. It is evident that both company cultures had the direction of CSR values, although with different intensity. Both companies used internal communication in attempts to support CSR values in their corresponding company cultures. H&M used different kinds of awards along with communication through several internal channels. AC had a stronger formal control focus, but also communicated CSR values through different internal channels and awarded a prize for CSR performances. Both companies had top CSR managers who were promoted to create an icon for the CSR work. Although it would be impossible to accurately measure how strong this influence was, it seems as it has made a difference. In H&M, employees spontaneously came with many ideas and contributed to driving the CSR work forward in a very active way. It seems as the interaction between these factors have resulted in a reinforcing mechanism where the increasingly strong culture acts to promote new initiatives, which in turn strengthens the culture. At AC, the strength of the CSR culture was not as evident. At least, the intensity is not strong enough to result in widespread spontaneous CSR initiatives. It is clear that CSR values existed in the culture, although less intensely. This is in line with our observation that H&M in general is more culture driven whereas AC relies more on formal controls.

In general, two general differences can be noted between H&M and AC. First, H&M relies to a larger extent on informal controls in their CSR control but also in their general management control compared to AC. AC focuses to a larger extent on formal controls, although informal controls were seen as important as well. This difference makes it easier to understand the slight difference in focus of CSR controls. H&M relies on their culture to push CSR and makes strong efforts to increase the intensity of CSR values in their corporate culture. Second, and resulting from the first, CSR initiatives seem to originate from different parts of the two organizations. At H&M, CSR initiatives come to a large extent form random initiatives from different parts of the organization. Management does not directly implement many CSR initiatives, but rather work to foster a culture to indirectly support CSR. In general, the company seems to rely relative little on formalities, as exemplified by that monetary bonuses are barely used at all. On the contrary, AC uses a more top-down approach in pushing the CSR initiative and the company in general uses more formal controls and monetary bonuses.

6.2 Challenges of Controlling CSR

In this part, challenges found in our two case companies are presented. Each challenge is presented in relation to the company in which it was found and to previous research. An overview of the challenges is presented in Table 3.

Challenge 1: Measure overflow

H&M experienced a challenge with too many measures being used. The challenge was experienced through that people did not understand the large number of custom made measures that were used in different departments. Measure overflow was not found in any previous study of CSR control.

Challenge 2: Unreliable data

Both companies experienced troubles retrieving reliable data form their units. There were problems in understanding definitions, which led to the wrong things being reported. Also, both companies experienced that data gathered from external parties was unreliable and hard to retrieve. The challenge of unreliable data was not identified in previous research.

Challenge 3: Different external measurement demand

A discrepancy between what external stakeholders demanded and the needs to control the core business was found at H&M. In H&M, this lead to the development of separate sets of KPI's for internal and external use. Following the GRI was experienced to limit the scope of reporting at H&M, why more measures and areas were reported on than required by the GRI standard.

This discrepancy was not as evident at AC. AC used GRI as basis for both reporting and internal control and measurement. However, AC experienced that the GRI specified measurement of areas that were partly irrelevant for them, why they were not considered. Different external measurement demand was not found in any previous study of CSR control.

Challenge 4: Insufficient measures

Both organizations experienced similar problems with finding measures that were easy to understand and that reflected CSR performance well. Also, there was a strong focus on environmental factors in both companies, which could be interpreted as the challenge was greater for social factors than for environmental, although this might also have other explanations. The challenge with insufficient measures confirms the findings of Riccaboni & Leone (2009) and of Adams & Frost (2008) who found similar challenges in their studies.

Challenge 5: Reliance on cultural support

Both companies experience problems with creating well-functioning formal control systems and H&M relied to large extent on informal controls to support the development of CSR. H&M experienced this as a challenge due to the risk of losing control of the culture when growing rapidly. AC did not experience a challenge in relying on culture. AC in general was found more formal than H&M and trust was put in the progress of formal controls. We thereby confirm the challenge of reliance on culture that was previously found by Durden (2008), Galbreath (2010), Norris & O'Dwyer (2004), Langfield-Smith (1997) and Perrini & Tencati (2006).

Challenge 6: CSR-profitability trade-off

H&M showed example on where a trade-off between CSR values and profitability had become evident. H&M managed it by using low-cost suppliers but continuously following up their CSR work and give feedback in order to get a good match between profitability and ethics. Although this process to some extent was driven by formal procedures, it relied on informal controls to determine what was good enough. We thereby confirm the findings of such a trade-off by Norris & O'Dwyer (2004), Riccaboni & Leone (2009) and Epstein (2010).

Challenge 7: Different culture-based perceptions

AC experienced country-cultural differences that made certain units prioritize reports of data lower than other units, leading to problems retrieving data form those units and to work with CSR in general. AC used formal controls to push CSR implementation in other countries to a larger extent than in Sweden. This confirms the finding of this challenge by Adam & Frost (2008).

Challenge 8: Control myopia

The challenge of control not reaching the whole organization appeared in both organizations, as certain units were excluded from formal CSR controls. This was experienced as a problem in AC but not in H&M. The difference might be due to the different levels of formality of AC and H&M. Our study thereby supports the findings of Riccaboni & Leone (2009) and Morsing & Oswald (2009).

Challenge 9: CSR incentive absence

In AC, monetary incentives based on CSR were used seldom and were not applied for all managers. The monetary incentives that were used were based on short-term improvement of certain measures when it was urgently needed. AC experienced that this was a problem and that they wanted CSR to form a larger part of the basis for bonuses. H&M did not use much monetary bonuses at all. Therefore, there was no example of CSR control connected to formal incentives in H&M. The challenge of connecting monetary bonuses to CSR performance at AC confirms the findings of Norris & O'Dwyer (2004), Morsing & Oswald (2009) and Vroom (1964).

Table 3: Challenges found in the case studies compared to challenges identified in previous research.

Nr	Challenge	Found in existing literature	Found in this study		Formal challenge	Informal challenge
			H&M	AC		
1	**Measure overflow** *An overflow of measures was used to measure CSR performance.*	No	X		X	
2	**Unreliable data** *Challenge to collect sufficient and reliable data.*	No	X	X	X	
3	**Different external measurement demand** *External stakeholders demanded other KPI's than those preferred internally.*	No	X		X	
4	**Insufficient measures** *Measures were ill understood and did not reflect CSR performance well.*	Riccaboni and Leone (2009); Adams & Frost (2008).	X	X	X	
5	**Reliance on cultural support** *The culture is seen as indispensable for CSR control.*	Durden (2008); Galbreath (2010); Norris & O'Dwyer (2004); Perrini & Tencati (2006); Langfield-Smith (1997)	X			X
6	**CSR-profitability trade-off** *A trade-off between CSR and profitability was experienced.*	Norris & O'Dwyer (2004); Riccaboni & Leone (2009); Epstein (2010)	X		X	X
7	**Different culture-based perceptions** *CSR control is not understood in different countries and cultures.*	Adam & Frost (2008)		X	X	X
8	**Control myopia** *Control goals and follow-up is not performed in the whole organization.*	Morsing & Oswald (2009); Riccaboni & Leone (2009)		X	X	
9	**CSR incentive absence** *Formal incentives were mostly not connected to CSR performance.*	Norris & O'Dwyer (2004); Morsing & Oswald (2009); Vroom (1964)		X	X	

6.3 Formal or Informal CSR Challenges

A first division for understanding what is causing these problems to occur is to split them into formal and informal. Referring back to the definitions of formal and informal controls in the literature review, formal controls are systems and processes created and directly controlled by managers whereas informal controls are culture-based and harder for managers to control. Below, the formal and informal nature of challenges is discussed. An overview is given in the two last columns in Table 3.

Challenge 1-4 (measure overflow, unreliable data, different external measurement demand, and insufficient measures) as well as challenge 8 (control myopia) are all directly linked to the use of KPI's in follow-up and are thus per definition formal in nature. Challenge 9 (CSR incentive absence) was strongest in AC and expresses the problem of using formal incentives based on CSR information. Challenge 9 is thus also formal in nature. On the contrary, challenge 5 (reliance on cultural support) is related to the culture and the risks associated with having control mechanisms that are not directly controlled by management. This challenge is thus informal in nature.

Challenge 6 (CSR-profitability trade-off) is more complex. At H&M, the CSR-profitability trade-off played out between a mix of formal and informal control systems. The formal control system, was better developed for emphasizing profitability goals than CSR goals, and thus put stronger emphasis on profitability. The informal controls have a long tradition of pushing down costs and to produce fashion at low prices. These values stand against younger CSR-values. Therefore, challenge 6 (CSR-profitability trade-off) is both formal and informal. Challenge 7 (different culture-based perceptions) is also rather complex. The challenge turned up as a formal control challenge as units did not report CSR data to headquarters. However, the reason for the insufficient reporting is cultural, which in turn influenced the informal controls in the units. Therefore, this challenge has a dual nature of being both formal and informal.

6.4 How Challenges are Interlinked

It seems as if the purely formal challenges (challenge 1-4,8, and 9: measure overflow, unreliable data, different external measurement demand, insufficient measures, control myopia, and CSR incentive absence) are to a large extent interlinked and caused by **insufficient measures**. First, the problem both organizations experienced in finding KPI's that sufficiently measured CSR impacts resulted in that new KPI's were added to show different nuances of CSR. Insufficient measures are thus a partial cause of the organizations experiencing **measure overflow**. Furthermore, it is likely that **insufficient measures**, which were ill understood in the organizations, partly caused the confusion about what to include in CSR data reporting. Thereby, it partly caused the challenge of **unreliable data**. Both organizations experienced **control myopia**, the lack of CSR control in certain units. This might have several reasons and the prioritization of certain units does seem logical. However, if measures were few and sufficient, following up more units would be easier. **Insufficient measures** were thus a partial reason for **control myopia**. CSR incentive absence was experienced as a challenge in AC, although formal incentives to a certain degree were present in both organizations. AC experienced that the reason of CSR incentive absence was due to a combination of **insufficient measures** and **unreliable data**.

The **different external and internal measurement demands** was most evident in H&M. It shows that use of KPI's is rather young and that no institutionalized standards have taken form yet. Comparing to financial monitoring, certain measures such as return on equity is widely known and is even taught to business students. A senior manager at AC explained that being able to benchmark outcomes in a measure with previous outcomes is important. This leads us to the conclusion that CSR measures will develop into standardized measures in the future, but that time is needed. Organizations such as the GRI can play an important role in this development by gathering knowledge from multiple organizations to facilitate this development.

Reliance on cultural support was seen as a challenge that could come up due to the strong growth of H&M. The culture has so far been firmly nurtured through top management communication and different kinds of reminders, but the management influence over the culture might weaken as the culture gets quickly diluted during strong growth. The reliance on culture does not seem to be directly linked to the remaining two challenges **CSR-profitability trade-off** and **different culture-based perceptions**. However, the reliance on culture means that management cannot directly control the outcomes of the other two challenges. The **CSR-profitability trade-off** is key in finding a good combination of profitability and CSR. If the culture would lose its strength, this trade-off might shift and create an imbalance as the cultural intensity of working with CSR might weaken. This is similar to the challenge of **different culture-based perceptions**. In some countries, the intensity of H&M's informal controls might not be strong enough to overpower the culture of the company. This results that informal controls have less power.

6.5 Expert Interviews

To see if our findings and reasoning was applicable also in other settings than AC and H&M, we arranged interviews with five experts that are all prominent in the area of CSR. We described what we had found in the cases studies and described each challenge. All experts confirmed that the control situations found in AC and HM were typical for Swedish companies and four out of five agreed that the challenges we had identified were present also in other originations.

It is especially interesting to note that the three challenges measure overflow, unreliable data, and different external measurement demand had not previously been identified in research.

6.6 How do These Challenges Relate to Other Control Systems?

In this part, we broaden the analysis outside the scope of the thesis. We make a comparison to management control systems to find clues on how the challenges identified in above sections might be solved and the role of important actors in this process is discussed.

Most challenges identified in CSR control have been overcome in management control. The cluster of challenges relating to insufficient measures does not exist in financial controlling. This is because there are a number of well-defined financial measures that are institutionalized. They are so well known that business administration students learn them in school – they have become a common language in the field of management control. This is not the case in CSR, but several things point at that it will be. Some companies, especially H&M of those we have studied, take active leadership in developing new ways to measure CSR. Organizations like the GRI is attempting to create measurements standards thereby specifying measures and making it less ambiguous for organizations to use them. And although the GRI reporting standards that are currently in place does not specify specific measures, they might in the future. The standard might also be developed in that way that it is easier for organizations to do comparisons among them. Coming back to the discussion about H&M and what had been noticed is that HM manages very well to create the drive to work with CSR in the organization using communicative things like competitions and fashion shows with sustainability focus, and a lot of the respondent is mentioning the culture as focal point in all work of H&M. It has also been identified that a strong management support who

motivates bottom to build the CSR values form inside the company. In addition, symbolic features are playing an important role such as having stories that highlight their cost consciousness and other cultural values. That is why within H&M none of the respondent can explain for us who are creating these values, but they can give a lot of examples like stories or artifacts in their surroundings. Within H&M the management really does what it can without having a lot of formal management control systems in place.

The set up in AC is very different. There the focus is on creating and implementing formal control systems top down and much more focus is given to formalized controls and to incorporating them into other formalized management control systems. Hints are given that might be interpreted as a difference in overall firm culture and way of doing things.

Having an organization that communicates objectives can however support a culture that appreciates ethics, which makes it even more important to create and nurture a culture that emphasizes ethics and CSR. This function is, and will be, especially important in the period until organizations have found a well-functioning standardized way to formally control ethics and CSR. Therefore, a possible solution to the problem of limited (formal) control of CSR is to nurture the culture. This is a finding that we cannot show that we have tested, but we can base a suggestion for future research on the connection between nurturing the culture and how this can be done to emphasize CSR.

7 Conclusion

The purpose of this study is to provide insight on how companies control CSR and to shed light on the challenges faced by management control of CSR. The purpose is addressed by answering the research questions:

1. How is CSR controlled in large companies?

2. What challenges do large companies meet in controlling CSR?

These questions were investigated using an in-depth case study method where two Swedish companies were investigated. In the following, we answer first the first research question (section 7.1) and then the second one (section 7.2).

7.1 How is CSR controlled in large companies?

When studying H&M and AC, it was found that companies use a mixture of formal and informal controls in CSR control.

The companies collected data form large parts of the organizations that were used for management control and external communication. At H&M, reporting flows were separate from financial reporting flows, whereas they were integrated at AC. A central body of experts and internal representatives gave advises to management, who had the top responsibility for CSR in both companies. Formal control relied on Key Performance Indicators that were used to measure the development of CSR related measures. The outcomes of these measures were used for internal follow-up meetings and in some cases as basis for monetary incentives in AC, but not in H&M. Internally gathered data was reported externally on a yearly basis as an integrated part of the annual report in AC and through a separate report at H&M.

Informal controls showed to play an important role in CSR control. Especially in H&M, many CSR-related initiatives resulted from cultural support. Informal controls generally filled in for formal controls where such were absent. Management increased the intensity of CSR values to strengthen the informal control by taking clear stands for CSR and emphasizing it in internal communication.

Slight differences in how CSR was controlled were found. The implemented CSR controls were however similar to other management controls in terms of division between formal and informal controls.

7.2 What challenges do large companies meet in controlling CSR?

The studies of H&M and AC revealed nine challenges in CSR control. These were:

1. *Measure overflow* - An overflow of measures was used to measure CSR performance.
2. *Unreliable data* - Challenge to collect sufficient and reliable data.
3. *Different external measurement demand* - External stakeholders demanded other KPI's than those preferred internally.
4. *Insufficient measures* - Measures were ill understood and did not reflect CSR performance well.

5. *Reliance on cultural support* - The culture is seen as indispensable for CSR control.
6. *CSR-profitability trade-off* - A trade-off between CSR and profitability was experienced.
7. *Different culture-based perceptions* - CSR control is not understood in different countries and cultures.
8. *Control myopia* - Control goals and follow-up is not performed in the whole organization.
9. *CSR incentive absence* - Formal incentives were mostly not connected to CSR performance.

Out of these, number 1-4, 8 and 9 were found to be challenges related to formal controls, challenge 5 was found informal and challenge 6 and 7 related to both formal and informal controls. Furthermore, the purely formal challenges were interlinked and at least partly caused by challenge 4: insufficient measures.

Challenge numbers 4-9 had been found in previous studies of CSR and were confirmed in this study. Challenge 1, 2 and 3 were first identified in this study.

8 Discussion

This section presents the theoretical and managerial contributions (section 8.1 and 8.2), followed by the limitations of these contributions (section 8.3), as well as suggestions for further research (section 8.4).

8.1 Theoretical Contributions

Our study of AC and H&M contributes to the literature in several ways. These contributions are discussed in detail as follows.

Through answering our first research question, our study contributes to the nascent but growing body of knowledge of how organizations perform control of CSR by providing two case study descriptions of such controls. A number of case studies have investigated CSR control from different perspectives (e.g. Perego & Hartmann, 2009; Bonacci & Rinaldi, 2007; Albelda, 2011; Galbreath, 2010; Morsing & Oswald, 2009). However, only few studies provide an overall picture, including both formal and informal controls, of how companies control CSR (Crutzen and Herzig, 2013). Our study confirms to large extent previous studies made of CSR control in for example that informal controls are important and that formal controls are used less than expected.

In doing so, our study sheds light on some interactions that have not previously been described in the CSR literature. First, we describe the interrelationship between formal and informal controls including how informal controls fill in for formal controls where they are lacking compared to previous CSR studies. Second, we describe how H&M management uses formal communication to influence informal controls. Similar relationships are well known in ordinary management control literature and have been known as for example described by Schein (1984) and Simons (1995). This might raise the question whether CSR control needs a separate body of literature to understand its workings, or if it is enough to rely on already existing research on management control. We cannot answer this question, but it seems, as although CSR as a management topic has special characteristics, controlling it is at least no substantially different from controlling other management themes.

Through answering our second research question, our study contributes to the CSR control literature as a whole by first identifying three new challenges not found in previous research and second by providing and empirically confirming an overview over challenges faced by CSR control. No such overview has been provided in the CSR literature before. This overview further contributes to general management control literature by highlighting the challenges ordinary management control systems are adapted to deal with new types of measures.

Referring back to the general set-up of a formal management control system described in the literature review, solving the challenges highlighted in this study would to a large extent make CSR similar to other management topics in terms of control characteristics.

8.2 Managerial Implications

Our study has two main managerial implications. First, as highlighted in the analysis, finding sufficient KPI's for measuring CSR would at least partly solve several other important control problems. Thus, focus should be put on cooperating inside and

outside the organization to speed up the development of standardized measures for CSR. External organizations such as the GRI could play an important role in this development as they see the challenges in many companies and can gather knowledge to find well working standards.

Second, meanwhile formal controls are not fully developed yet, the example of H&M should inspire managers to strongly support CSR values internally to support the internal control systems. This has shown to provide important support in CSR implementation in both organizations investigated in this study.

8.3 Limitations to Contributions

Conducting research is associated with limitations and so it is with the theoretical contributions of this paper.

Descriptive nature of our findings

The main limitation to our approach is the communication between researcher and interviewee during interviews. The interview persons are only a small sample of very large organizations. These people may or may not represent the general population in the company. There is also a risk of interviewees "showing the nice picture", especially when being interviewed on a sensitive topic as CSR. However, through interviewing a number of people on different levels and who do not know each other in each organization, the results were crosschecked to increase the likelihood of them being correct.

Generalizability

An additional limitation to the study is regarding generalizability. This methodology enables to generalize findings within this context of the study, but not to the whole population. So, we can never be fully sure whether our findings are generalizable beyond this case.

However, to strengthen our case and find out whether our findings are valid also in surrounding contexts, we interviewed five experts who in different ways are related to the CSR field.

We described our case studies and the challenges that we had found. All of them fully agreed to the picture described of how CSR is controlled and 3 out of 5 confirmed the challenges we identified. A CSR consultant from KPMG agreed that each of them existed in large Swedish organizations. 2 out of 5 stated that they did not have the expertise to confirm that the challenges existed. These experts were chosen due to their documented expertise within the area of CSR.

Another fact that might affect the generalizability of our findings is that the two case companies are both on the forefront of CSR work. As discussed in the literature review, it is therefore likely that our findings are not valid in contexts of companies that do not have culture that has the CSR-direction, or companies that are not successful in CSR. Although the experts asked support that our findings are valid, they are all Swedes, thus working with companies that are mostly on the forefront of CSR. Our conclusion is therefore that our findings are likely to be valid among larger Swedish companies, but also among larger foreign companies that are in the forefront of CSR work.

8.4 Areas for Further Research

The exploratory nature of this study leads to several avenues for further research. The challenges identified and summarized in this study provide a smorgasbord of topics to investigate further. None of these challenges have been investigated enough to fully understand them or their implications on CSR work. Especially, the cluster of challenges originating in insufficient measures should be further investigate to help managers create KPI's that are more useful in internal CSR control. Some authors do investigate this, as described in the literature review, but it is apparent that these have not received enough attention. Helping solving this problem would have important practical implications for companies in becoming better at CSR. Second, the remaining challenges of

In addition, all CSR studies have been focusing on companies that are performing well in CSR. According to our study, culture is a key factor in controlling CSR. It is likely that those companies that have been studied have a culture that is mature in CSR and therefore are better at controlling it. Thus, studying a company that is not mature in CSR, new insights could probably be drawn on how a "CSR-negative" culture can influence formal control systems that try to push CSR measures into the organizations in order to respond to external pressures.

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10 Appendix

10.1 Interview Topics for Respondents at H&M and AC

Table X provides an overview of the topics used throughout interviews with the H&M and Atlas Copco. These topics were used as a guiding structure and checklist, but individual variations occurred, depending on specialization, seniority and how much the interviewee spoke spontaneously. The semi-structured format also allowed us to adopt the questions during the actual interview depending on what kind of examples the respondent gave us.

Background

- Information about the Interviewee
- Position & Duration?

Relation to CSR?

- in your position?
- In the company in general?

Reporting of CSR

- What areas do you report on and why?
- Reporting flows?
- Roles & Mandate?

Development of CSR

- Examples from the interviewees time of employment

Challenges in controlling CSR

- to your position?
- in the company in general
- formal/informal controlling activities

Incentives & Whips related to CSR?

- Challenges?
- Fair?

How CSR in communicated?

- internally/externally?

10.2 List of Interviewees

	Hierarchy Level / Title	Organizational belonging
1	Group Management 1	Atlas Copco
2	Group Management 2	Atlas Copco
3	Group controller	Atlas Copco
4	Controller 1	Atlas Copco
5	Controller 2	Atlas Copco
6	Controller 3	Atlas Copco
7	Manager 1	Atlas Copco
8	Manager 2	Atlas Copco
9	Sustainability employee 1	H&M
10	Sustainability employee 2	H&M
11	Sustainability employee 3	H&M
12	Sustainability employee 4	H&M
13	Manager 1	H&M
14	Manager 2	H&M
15	Manager 3	H&M
16	Manager 4	H&M
17	Controller 1	H&M
18	Controller 2	H&M
19	Financial controller	H&M
20	Emma Ihre - Special Advisor Sustainability	Ministry of Finance
21	Anna Reuterskiöld – Intern Sustainability	Ministry of Finance
22	Göran Norén - Head of Industry Policy	Svenskt Näringsliv / Confederation of Swedish Enterprise
23	Stina Billinger Head of Sustainability	Storebrand
24	Åsa Ekblad – Consultant, Climate Change & Sustainability Services	KPMG